

# EXHIBIT A

IN THE UNITED STATES DISTRICT COURT  
MIDDLE DISTRICT OF FLORIDA  
TAMPA DIVISION

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4	SECURITIES AND EXCHANGE COMMISSION,	)	
5		)	
6	Plaintiff,	)	
7		)	
8	vs.	)	Case No.
9		)	5:09-CV-00087-T-26MAP
10		)	
11		)	
12		)	
13	ARTHUR NADEL, et al.,	)	
14		)	
15	Defendant.	)	

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MOTION HEARING  
BEFORE THE HONORABLE RICHARD A. LAZZARA  
UNITED STATES DISTRICT JUDGE

MARCH 22, 2017  
10:53 A.M.  
TAMPA, FLORIDA

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Proceedings recorded by mechanical stenography,  
transcript produced using computer-aided transcription.

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DAVID J. COLLIER, RMR, CRR  
FEDERAL OFFICIAL COURT REPORTER  
801 NORTH FLORIDA AVENUE, 7TH FLOOR  
TAMPA, FLORIDA 33602

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1 **APPEARANCES:**

2  
3 For the Plaintiff: *Robert K. Levenson*  
4 Securities & Exchange Commission  
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8 For the Receiver  
9 Burton W. Wiand: *Gianluca Morello*  
10 *George Guerra*  
11 Wiand Guerra King, PL  
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15  
16 For Respondent *Byron W. Hatchett* (pro se)  
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20 For Respondent *John Hatchett Carney* (pro se)  
21 John Hatchett Carney: 10541 Berry Knoll Drive  
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23  
24  
25 **ALSO PRESENT:**

Burton W. Wiand

## P R O C E E D I N G S

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2  
3 THE COURT: Madam Clerk, would you please call the  
4 case.

5 THE CLERK: Yes, Your Honor.

6 This is Case Number 8:09-CV-87-T-26TBM, Securities  
7 Exchange Commission versus Arthur Nadel, et al. and Burton  
8 Wiand, receiver, versus Quest Leasehold -- Leaseholder.

9 THE COURT: All right. Counsel, would you please  
10 state your appearances.

11 MR. MORELLO: Good morning, Your Honor.  
12 Gianluca Morello on behalf of the receiver, the receiver is  
13 here as well, and my law partner, George Guerra, from  
14 Wiand Guerra King is also here.

15 MR. LEVENSON: Bob Levenson on behalf of the SEC.

16 THE COURT: Gentlemen?

17 MR. CARNEY: Your Honor, John Carney, appearing  
18 pro se.

19 MR. HATCHETT: Byron Hatchett, appearing pro se,  
20 Your Honor.

21 THE COURT: Are either of you lawyers?

22 MR. HATCHETT: Yes, sir, I'm licensed in the  
23 Northern District of Texas as well as the State of Texas.

24 THE COURT: All right, Mr. Hatchett. And who do  
25 you represent? Are you representing anybody in this matter

1 besides yourself?

2 MR. HATCHETT: Besides myself, no, Your Honor, and  
3 I have never represented to anybody, whether -- at any time  
4 that I represented anybody other than myself as a mineral  
5 owner.

6 THE COURT: All right. Thank you.

7 Now, I received an e-mail yesterday from  
8 Ms. Bedell, my law clerk. Mr. Morello, she says that you  
9 had called her and that the Railroad Commission through the  
10 Texas Attorney General will not be showing up and does not  
11 oppose the motion.

12 MR. MORELLO: The call that I received from the  
13 representative of the Texas Attorney General's office on  
14 Tuesday, I believe, or Monday, was that he had spoken to --  
15 it was Mr. Shelton, was his name, he had spoken to the  
16 Railroad Commission, he wasn't 100 percent affirmative but  
17 he said he did not think they were going to take a position,  
18 and if they were going to, they would file something and  
19 notify us, and I haven't heard anything from them.

20 THE COURT: I haven't heard anything either.

21 MR. MORELLO: So the last indication I had was  
22 that they were not taking a position on this motion.

23 THE COURT: Well, the dispute, it seems to me, and  
24 you correct me if I'm wrong, is whether this lease is still  
25 in effect.

1 MR. MORELLO: That is the up --

2 THE COURT: Mr. Carney and Mr. Hatchett say --  
3 everybody have a seat -- say it ended, what, in April of  
4 this year? That's what they say. And apparently the  
5 receiver, Mr. Wiand, takes a different position. What is  
6 it?

7 MR. MORELLO: That's correct.

8 THE COURT: What's your position?

9 MR. MORELLO: Our position, Your Honor, is that  
10 the lease has essentially a provision that allows it to --

11 THE COURT: What do you call it, a habendum  
12 clause? Did I pronounce it right, Mr. Hatchett?

13 MR. HATCHETT: I believe that's correct,  
14 Your Honor.

15 THE COURT: So even though the term of the  
16 five years technically ends, if certain steps are taken it  
17 continues on.

18 MR. MORELLO: That's correct.

19 THE COURT: Okay. Well, I want to ask you this.  
20 Of course, Quest is kind of separate and apart from the  
21 other relief defendants, correct?

22 MR. MORELLO: It was brought in later. It's part  
23 of the same receivership, but, yes, it was --

24 THE COURT: Well, we're only interested in the  
25 people who supposedly lost money in Quest; is that correct?

1 We're not going to distribute any of its assets to the  
2 other --

3 MR. MORELLO: No, that's incorrect, Your Honor.  
4 So the way the process is going to work is the majority of  
5 Quest was funded with money from our scheme.

6 THE COURT: \$6 million, right?

7 MR. MORELLO: And I believe it's a 60 percent  
8 stake or somewhere close to 70 percent. So when the Quest  
9 assets are sold, the proceeds will come in and they will be  
10 distributed pro rata among Quest's creditors, essentially.  
11 The largest creditor will be this receivership estate, so a  
12 distribution will be made to this receivership estate, which  
13 will then distribute the money to the Arthur Nadel victims.  
14 All of the other Quest investors who filed claims will then  
15 get a pro rata distribution as well from the Quest proceeds.

16 THE COURT: How many people does that equate to?

17 MR. WIAND: Judge, there's over --

18 THE COURT: Have a seat, Mr. Wiand. Have a seat.

19 MR. WIAND: I think we have over 100 claims filed  
20 with respect to what I would call the Downey victims, and my  
21 thought on this was -- and as you know, I'm creating this  
22 essentially as a separate receivership.

23 THE COURT: That's what I thought, yeah.

24 MR. WIAND: And that one of the claims filed in it  
25 that I'm going to consider, I'll probably recommend to the

1 Court, is that we do pro rata with respect to the money that  
2 came out of the Nadel victims and the money that came out of  
3 the Downey victims.

4 THE COURT: Well, what assets does Quest have?

5 MR. WIAND: Quest has three leases, Judge, and  
6 plus a lot of equipment and a house.

7 THE COURT: What's the total value, do we know?

8 MR. WIAND: The total value is a little over  
9 2 million, I think. During this period of time I have been  
10 actively attempting to liquidate this thing. Indeed, I have  
11 on the table a proposal that I just received that would  
12 hopefully close April 10th to get rid of the leases.

13 THE COURT: And that would include the Hatchett  
14 lease --

15 MR. WIAND: It would, Judge.

16 THE COURT: -- as an asset?

17 MR. WIAND: It would, Judge.

18 THE COURT: Have you discussed this with  
19 Mr. Hatchett and Mr. Carney?

20 MR. WIAND: Early on, Judge, we advised not  
21 Mr. Hatchett, we advised his father, and we also advised  
22 Mr. Carney what we were doing with respect to these leases  
23 and that the program was that we were going to maintain the  
24 properties, look for a competent investor/operator who would  
25 be able to operate these leases for the benefit of paying



1 for them for the investors and then operate them so that the  
2 leaseholders are -- the landowners or mineral rights owners  
3 would begin to again receive money from the operation of the  
4 leases, and I think that the group that I'm currently  
5 receiving things from is such a group that has definitely  
6 the power to do that.

7 THE COURT: Mr. Carney?

8 MR. CARNEY: The answer is no, Your Honor.  
9 The answer is no, they have not.

10 THE COURT: He hasn't?

11 MR. CARNEY: They have not discussed this  
12 potential sale or any potential sale with us.

13 THE COURT: Who did you talk with, Mr. Wiand?

14 MR. WIAND: I was present when Mr. Guerra  
15 described this to Mr. Carney a number of years ago. With  
16 respect to each individual offer -- this has been a saga,  
17 Judge, with oil prices going up and down, trying to get this  
18 thing sold, but I've had a couple of deals that have come in  
19 and I have not -- some of them have walked away, one of them  
20 I even got to the point of preparing a motion for the Court  
21 and then it fell apart, and I haven't had a specific  
22 conversation with Mr. Carney about this, I have had a  
23 conversation as late as yesterday with a number of the other  
24 mineral owners about what I was doing with this and they  
25 said, fine, go forward with it.

1 THE COURT: Who?

2 MR. WIAND: Mr. --

3 MR. MORELLO: Peter Gryska was the individual we  
4 spoke to yesterday.

5 MR. WIAND: He was speaking to us on behalf of  
6 himself and his brothers and others, who own a significant  
7 portion of this.

8 THE COURT: Of the Hatchett lease?

9 MR. WIAND: Yes.

10 THE COURT: Do you know Mr. Gryska?

11 MR. CARNEY: Mr. Gryska owns a very small portion  
12 of the Hatchett lease, Your Honor, and he is our cousin.

13 THE COURT: Have you talked to him?

14 MR. CARNEY: I have not heard anything about a  
15 sale from counsel or Mr. Gryska.

16 THE COURT: Assuming Mr. Wiand was able to find --  
17 have a seat and just relax.

18 Assuming Mr. Wiand was able to find someone to  
19 purchase the assets and that person was a reputable person,  
20 would that satisfy -- by the way, how many people are  
21 involved with regard to the Hatchett lease? How many people  
22 are there?

23 MR. CARNEY: Your Honor, there are less people  
24 than there were two years ago. Mr. Hatchett's father has  
25 passed, my father has passed, and --

1 THE COURT: And I assume that your fathers left  
2 their rights to you two?

3 MR. CARNEY: Yes.

4 MR. HATCHETT: That's correct, Your Honor.

5 THE COURT: All right. So who else? Gryska?

6 MR. CARNEY: The Gryskas, Sarah Tucker, Janece.  
7 Jim Hatchett is probably the single largest owner.

8 THE COURT: And how is he related to you,  
9 Mr. Hatchett?

10 MR. HATCHETT: He is my uncle. He is my father's  
11 brother, Your Honor.

12 THE COURT: All right.

13 MR. HATCHETT: It would be -- Sarah Hatfield  
14 probably owns the largest portion, probably a third of the  
15 Hatchett minerals.

16 THE COURT: And there's no one person that speaks  
17 for all of you?

18 MR. CARNEY: No, sir.

19 MR. HATCHETT: No, sir.

20 MR. CARNEY: There are 27 separate leases,  
21 Your Honor, and if the activity --

22 THE COURT: Wait a minute. What do you mean by  
23 27 separate leases?

24 MR. CARNEY: There's 27 separate leases that are  
25 required to be held by production if not within the primary

1 term. So at most there's 1/27th of the original lease  
2 intact, that's all they could potentially be holding at this  
3 point.

4 THE COURT: You've lost me. I thought there was  
5 just one lease that all of you signed.

6 MR. CARNEY: It's 27 separate tracks leased, and  
7 they each have to be held separately, either during the  
8 primary term of five years or by production after the  
9 five year period, and if one section is held, it doesn't  
10 hold the entire lease, it only holds the 1/27th.

11 THE COURT: I must admit, you've kind of confused  
12 me now.

13 MR. CARNEY: I'm sorry, Your Honor. That's the  
14 way the lease is written.

15 THE COURT: But there's only one Hatchett --  
16 there's only one lease, correct?

17 MR. CARNEY: There's one written document,  
18 Your Honor.

19 THE COURT: One written document.

20 MR. CARNEY: Yes.

21 THE COURT: But you're telling me that there are  
22 27 separate entities?

23 MR. CARNEY: 27 separate parcels leased under that  
24 lease.

25 THE COURT: Okay. But --

1 MR. CARNEY: One well only holds one section, one  
2 160-acre section.

3 THE COURT: And who owns -- who are the people --

4 MR. CARNEY: The minerals are owned jointly and  
5 severally by the Hatchett-Gryska-Carney family.

6 THE COURT: We go back to my original statement.  
7 There's no one who speaks for everyone?

8 MR. CARNEY: No, sir.

9 THE COURT: Well, what if someone wanted to come  
10 in and re-lease these 27 separate parcels?

11 MR. CARNEY: They have to negotiate with each  
12 owner.

13 THE COURT: With each owner?

14 MR. CARNEY: Yes, sir.

15 THE COURT: Why do you contend the lease has  
16 expired?

17 MR. CARNEY: Your Honor, the lease expired because  
18 there was no production after the five years to hold the  
19 lease, there was no activity to hold the lease. The wells  
20 remain unplugged. The liabilities are substantial.

21 THE COURT: What liabilities are you talking  
22 about?

23 MR. CARNEY: Well, the well plugging liabilities.  
24 And in my response, Your Honor, I identify a toxic oil spill  
25 that's very problematic and unfinished roads and

1 road damage. Substantial liabilities, Your Honor.

2 THE COURT: Mr. Morello?

3 MR. WIAND: Can I speak to it, Judge?

4 THE COURT: Yeah, go ahead, Mr. Wiand.

5 MR. WIAND: Your Honor, with respect to the lease,  
6 it provides a number of different ways that the lease is  
7 held. There was some minimal production that came out --  
8 was coming out until February of 2016. After that period of  
9 time we began efforts to begin drilling on the property,  
10 which also the lease indicates if we're doing -- if we're  
11 moving forward with drilling, if that's the case -- we even  
12 went to the extent of, you know, identifying the locations,  
13 doing the geology, and then we even filed with the Railroad  
14 Commission and received a permit to drill the well and we  
15 sent a check to Mr. Hatchett that was required by the lease  
16 prior to beginning any drilling, and that's when all this  
17 started.

18 THE COURT: Which Mr. Hatchett did you send it to?

19 MR. WIAND: I think it was sent to Byron Hatchett,  
20 I believe.

21 THE COURT: Did you receive a check, Mr. Hatchett?

22 MR. HATCHETT: Your Honor, I have not received a  
23 check.

24 THE COURT: Did it go to your father?

25 MR. HATCHETT: My father was deceased in 2014 and

1 I doubt very seriously it went to him.

2 MR. WIAND: Excuse me, Judge. I'm sorry. It went  
3 to Mr. Carney.

4 THE COURT: Mr. Carney?

5 MR. CARNEY: Your Honor, we settled a check up on  
6 sale of proceeds from before the receivership that were held  
7 in suspense because Mr. Bill Hatchett, Sr. had contacted the  
8 purchaser of the oil from Quest but before the receivership  
9 and the monies were held in suspense. After protracted  
10 negotiations with the receiver, we agreed to split the money  
11 50/50, he took half, we took half. This was sale proceeds  
12 from before the receivership, and any representation that  
13 this constitutes production during the receivership is a  
14 false statement.

15 MR. WIAND: Judge, I think we're passing in the  
16 night here. The lease requires prior to drilling that you  
17 have to provide a check in the amount of \$1,800 or \$2,000  
18 prior to beginning that drilling. That check was sent to  
19 Mr. Carney.

20 MR. CARNEY: I have received no such check.

21 THE COURT: Well, has the check been negotiated?

22 MR. WIAND: It has not been negotiated, but we  
23 definitely -- we definitely sent it, and I've got --  
24 Mr. Rizzo is the one who did it, he can testify to you that  
25 he sent it. At any rate, shortly after that is when we

1 started -- when we first realized that they had a commercial  
2 interest and had found somebody that they wanted to work  
3 with to work this lease.

4 We've had no feedback or adverse interest from  
5 anybody other than these two gentlemen of all the  
6 leaseholders, and we have, you know, included reports that  
7 have been filed, and we've also had a claims -- a claims  
8 motion, and nobody made a claim in the claims motion. So,  
9 you know, we've been moving forward with doing -- with doing  
10 that and we believe that the activities that we were engaged  
11 in were significant to maintain the lease, and prior to --  
12 prior to beginning and leading up to this proceeding we  
13 hadn't heard otherwise from anybody.

14 THE COURT: He's mentioned some liabilities,  
15 Mr. Wiand.

16 MR. WIAND: Judge, with respect to oil properties  
17 and leases, and there are a lot of old wells out here, there  
18 are provisions with respect to -- from the Railroad  
19 Commission that there is obligations with respect to  
20 plugging of wells, and we are in compliance with the  
21 Railroad Commission's regulations on that. We have a bond  
22 posted with respect to the plugging obligations. The  
23 Railroad Commission visits these properties on a regular  
24 basis, knows exactly what we're doing and has raised no  
25 concerns with respect to that, and we have been meeting our



1 plugging obligations as they are required, and anybody that  
2 we would bring in to continue this lease would also assume  
3 those obligations and continue with them. It's a  
4 red herring.

5 THE COURT: How about the roads he's mentioned?

6 MR. WIAND: The roads -- this is a very large  
7 property. We received some pictures that there were some  
8 tracks in a piece of a road. The individual who is on-site  
9 and our supervisor, Mr. Chad Gray, is here and can speak to  
10 that. It might have been after a rain or something of that  
11 nature, but -- and there are also deer hunters, family  
12 members with four wheelers and folks of that nature out  
13 there on the roads. There is nothing that can be traced  
14 back, you know, with respect to us that we've done any  
15 significant damage to a road, and these are just a farm road  
16 out in the middle of wide open spaces and they picked a  
17 picture of one spot in a road. There has been no  
18 significant deterioration of any of those roads that relates  
19 to us.

20 There's also something in these papers that  
21 somehow that we have polluted some -- I've lost the name of  
22 the lake, but some lake, that there has been some spillage  
23 with respect to that. Mr. Gray will testify to you with  
24 respect to any of those -- with respect to the oil industry,  
25 there's always a little bit of stuff that goes on, but we

1 regularly clean that up, and with respect to this lake we  
2 supposedly polluted, it's 85 miles away from where any of  
3 our activities are, so it just didn't occur.

4 THE COURT: Yes, Mr. Carney.

5 MR. CARNEY: Your Honor, the waste tank that's  
6 attached to our pleadings is an illegal tank, it was  
7 improperly, grossly, negligently constructed, and when it  
8 rained it flushed out -- it flushed out down the hill, it  
9 went into the creek, the creek flows into Possum Kingdom  
10 Lake. The watershed into the deep creek is right down the  
11 hill, and there was heavy rains this year. But the tank is  
12 illegal, all right? It was not properly constructed. It's  
13 not lined. It doesn't have a two foot berm on it to prevent  
14 the very thing that happened.

15 The lease provides that they are obligated to  
16 prepare and maintain all-weather roads. It's an affirmative  
17 obligation to not just not damage the roads but to make them  
18 all-weather roads, which means caliche, gravel, they're to  
19 surface the roads. That's not been done. Those are  
20 additional damages under the lease.

21 THE COURT: Well, how do we know it was done under  
22 Mr. Wiand's tutelage and not the Downeys?

23 MR. CARNEY: How do we know -- I'm sorry, again?  
24 I didn't understand.

25 THE COURT: The Downeys were Quest, right?

1 MR. CARNEY: Yes, sir.

2 THE COURT: They executed this lease on behalf of  
3 Quest, right?

4 MR. CARNEY: They acquired the lease, yes.

5 THE COURT: Okay. How do we know that it wasn't  
6 their actions that damaged the roads with regard to this  
7 tank?

8 MR. CARNEY: They've had three years, Your Honor,  
9 to do this. This was done during the last three years.  
10 I took the pictures.

11 THE COURT: Well, let me hear -- Mr. Gray is what?  
12 He's the supervisor?

13 MR. WIAND: He is, Judge.

14 THE COURT: Bring him up.

15 MR. WIAND: Okay.

16 THE COURT: Madam Clerk, would you swear him.

17 THE CLERK: Yes, Your Honor.

18 Please raise your right hand.

19 Do you solemnly swear or affirm that the testimony  
20 you're about to give will be the truth, the whole truth and  
21 nothing but the truth, so help you God?

22 THE WITNESS: Yes, I do.

23 THE CLERK: And please state for the record your  
24 name and spell your first and last name.

25 THE WITNESS: Michael C. Gray, M-I-C-H-A-E-L.

1           You said spell my last name or first name?

2           THE CLERK:   Yes, please.

3           THE WITNESS:  G-R-A-Y.  Sorry.

4           THE CLERK:  Thank you, sir.  You may have a seat  
5 in the witness box.

6           THE COURT:  All right.  Mr. Morello, go ahead.

7                                 - - - - -

8                                 DIRECT EXAMINATION MICHAEL C. GRAY

9           BY MR. MORELLO:

10          Q     Mr. Gray, could you please identify your connection and  
11 sort of your work duties with respect to Mr. Wiand on behalf  
12 of Quest.

13          A     I worked for Quest prior to the receivership and I stay  
14 on and I just kind of oversee the -- on the grounds,  
15 everyday basis of Quest for Mr. Wiand, for the receivership.

16          Q     Okay.  And what were your specific job duties?  In the  
17 regular course of your regular day on behalf of Quest, what  
18 kind of activities were you engaging in?

19          A     Myself and another fellow, we just oversee the  
20 properties.  We call it -- we pump.  We call it pumping.  
21 It's just to check everything, all the producing wells,  
22 every day, gauge tanks, you know, clean up messes if we got  
23 a little mess or fix a flow -- fix things that are broken,  
24 little roustabout work, just maintenance and checking  
25 things.

1 Q Is it fair to say that you were overseeing, you know,  
2 the operations of drawing oil or gas out of the wells on --

3 A Yes.

4 Q -- the Hatchett lease?

5 A Yes, sir.

6 Q And let's start with 2015. You're familiar obviously  
7 with the Hatchett lease?

8 A Yes, sir.

9 Q And the Hatchett land?

10 A Yes, sir.

11 Q Okay. Beginning in 2015, can you explain what kind of  
12 activities you engaged in with respect to, you know, the  
13 property that's subject to the Hatchett lease.

14 A We had a workover rig, which is a pulling unit that  
15 works the wells over, fixes things that -- they had been --  
16 the wells were not producing before that, we went in there,  
17 we pulled the tubing, fixed the tubing and put them back  
18 into production to produce. I want to say that was in  
19 October of '15.

20 Q That was in October, 2015?

21 A Yes.

22 Q And were you successful in making the wells produce  
23 oil --

24 A We did get -- the number 1 well and the number 5 well,  
25 we did successfully get them to produce.

1 Q And how long did oil flow from those wells after you  
2 successfully got them to produce?

3 A We started producing them and after a few days -- we  
4 have an injection well that is on the property that we  
5 dispose of our wastewater, you essentially collect the gas  
6 and you collect the oil and the injection well is for  
7 disposal of the wastewater, and when we injected -- we were  
8 injecting into that and then we had a problem with the  
9 injection well, so we had to shut down, go over and work on  
10 the injection well.

11 Q Okay. Do you recall approximately when that happened?

12 A It was -- that was in October, when we worked on it,  
13 initially worked on the injection well, 2015.

14 Q And after October of 2015, were you successful in  
15 drawing any more oil out of any of these wells?

16 A While we were working on the injection well, it --  
17 injection wells always flow back fluid when you work on  
18 them, and usually they'll initially flow back oil and then  
19 they'll turn to water, and as we -- as we were flowing it  
20 back, we noticed it never -- never switched back to water,  
21 so it obviously had a head built up on it, so we run a  
22 flow line from the injection well to the oil tank and just  
23 started flowing oil into the oil tank from the injection  
24 well.

25 Q And how much oil was -- how long did that -- how long

1 did the oil flow?

2 A It flowed for about four months real slow, but in total  
3 about 40 -- 40 or so barrels of oil into the tank.

4 Q So this started roughly in October of 2015?

5 A Yes, sir.

6 Q So approximately when did it stop flowing?

7 A In January, I believe, January of 2016.

8 Q And after the flow stopped, did you do anything else  
9 with respect to these existing wells?

10 A We had to get another workover rig in February because  
11 we had a problem with the tubing on the ejection well, so we  
12 brought a rig back in February and we pulled it again and we  
13 run a sub with a collar so the pipe wouldn't try to push  
14 out, because we had pressure on the well, and after we put  
15 it back together, I thought because we had pressure we might  
16 be able to flow some more oil, so we put it back online and  
17 tried to flow it back into the oil tank, and it -- overnight  
18 it flowed about a half a barrel and it just -- it died out,  
19 no more pressure.

20 Q And what timeframe was that, that this occurred, do you  
21 recall?

22 A I believe that was in February. I think mid February,  
23 I believe.

24 Q Is it fair to say that all these activities you've been  
25 talking about, they fall under the definition of a workover

1 of a well?

2 A Well, I mean, yes, the rig that we have over there, if  
3 you've got a rig, it's a workover.

4 Q And after the last episode in February, 2016, do you  
5 recall what you and the receiver did next with respect to  
6 the property covered by the Hatchett lease or these wells  
7 specifically?

8 A Well, we had always discussed trying to possibly drill  
9 a well, and so we kind of started trying to put things  
10 together to figure out where we would like to drill a well.  
11 We spoke with the geologist that had done some of the  
12 studies out there and we got him to find the location.  
13 We had surveyors come out, they surveyed and I believe  
14 staked a spot to drill. I personally talked to Dean Lowe  
15 out of Albany, Texas that owns a drilling rig. I was on his  
16 waiting list as far as to start drilling. We had the  
17 permit, I believe, in place, the drilling permit through the  
18 Railroad Commission, and I had some other vendors lined out,  
19 we were good to go, and then we had to stop.

20 Q And do you know why you had to stop?

21 A I just got a call from Burt's office that said,  
22 you know, hold off on it, because there was some  
23 interference with the landowners.

24 Q So your understanding was that the landowners were not  
25 allowing us to continue drilling?



1 MR. CARNEY: Your Honor, this is calling for  
2 hearsay.

3 THE COURT: I'll overrule the objection.

4 BY MR. MORELLO:

5 Q You can answer the question.

6 A I was told from Burt's office not to come out there  
7 until this was resolved.

8 Q Okay. And what was --

9 THE COURT: When was that, Mr. Gray?

10 THE WITNESS: That was in I think July. July or  
11 August maybe.

12 THE COURT: Let me ask you a question.

13 THE WITNESS: I'm sorry. That's the best I can  
14 recall.

15 THE COURT: That's all right. So July or August  
16 of 2016 you receive instructions from the receiver to stop  
17 whatever you're doing.

18 THE WITNESS: It might have been -- it might have  
19 been September. I think it might have been later, I'm --  
20 I can't really remember, but I know -- yes, sir.

21 THE COURT: But in any event, you received  
22 instructions from Mr. Wiand to stop doing what you're doing.

23 THE WITNESS: Yes.

24 THE COURT: And what is it that you were doing  
25 that he told you to stop doing?

1 THE WITNESS: Oh. Well, we had it lined out to  
2 start drilling. I did go out there, not on an everyday  
3 basis, but every so often, maybe twice a month, three times  
4 a month, and just over -- just kind of made a roundabout  
5 look to make sure -- because everything was shut in, just to  
6 make sure that there was no leaks or, you know, nothing  
7 catastrophic was going on there, and so -- and then also we  
8 had -- we had the drilling rig lined up to show up,  
9 I believe it was going to show up within the next two weeks  
10 to drill a well. I was told to just halt on that and not  
11 step onto the property.

12 THE COURT: Okay. So sometime in July, August,  
13 September, you stopped all your activities and you quit  
14 going on the property?

15 THE WITNESS: It may have been later than then,  
16 than summer. I believe it might -- it was --

17 THE COURT: But in any event, after you got that  
18 instruction --

19 THE WITNESS: Yes, I did.

20 THE COURT: -- you quit going on the property?

21 THE WITNESS: Yes.

22 THE COURT: And no one connected with you went on  
23 the property?

24 THE WITNESS: No, sir.

25 THE COURT: All right. Go ahead.

1 BY MR. MORELLO:

2 Q Did you -- at the time you were told that you could no  
3 longer go on the property, was there any Quest equipment  
4 that had been left on the property?

5 A Yes.

6 Q Do you know the approximate value of the equipment that  
7 was left behind on the Hatchett land?

8 A It's going to be in the 200,000 to 225,000 dollar  
9 range. That's equipment that is associated with the lease.  
10 I have a pipe trailer with some pipe on it that was left  
11 there from when we worked on the last well that we worked  
12 on, it's still on the location. I've had to leave that  
13 there, it's not there, but --

14 Q And how about was there any oil left behind on the  
15 property in the tank that was pumped during the time that  
16 Quest had access to the land?

17 A I believe there's a total of 70 barrels or so in the  
18 tank maybe. I'd have to look.

19 Q Now, the activities that you were just describing that  
20 sort of terminated at some point when you were told to stop  
21 entering the land sometime in the fall of 2016, and you  
22 described them as working towards drilling a new well, when  
23 did that -- when did that all sort of start being discussed  
24 with the receiver, the implementation of that plan?

25 A Well, we had discussed drilling a well from day one of

1 the receiver, I mean, on the Hatchett, because we had --  
2 that was kind of the plan and that's what -- the  
3 information -- some of the information was already there on  
4 drilling the well. I mean, we had always discussed it,  
5 trying to figure out what we wanted to do as far as drilling  
6 a well.

7 Q Did you ever believe the receiver intended to at all  
8 leave the land idle at any point?

9 MR. CARNEY: Objection, Your Honor. Speculation.

10 THE COURT: I'll overrule the question.

11 A Repeat the question. I'm sorry.

12 Q I was asking if you believe the receiver at any point  
13 intended to leave the land idle and not do anything with it.

14 A No. Not intended to, no.

15 Q I think earlier we were talking about some of -- some  
16 allegations relating to pollution, and I think there was a  
17 discussion about a waste tank that Mr. Carney, I believe,  
18 said was not in compliance.

19 A The waste tank is -- if it's a -- we call them workover  
20 pits. A drilling workover pit requires you to be plastic  
21 covered, bermed completely. A workover -- a workover pit  
22 for workovers, you do not have to have them lined, you do  
23 not have to have them bermed. That was a workover pit.  
24 It's not an illegal pit, not according to the Railroad  
25 Commission, and that's who -- I go by their rules, Railroad

1 Commission rules. It's not an illegal workover pit.

2 Q And at the time that you were told no longer to enter  
3 the Hatchett land, approximately how many pits were there  
4 that had been made by you or anyone else on behalf of Quest?

5 A I believe there's a partial one, one and that's it,  
6 that's left on there.

7 Q Had there been more pits earlier in time?

8 A Oh, I'm sure there's been pits at every location on the  
9 place over the years, several.

10 Q Okay. Well, did you personally create any pits?

11 A Personally, I've created pits, yes.

12 Q Okay. What did you do with those pits?

13 A We sucked them out and then -- had them sucked out and  
14 buried them, just remediated them.

15 Q Did you ever leave any oil or waste or anything else --

16 A No.

17 Q -- in those pits?

18 A No.

19 Q And you said you covered those pits?

20 A Yes.

21 Q And so at the time -- again, I believe you testified  
22 before, but just so I'm clear, at the time you were told to  
23 no longer enter the land in the fall of '16, how many pits,  
24 open pits, do you believe still existed?

25 A I believe there was a partial one.

1 Q With respect to the roads, what was the condition of  
2 the roads at the time that you were told to no longer enter  
3 the Hatchett land?

4 A Some of the roads are gravel, harder gravel roads, some  
5 of the roads are just dirt, and if it rains you can sink  
6 that deep (indicating). I mean, I would say overall they're  
7 under good but not poor.

8 Q Who else used those roads?

9 A I'm sure anybody associated with the ranch used the  
10 roads. There's deer hunters that would use the roads.  
11 I mean, of course, the oil people would use the roads, but  
12 the family members, there's -- I don't -- I'm thinking  
13 there's four or five, I don't know how many exactly of  
14 landowners that own different properties on the ranch  
15 itself, and each landowner has, you know, cattle people that  
16 will be there, deer hunters that will be there, I don't know  
17 exactly how many, but there's more than just the oil people.

18 Q So there's other activity on the land besides the  
19 activity that was being done on behalf of Quest?

20 A Yes.

21 Q I think there were allegations of contamination.  
22 Are you familiar with any allegation -- with any actual  
23 contamination that had happened because of any of the  
24 operations that you were engaged in on behalf of Quest?

25 A There was -- if there was a contamination that had

1 gotten into Possum Kingdom Lake, I mean, I probably would  
2 not even be here, I would probably be in jail, or somebody  
3 would. That's not going to happen. I mean, it can't.  
4 The EPA would not -- I mean, that's just -- that's a no-no.  
5 It would have been on every news -- they would have shut  
6 every road down in the way. I mean, that's a major water  
7 source, so I don't know how we determine -- how anybody  
8 determined that pollution got in a lake 80 miles away.

9 Q That lake was 80 miles away, you said?

10 A Right about it.

11 Q During the time that you were operating on behalf of  
12 Quest, did the Railroad Commission ever indicate to Quest or  
13 to you that there was any spillage or contamination issues?

14 A No, as far as I know we're not in any violation with  
15 Railroad Commission as far as contaminants. I have not  
16 received a letter from them or any other -- any other way.

17 Q Do you know whether the Railroad Commission would be  
18 monitoring the Hatchett property or any other oil property?

19 A I don't know how often, but they do monitor every oil  
20 property regularly. They come by and do inspections of --  
21 even shut-in leases to producing leases, they have a  
22 schedule that they routinely go around and they do  
23 monitoring.

24 Q And is it your understanding if the Railroad Commission  
25 had found any problems with any of the wells that are

1 controlled by Quest, Quest or the receiver would have been  
2 alerted?

3 A They have not or we would have been notified. Unless  
4 it was in the time that we're here and it takes to get a  
5 letter here, you know, a week or so, but --

6 Q With respect to the plugging of any wells, at the time  
7 that you were instructed to no longer enter the land, is it  
8 your understanding whether Quest or the receiver were in  
9 violation of any of their plugging obligations?

10 A Plugging obligations, no, we're not in violation.  
11 We're up to -- to all of the standards on that.

12 MR. MORELLO: I don't have any other questions,  
13 Your Honor.

14 THE COURT: Mr. Hatchett?

15 MR. HATCHETT: Thank you, Your Honor.

16 - - - - -

17 CROSS-EXAMINATION OF MICHAEL C. GRAY

18 BY MR. HATCHETT:

19 Q Chad, you're the pumper out there on the Hatchett  
20 lease?

21 A Yes, sir.

22 Q And you've been out there for a good while?

23 A Yes, sir.

24 Q You're aware of a lot of the things that go on?

25 A Yes, sir.



1 Q Prior to your working with the receiver, you worked for  
2 Quest?

3 A Yes, sir.

4 Q That was the Downeys?

5 A Yes, sir.

6 Q And you pumped the wells?

7 A Yes, sir.

8 Q Have many of those wells were shut in?

9 A How many of the wells were shut in when --

10 Q How many total wells are on the Hatchett lease?

11 A There are, I believe, 11 total holes.

12 Q 11 well bores?

13 A Well bores, yes.

14 Q Of those well bores, how many of them are active?

15 A Today?

16 Q Today.

17 A Zero.

18 Q None of them?

19 A Uh-uh.

20 Q Okay. And when Quest had the lease, how many wells  
21 were active?

22 A We activated the -- when Quest -- are you talking about  
23 prior to receivership?

24 Q I'm talking about prior to the receivership, when Quest  
25 took over the lease.

1 A We had, I believe, the one well, the number 5 well, the  
2 A-2 well, the -- I'm trying to count them in my head so I'll  
3 get you a total count. The -- I believe the S-3 well.  
4 So I think we activated four wells during the Downeys'  
5 version of Quest or whatever --

6 Q So when Quest was actually operating the lease, they  
7 had four wells?

8 A We did operate the lease with four wells, yes.

9 Q And at some point when the receiver took over those  
10 wells were shut in?

11 A No, they shut in long before the receivership. I mean,  
12 not long, but they shut in during the Downey era.

13 Q Okay. But there was one well, the last well that was  
14 shut in was in 2013, that was after the receiver?

15 A I'm -- I don't know.

16 Q At the present time are there -- prior to the -- let me  
17 just go back. The lease expired April the 15th, 2016.

18 A Okay.

19 Q Prior to that, were there any wells that were in  
20 production?

21 A We did produce the 1 and the 5 prior to the expiration  
22 of the lease until our injection well did go down.

23 Q And how much oil did you sell off that?

24 A Well, we didn't sell -- you have to have a whole -- you  
25 have to have a total load before you can sell. You can't

1 sell oil partly, so --

2 Q Was it in paying quantities?

3 A I'm sorry?

4 Q Was the production in paying quantities?

5 A Well --

6 Q I believe you said that one of the wells flowed back a  
7 half barrel.

8 A Well, that was the same one that flowed back the  
9 40 barrels too. That was the same well.

10 Q Okay. But that was an ejection well.

11 A Yes.

12 Q That's not a production well.

13 A It's -- yes.

14 Q And it doesn't have a P4 production license, it's an  
15 injection well, right?

16 A Yes.

17 Q According to the Railroad Commission, you can't count  
18 that as production --

19 A It's recoverable.

20 Q -- is that correct?

21 A It's recoverable. I don't know if you can count it as  
22 production or not. I have no idea.

23 Q Well, it didn't come from a production well, so it's  
24 not production.

25 A Okay. I don't know how the Railroad -- I don't know.

1 Q After the receiver took place, was there any oil or gas  
2 sold off the Hatchett lease?

3 A Before or after?

4 Q After the receiver took over, was there any oil or gas  
5 sold --

6 A Yes. Yes, there was 170 barrels, I believe, sold after  
7 receivership took over.

8 Q And that was produced during the Quest time?

9 A Yes.

10 Q Those tanks were filled when the Downeys had it?

11 A Yes.

12 Q So that production took place before the receivership  
13 took place?

14 A Yes.

15 Q When the receiver was in control, was there any oil and  
16 gas produced off the Hatchett?

17 A I mean --

18 Q You're the pumper. Either you produced some or you  
19 didn't.

20 A Not from anywhere other than the injection well.

21 I don't know the law, if I can call it produced or not.

22 I don't know how that goes. I'm not familiar with that  
23 part.

24 Q Well, I asked if it was sold. You're the pumper. Did  
25 you have the oil --

1 A It was not sold.

2 Q Did the oil gatherers come get the oil?

3 A No, we did not sell any.

4 Q Okay. And so the gas production, the gas gatherer  
5 didn't gather any oil or gas?

6 A No.

7 Q Okay. So there was absolutely no production during the  
8 time that the receiver had the lease; is that correct?

9 A There was no production out of a producing well. There  
10 was produc -- I mean, I don't know how to --

11 Q No production sold. There was no production sold?

12 A Not sold.

13 Q Okay. And the wells were shut in?

14 A Wells shut in.

15 Q Okay. Now the lease has expired.

16 A Um-hum.

17 Q And without production, what could possibly perpetuate  
18 the lease beyond the primary term?

19 A I mean, I don't know.

20 Q Would it be drilling activity?

21 A Drilling activity would, yes.

22 Q Right. Now, I understand that ya'll plan --

23 MR. MORELLO: Objection.

24 THE COURT: Sir?

25 MR. MORELLO: I'm not sure -- he hasn't

1 established that Mr. Gray knows the terms of the lease and  
2 what would actually constitute satisfaction of the clause  
3 that extends the term of the lease.

4 THE COURT: Do you know -- are you familiar with  
5 the lease?

6 THE WITNESS: No, I'm not, sir. I have no  
7 dealings with the actual lease itself.

8 THE COURT: I think the objection is well-taken,  
9 Mr. Hatchett. Plus that's an issue for me to decide.

10 BY MR. HATCHETT:

11 Q Okay. As the pumper, aren't you in control of when you  
12 would call the crude buyers?

13 A Yes.

14 Q And did you call the crude buyers to come pick up  
15 oil --

16 A No.

17 Q -- during the time of the receivers?

18 A During the time of the receivers, yes, I did. Yes, we  
19 sold 176 barrels during the time of the receiver.

20 Q Now, the 176 barrels --

21 A One hundred seventy something.

22 Q -- you're talking about was produced during the time of  
23 the Downeys?

24 A Yes.

25 Q Yes.

1 A But I did call them during the receivership era.

2 Q Okay.

3 A Yeah.

4 Q So during the receivership era you called and had that  
5 crude oil picked up?

6 A Yes, I did.

7 Q But it was not produced during the time of the  
8 receivership?

9 A That is correct.

10 Q Okay. So you do know about that information?

11 A Yes.

12 Q Okay. Now, you said that they had planned to drill a  
13 well?

14 A Yes.

15 Q And they applied for a drilling permit?

16 A Yes.

17 Q Did they ever stake a location?

18 A Yes.

19 Q Did they build the pits?

20 A No. We -- we got shut down right prior to being able  
21 to get on location.

22 Q So you did this -- you made your application September  
23 the 26th, 2016 for the permit?

24 A I'm not sure. I didn't file for the permit, the office  
25 did.

1 Q If it was done on September the 26th, 2016, it would be  
2 five months after the expiration of the lease; is that  
3 correct?

4 A Yes, it would be.

5 Q And would you agree that you got notice from, I guess,  
6 Mr. Wiand that a letter had been sent October the 16th,  
7 2016?

8 A I don't think I had been informed that a letter had  
9 been sent, no.

10 Q But you were informed not to come back on the lease?

11 A This was after we filed for the permit and after all of  
12 that. Yes. I mean, I was informed not to come back, but  
13 I wasn't -- I wasn't aware of all the details of why.

14 Q Now, isn't it true in the oil and gas industry that  
15 either you produce a well or you plug it? Isn't that the  
16 way it is?

17 A You produce a well or you plug it? I mean, no, not  
18 necessarily. I mean, there's a lot more unplugged wells  
19 probably in the state of Texas than there are producing  
20 wells.

21 Q So if you're not going to produce a well, the rule is  
22 that you have to plug the well; you're aware of that?

23 A You have to plug it if you don't have the proper  
24 paperwork for a 14(B) extension or something like that,  
25 which --



1 Q That's correct. And if you don't have that extension,  
2 you need to plug the well within 30 days?

3 A Yep. I believe so.

4 Q If you have the extension, then you can extend it for a  
5 year?

6 A Yes, the 14(B) extension rule is, I believe, that you  
7 can have X amount of wells on your 14(B) extension and you  
8 either have to plug a percentage of what's on your extension  
9 a year or put back into production a percentage, and we're  
10 in compliance with our 14(B) extension, to my notice.

11 Q Well, I understand that a drilling and a plugging  
12 permit was applied for to extend the plugging of the wells;  
13 is that correct?

14 A I have no idea. I don't know about that.

15 Q You don't know?

16 A No.

17 Q You don't know if Mr. Wiand filed any kind of extension  
18 to plugs wells with the Railroad Commission?

19 A No, I don't know. On the Hatchett?

20 Q Yes.

21 A Okay. I don't know. No.

22 Q But isn't it also true you have to have a valid lease  
23 in order to get an extension?

24 A I have no idea. I don't know how -- I'm more of a  
25 field guy. As far as paperwork goes, I know a little bit

1 but not a whole lot. I don't know.

2 Q But you do agree that April the 15th, 2016 has come and  
3 passed?

4 A I do agree with that.

5 Q And the lease was to be expired on that date?

6 A I -- yes. I've never, I mean, seen it in writing prior  
7 to that, but, yes, that's my belief, that it was prior --

8 Q Your testimony to the Court now is all those wells are  
9 shut in and there's no production?

10 A Yes, sir. Yes, there is none.

11 Q Now, as to the damages we're talking about, there was a  
12 dirt pit on the well, you're aware of that?

13 A Yes.

14 Q And it had oil in it?

15 A I didn't see the oil -- I don't know when the pictures  
16 were taken. I haven't seen oil in it, no.

17 Q Well, I've just got to ask, where did the oil go?  
18 If there's oil in that pit in those pictures, where did the  
19 oil go?

20 A I've never seen oil in it. The oil we had in the pit,  
21 we had it remediated, we had it sucked out. There was --  
22 there was all saltwater probably when we did a workover and  
23 there would have been a skim of oil. We sucked everything  
24 out. Any water that was in the pit after that would have  
25 been rainwater. I mean --

1 Q Well, that's the point. The oil -- the rainwater came  
2 and it filled the pit up and ran over the dike, and that's  
3 what ran into Deep Creek, and Deep Creek is on the watershed  
4 of Possum Kingdom.

5 A But there was no oil in the pit before the rain.  
6 I mean, whatever was in there would have had to have been  
7 rainwater, that I'm aware of. I would feel like I --  
8 I mean, I would have known if there was a pollution issue.

9 MR. HATCHETT: Your Honor, may I approach the  
10 witness?

11 THE COURT: You may, sir.

12 BY MR. HATCHETT:

13 Q I have in my hand what was marked as Exhibit 1.

14 A Yes.

15 Q Do you recognize that?

16 A I don't know when it was -- I'm pretty sure this is  
17 probably the 9-Q. I have no idea when it was taken.  
18 I mean, we did do workover -- the receivership did do a  
19 workover on this well after the fact. That's a workover  
20 pit. We flowed -- when we did swabbing on it, we did flow  
21 back, but --

22 Q Is that oil in the pit?

23 A I don't know. I mean, I don't know what it is. It  
24 could be carbon sulfide or it could be -- I mean, I don't  
25 know.

1 Q So you're saying you don't think that's oil?

2 A It could be. It could be. It's hard to tell in a  
3 picture. I mean, it could be oil, it could be -- I mean,  
4 I -- but I don't know when that -- was that picture taken  
5 during a workover? I don't know. I mean, I told you, there  
6 was oil in the pit at one time.

7 Q Now, we were talking about the roads.

8 A Yes, sir.

9 Q And you may not know what the provisions of the lease  
10 are, but --

11 A I do not know.

12 Q -- oil and gas leases normally provide that the  
13 operator maintain the roads.

14 A Okay. Yes, sir.

15 Q Is that correct?

16 A Um-hum.

17 Q And so the production zones in nearly all these other  
18 wells have already had good caliche roads all the way to the  
19 roads.

20 A Um-hum.

21 Q But that particular well didn't have an all-weather  
22 road.

23 MR. MORELLO: Objection, Your Honor.

24 THE COURT: Can't read your mind, Mr. Morello.  
25 What's the basis?

1 MR. MORELLO: I'm not sure who is testifying here,  
2 if it's Mr. Hatchett or Mr. Gray.

3 THE COURT: Just ask the question, please,  
4 Mr. Hatchett.

5 MR. HATCHETT: I'm trying to get him to understand  
6 where we are in regard to the lease.

7 THE WITNESS: Yes, sir.

8 BY MR. HATCHETT:

9 Q Were there all-weather roads to this well that we see  
10 here?

11 A If that is the 9-Q, if that's what well that is, there  
12 is not an all-weather road, no, it's just a pasture road,  
13 yes.

14 Q And that would be the responsibility of the operator,  
15 to maintain an all-weather road?

16 A Yes. Yes.

17 Q Not the responsibility --

18 MR. MORELLO: Objection, Your Honor.

19 Q -- of the farmers or the ranchers or the deer hunters?

20 THE COURT: What's the matter, Mr. Morello?

21 MR. MORELLO: Again, he's testifying himself as  
22 opposed to asking Mr. Gray -- Mr. Gray already testified he  
23 didn't know whose responsibility it is to maintain the roads  
24 under the lease. Mr. Hatchett fed him that information and  
25 now he's asking him --

1 THE COURT: Well, do you know whose responsibility  
2 it is to take care of the roads?

3 THE WITNESS: I don't know what the responsibility  
4 is on the existing roads. If that -- that road was an  
5 existing pasture road.

6 THE COURT: How bad is the road anyway?

7 THE WITNESS: I mean, it's -- it's just a dirt  
8 lane in between mesquite trees. There's no material on it  
9 at all, no, sir.

10 THE COURT: Can you travel it?

11 THE WITNESS: You can travel it in a pickup truck,  
12 yes, sir.

13 THE COURT: All right.

14 BY MR. HATCHETT:

15 Q Is it an all-weather road?

16 A No, it's not an all-weather road.

17 Q So if we had a bad rain, you couldn't travel it?

18 A Probably not.

19 MR. HATCHETT: I have nothing further, Your Honor.

20 THE COURT: Mr. Carney, do you have any questions?

21 MR. CARNEY: Yes, Your Honor, a few.

22 May I approach?

23 THE COURT: Yes.

24 Who took it and when?

25 MR. CARNEY: Your Honor, I took it in the summer

1 of 2016.

2 THE COURT: When?

3 MR. HATCHETT: June or July.

4 THE COURT: All right.

5 - - - - -

6 CROSS-EXAMINATION OF MICHAEL C. GRAY

7 BY MR. CARNEY:

8 Q When was the last time you pumped out the waste tank on  
9 that well?

10 A In 2016, earlier probably. I don't -- I'd have to look  
11 back. I really don't know.

12 Q Was there ever a time before October 14th that you were  
13 told to not go onto the Hatchett ranch property?

14 A Before October 14th of '15?

15 Q Of 2016.

16 A Of '16? No. No, there wasn't.

17 Q And do you know what triggered the instructions you  
18 received from the receiver or the attorney to not go on the  
19 road or not to go on the property?

20 A I think it was a dispute with the lease, I guess. I --

21 Q What activity occurred on the Hatchett ranch leases  
22 between April 15th and October 14th, 2016?

23 A Between -- okay. Give me the dates again.

24 Q Between April 14th, 2016, when the lease expired, the  
25 primary term --

1 A Um-hum.

2 Q -- and the notice for you to vacate the property on or  
3 after October 14th, 2016.

4 A Just trying to put together -- to drill a well.

5 I mean, that's basically -- pretty much, yeah, basically --

6 Q Did you spud a well?

7 A The location had been set. We had the surveyors come  
8 out and they staked it.

9 MR. CARNEY: I object as nonresponsive.

10 Q What is the definition of spudding?

11 A Oh. Did we spud?

12 Q Yes, sir.

13 A I thought you said did we spot the well.

14 Q Did you spud the well?

15 A No, we did not spud the well. No.

16 Q All right. The well application wasn't submitted until  
17 September of 2016, was it?

18 A Probably. That's probably right. I don't know.

19 Q And the extension that you contend relieves you of a  
20 plugging obligation wasn't filed until the fall of 2016, was  
21 it?

22 A I have no recollection of the plugging extension.  
23 Today was the first day I've heard that, plugging extension.

24 Q And do you know whether or not in order to get an  
25 extension for plugging you have to file a valid -- you have



1 to represent to the Railroad Commission that you have a  
2 valid lease?

3 A I don't -- I don't know. I think that's the same  
4 question I answered to him. I'm not sure.

5 Q So when did the well get staked?

6 A I want to -- I really don't know. I'd have to look at  
7 the -- I know it was staked in two thousand -- late 2016,  
8 I believe.

9 Q The fall? The fall of '16?

10 A Probably, yeah. I'd have to look. I don't know.  
11 I'm not sure.

12 Q If the lease provided that you were to remove your  
13 equipment within 120 days of the end of the lease term of  
14 April 15th, did you do that?

15 A We removed no equipment after the lease expired.

16 Q Were the pits fenced, or was the pit fenced?

17 A No.

18 Q Was it bermed?

19 A Partially.

20 Q Would you look at the picture again, please.

21 A I believe that's the berm here, coming back on the  
22 back side, and there's a little bit of a berm over here, but  
23 that's partially -- it's not bermed in the front.

24 Q Is there a two foot berm?

25 A No. Not all the way around, no, sir.

1 Q Just so we're clear on the extent of the activity,  
2 you've testified as to every action that was taken after  
3 April 15th to extend the lease, correct? Is there anything  
4 else --

5 A Well, I don't know if it was to extend -- I'm just --  
6 I've stated everything that was -- that was done after --

7 Q You stated every activity that was done on the Hatchett  
8 lease after April 15th?

9 A Yes, I believe, other than paperwork issues and ongoing  
10 things like that, but, yes.

11 Q Did anybody interfere with any actions that you would  
12 have or could have taken before October 15th, 2016?

13 A Not before -- not interfered with -- in the field, no.  
14 No. No.

15 Q Let me show you what's been marked as Exhibit 2. Are  
16 you familiar with that information?

17 A Yes. These are the list of the wells.

18 Q And does it list the status of the active or  
19 non-active?

20 A Status -- somewhere you may show me where it says --  
21 you know, where does it show the status at?

22 Okay. Shut-in date, it gives the date they were  
23 shut in, so I'm assuming they're shut in, is what their  
24 status is.

25 Q Is that consistent with your testimony that all the

1 wells are shut in?

2 A Yes.

3 Q After April 15th, you've testified that there was one  
4 well permitted and staked sometime in the fall of 2016.

5 A I believe that's when it was staked. I'm not  
6 100 percent when it was staked, but, yes.

7 Q Where was that well located?

8 A It was going to be the east side -- I mean, I don't  
9 know how -- it's going to be due northeast of  
10 Bill Hatchett's house. I mean, I don't know that -- nobody  
11 else understands where that's at, but pretty close to the --  
12 to the --

13 Q Tank battery?

14 A No. No. No. To the power line that runs through.  
15 We're going to go northeast of Bill's house, maybe a mile or  
16 so, I believe.

17 Q And other than that particular location, there was no  
18 activity on any other part of the ranch, correct?

19 A What time period are we talking?

20 Q We're talking about after April 15th, 2016.

21 A No. No.

22 Q Prior to April 15th, you testified there was only  
23 activity as to, what, three wells, two production and an  
24 injection well?

25 A Yes, sir.

1 Q So all the other wells --

2 A Four wells. The 9-Q, we did -- we did work on it.  
3 That's where I believe this is. I believe that's the 9-Q.  
4 I can't -- that's the only place I know we had a partial pit  
5 there, and I believe it's here, it was extended, but we did  
6 do work on this well also.

7 Q Does the photograph fairly and accurately reflect the  
8 workover pit on the brownfield well?

9 A Does it -- I'm sorry?

10 Q Is it an accurate depiction -- is the picture accurate?

11 A I mean, it looks pretty close, I mean, yeah.

12 Q Do you recognize it?

13 A I believe I do. Yes, sir.

14 MR. CARNEY: Move to admit Exhibit 1, Your Honor.

15 THE COURT: Mr. Morello?

16 MR. MORELLO: I don't think there's -- I don't  
17 think there's been sufficient foundation established for the  
18 accuracy of the picture, but, I mean, I don't have any  
19 objection to it being --

20 THE COURT: All right. It will be received.

21 MR. CARNEY: Thank you, Your Honor.

22 BY MR. CARNEY:

23 Q You've driven to the brownfield well, haven't you?

24 A To the which well?

25 Q Well, the pit -- the waste pit well.

1 A This -- the well, if it is 9-Q, yes. I didn't know  
2 where this road went. Is that where this road goes?  
3 Is that what you're saying?

4 Q I'm asking you do you recognize that road.

5 A I do not, but -- I mean, it just looks like a pasture  
6 road. I do not know -- I couldn't tell you if that's what  
7 this road is or not, but if you say this goes to that well,  
8 I guess it does.

9 Q We'll come back to that.

10 Exhibit 2, do you have any reason to dispute the  
11 accuracy of the shut-in dates on Exhibit 2?

12 A I don't. I don't know -- I don't know how accurate  
13 they are. I mean, I don't know.

14 Q Thank you.

15 A I'm not sure. I'd have to --

16 MR. CARNEY: Nothing further, Your Honor.

17 THE COURT: Do you have any redirect, Mr. Morello?

18 MR. MORELLO: I do, Your Honor.

19 - - - - -

20 REDIRECT EXAMINATION OF MICHAEL C. GRAY

21 BY MR. MORELLO:

22 Q Mr. Gray, you were asked questions about the date of  
23 the permit application for the new well, roughly in the fall  
24 of 2016.

25 A Yeah.

1 Q Would there have been activities that would have taken  
2 place before that permit application was filed?

3 A Would there have been activities before it was filed?

4 Q So the -- yes.

5 A Planning, and we did talk with the geologist and went  
6 over the maps, went over what -- he had done some geology on  
7 it, we went over that, I mean, just in preparation for  
8 drilling a well.

9 Q So before September -- let's assume September, 2016 is  
10 the accurate date for the permit application filing. Before  
11 that application was there a survey done, would there have  
12 been a survey done of the land?

13 A They did do --

14 MR. CARNEY: Objection. Foundation.

15 THE COURT: I'll overrule the objection.

16 A They did do a survey, yes. A survey company surveyed  
17 to find the location in adjacent to where it was on the map  
18 in order to find it in real life to know where we're going  
19 to drill, yes.

20 Q Do you know if the receiver had a geological report  
21 generated before September 16, 2016?

22 A There was a geologic report done on part of the  
23 Hatchett, yes, and it has reference to the well we were  
24 going to drill, it was in relation to that, yes.

25 Q And do you know if drillers had been contacted before

1 the application was filed in September, 2016?

2 A I did. I contacted a driller out of Albany, Texas.

3 Q Can you think of any other activities that took place  
4 before, relating to the same new well that would be drilled,  
5 that the permit was applied -- that the permit was applied  
6 for in September, 2016?

7 A No.

8 Q Besides yourself, do you know if there are any other  
9 individuals that work with the receiver on Quest?

10 A Are there any other individuals that work with the  
11 receiver --

12 Q With respect to the Quest operations, besides yourself.

13 A On the field? In the field?

14 Q No, just in general.

15 Let me ask it this way. Do you interact -- who do  
16 you interact with on behalf of the receiver with respect to  
17 the Quest operations?

18 A Roger Jernigan.

19 Q And have you ever interacted with Jeffrey Rizzo?

20 A Yes.

21 Q And are you aware of everything they do with respect to  
22 Quest?

23 A No, not everything. They do a whole lot that --

24 Q So they could have been taking additional steps as well  
25 behind the scenes --

1 A Definitely.

2 Q -- with respect to the new well drilling, correct?

3 A Yes. Roger had to contact the Water Board Commission,  
4 we had to get a Water Board letter. Before we could even  
5 file for the permit we had to get a Water Board letter, we  
6 had to get -- I believe there was some more paperwork.  
7 Everything has to be in line before you can even file for a  
8 permit.

9 Q One last area I want to ask you. Mr. Carney I think  
10 raised the question about the pit being bermed and asking if  
11 there was a two foot berm on one of the exhibits that he  
12 showed you. Is it your understanding that the pits that  
13 were dug and that were used were in compliance with all  
14 regulations with regards to those pits?

15 A Yes. When you dig a workover pit, they don't have to  
16 be bermed, they don't have to be plastic, only drilling pits  
17 have to be plastic, and some drilling pits don't even have  
18 to be plastic.

19 Q Would you agree, Mr. Gray, that from April 2016 forward  
20 until you were told to stop, that you could no longer enter  
21 the Hatchett lands, would you agree that the receiver was  
22 actively engaged in attempting to drill a new well on the  
23 Hatchett land?

24 A Yes. Yes.

25 MR. MORELLO: I have no other questions,



1 Your Honor.

2 THE COURT: Thank you, Mr. Gray.

3 Any other witnesses, Mr. Morello?

4 MR. MORELLO: No, Your Honor.

5 THE COURT: Mr. Hatchett?

6 MR. HATCHETT: I have no witnesses, but I would  
7 like to recross Mr. Gray.

8 THE COURT: Well, in my courtroom it's direct,  
9 cross and redirect. What areas do you want to inquire,  
10 Mr. Hatchett?

11 MR. HATCHETT: Your Honor, I wanted to inquire  
12 that when the saltwater injection well had its problem, what  
13 actually took place in getting that under control.

14 THE COURT: Can you answer that question,  
15 Mr. Gray?

16 THE WITNESS: I'm sorry?

17 THE COURT: Have a seat again.

18 Ask the question, Mr. Hatchett. I'll allow you  
19 some leeway.

20 MR. HATCHETT: Thank you, Your Honor.

21 - - - - -

22 RE CROSS-EXAMINATION

23 BY MR. HATCHETT:

24 Q When the saltwater injection well had the problem, was  
25 saltwater blowing out of the wellhead?

1 A No. We had -- it come out the bradenhead, which is  
2 your protection, not the head.

3 Q Okay. The bradenhead. Did it come out of the  
4 bradenhead, saltwater?

5 A Yeah, it was coming out of the valve of the bradenhead.  
6 Yes.

7 Q And do you know how long it had been doing that before  
8 you got the call to come get it?

9 A No, I don't -- when I kicked the well on, it started  
10 doing it the day I was there. I always go by and I kick the  
11 well, the pumps on, to make sure that everything is going to  
12 come on manually, because it's all an automatic system.  
13 There was no -- nothing coming out of the bradenhead before  
14 that, because there would have been a puddle. I kicked the  
15 well on, on manual, and while I was at the lease, we was  
16 working -- working over stuff, we were fixing flow lines and  
17 stuff, and while I was there is when it started coming out  
18 of the bradenhead.

19 Q So you didn't receive a phone call from my sister  
20 Janece that saltwater was blowing out of that head?

21 A No, I did not. I received a call from Janece that the  
22 tubing had shot -- it had lifted out, that's when we got the  
23 rig in February, but there was nothing coming out of the  
24 well, no. The tubing had lifted out from the pressure. We  
25 went over there and pulled it back down.

1 Q But it did flow back saltwater onto the surface?

2 A No. No. We -- it did not flow.

3 Q It didn't come out of the bradenhead?

4 A No, not that I recall. I mean, there could have --  
5 there could have been a cupful maybe that was in -- in and  
6 around the bradenhead when we worked over -- or when it --  
7 when the tubing come out and the fluid might have come  
8 around the packing rubber or something.

9 Q Right.

10 A Yes, there could be, yes, but it was a very small  
11 amount that I cleaned up as soon as she called me.

12 Q When people came out and the packing head was loose,  
13 saltwater didn't spray up?

14 A It didn't -- it was contained within an area of  
15 probably three foot, and it was just -- it was not standing,  
16 it was just in --

17 Q What would cause the tubing to come out of the  
18 bradenhead, to come out of the wellhead?

19 A There was pressure.

20 Q Pressure?

21 A Yes.

22 Q And was it -- was it -- why didn't it just stay in  
23 place? Was there some kind of problem with it?

24 A When we worked over the well, we started pulling back,  
25 we didn't pull a full stream back in until it was -- it was

1 a light stream.

2 Q Okay. So what did -- what property --

3 A I didn't want a full heavy stream in the hole, so it  
4 was a light stream, just because, being efficient-wise, we  
5 were going to flow back anyway, there was no sense in  
6 running a full stream back in.

7 Q So that saltwater well -- that saltwater injection well  
8 is problematic, causing problems?

9 A No. It was that time -- I put a perforated -- I mean,  
10 I put a sub in above the top joint now and then rested it  
11 against it so it will not come out of that hole again.  
12 I should have done that the first time.

13 Q So it won't happen again?

14 A Yeah, it won't happen again.

15 MR. HATCHETT: Nothing further, Your Honor.

16 Thank you.

17 THE COURT: All right. You're welcome.

18 Thank you, Mr. Gray.

19 Mr. Carney, do you have any witnesses?

20 MR. CARNEY: Your Honor, I'd like to testify.

21 THE COURT: Come forward and be sworn.

22 THE CLERK: Please raise your right hand.

23 Do you solemnly swear or affirm that the testimony  
24 you're about to give will be the truth, the whole truth and  
25 nothing but the truth, so help you God?

1 THE WITNESS: I do.

2 THE CLERK: Please state your name for the record.

3 MR. CARNEY: John Hatchett Carney.

4 THE COURT: Mr. Carney, before you begin,  
5 Exhibit 5 to the receiver's motion is a letter on the date  
6 of October 14th of 2016 that you sent to Mr. Guerra,  
7 Mr. Morello and Mr. Wiand. Do you remember that letter?

8 MR. CARNEY: Yes, sir.

9 THE COURT: And in it you categorically state  
10 in capital letters: You are advised that any entry by you  
11 or anyone purporting to be acting on your behalf onto the  
12 Hatchett Ranch is trespassing. You have forfeited any and  
13 all rights to salvage any equipment or pipeline.

14 On whose behalf were you making that  
15 representation?

16 MR. CARNEY: On my own.

17 THE COURT: How about Mr. Jim Hatchett,  
18 Byron Hatchett, Peter Gryska, Shannon Campbell, Sarah  
19 Hatfield and Janece Tucker, did you have their authority to  
20 send that letter to the receiver?

21 MR. CARNEY: I did this on my own, Your Honor.

22 THE COURT: And this included all 27 of those  
23 parcels?

24 MR. CARNEY: Yes, sir.

25 THE COURT: Again, by what authority did you have

1 to tell the receiver to stay off the entire prop -- how much  
2 of this property do you own?

3 MR. CARNEY: I own an undivided fraction of all of  
4 the oil and gas minerals. The property is separately owned  
5 by us, the surface is separately owned by the various family  
6 members, but the oil interests are undivided, so we each  
7 have a small fraction of the royalty interest.

8 THE COURT: For the entire property?

9 MR. CARNEY: For the entire property.

10 THE COURT: And how much of this property do you  
11 own?

12 MR. CARNEY: 1140 acres.

13 THE COURT: All right. And on that 1140 acres are  
14 there any oil wells?

15 MR. CARNEY: Yes, sir.

16 THE COURT: Which ones?

17 MR. CARNEY: The one depicted in Exhibit 1, and  
18 the road --

19 THE COURT: Oh. That road that you say was torn  
20 up, is that on your property?

21 MR. CARNEY: Yes, sir.

22 THE COURT: Okay. And that -- where the oil was,  
23 what did you call it?

24 MR. CARNEY: The working pit.

25 THE COURT: Yeah. Is that on your property?

1 MR. CARNEY: Yes, sir.

2 THE COURT: Is all the equipment that you claim  
3 they can't have on your property?

4 MR. CARNEY: Just some of it.

5 THE COURT: Some of it.

6 MR. CARNEY: Some of it, the physical --

7 THE COURT: Again, by what authority did you tell  
8 the receiver to stay off the Hatchett Ranch when you don't  
9 own all of the Hatchett Ranch?

10 MR. CARNEY: I don't own all of the Hatchett  
11 Ranch. I own an undivided portion of all of the mineral  
12 interests.

13 THE COURT: Were you aware of the orders that  
14 I had entered in this receivership?

15 MR. CARNEY: I had been made aware of it --

16 THE COURT: Why didn't you come to me?

17 MR. CARNEY: Your Honor, I didn't because the  
18 lease had expired.

19 THE COURT: But don't you understand that's my  
20 determination to make and not yours?

21 Where is Mr. Gyska? What's his position, do you  
22 know? Is it his position the lease is expired, or any of  
23 the other people other than you and Mr. Hatchett here?

24 MR. CARNEY: I've discussed it with Shannon  
25 Campbell.

1 THE COURT: Yeah? Where is -- is it  
2 Mrs. Campbell?

3 MR. CARNEY: Yes.

4 THE COURT: Where is she today?

5 MR. CARNEY: It's a he. Shannon is a he.

6 THE COURT: Where is he?

7 MR. CARNEY: He's in San Antonio.

8 THE COURT: Did he know about this hearing today?

9 MR. CARNEY: I believe so.

10 THE COURT: So you've told me and Mr. Hatchett,  
11 who is a lawyer, has told me that you're only here in your  
12 own individual capacities.

13 MR. CARNEY: Yes, sir.

14 THE COURT: How can I adjudicate the rights of the  
15 other people who have interest in this property? You tell  
16 me how I do that.

17 MR. CARNEY: Your Honor, they're the same -- the  
18 existence of the lease is the same as to everybody.

19 THE COURT: They may come in and say, you know  
20 something, I agree with Mr. Wiand's position, based on the  
21 testimony of Mr. Gray, that prior to April 16th of 2016 the  
22 receiver was taking action to drill a new well, et cetera,  
23 that would bring it into the habendum clause. They may take  
24 that position. What do I do then?

25 MR. CARNEY: Your Honor, the activity of the



1 receiver is -- doesn't even pale compared to what is  
2 required to preserve a lease after the primary term.

3 THE COURT: That's my determination though.

4 If I accept the credibility of Mr. Gray, it seems  
5 like he was acting prior to April 16th.

6 MR. CARNEY: Your Honor, it's a well-adjudicated  
7 issue, and the level of activity that is required to  
8 preserve a lease after the primary term isn't even clearly  
9 or potentially met.

10 THE COURT: Again, how do I adjudicate the  
11 interests of these other people? Or do I just tell the  
12 receiver, if I believe you, Mr. Hatchett, stay off their  
13 property?

14 MR. CARNEY: Well, Your Honor, the determination  
15 of the validity of the lease is what we're asking -- that is  
16 what -- what's brought us here today is Mr. Hatchett filed a  
17 good faith request with the Railroad Commission to determine  
18 whether the lease was valid. The receiver scrambled  
19 around months after the lease expired. The lease provides  
20 for 120 days after the expiration --

21 THE COURT: I've read the lease. I've read the  
22 lease, but do you understand the quandary that I'm in?  
23 What if Mr. -- apparently, according to Mr. Wiand, he's had  
24 contact with Mr. Gryska and he's all for someone else coming  
25 in and taking over, which seems to me at odds with your

1 position and Mr. Hatchett's position.

2 MR. CARNEY: Your Honor, I think the testimony is  
3 clear that of the 27 separate leases, there is only activity  
4 at most on two or three tracks, so the -- all of the other  
5 25 tracks no longer have a lease.

6 THE COURT: Well, who owns those 25 tracks?

7 MR. CARNEY: Well, one of them is mine. The  
8 location that they're describing as being staked, I don't  
9 know where that is, but it's apparently on either Byron  
10 Hatchett's or his sister Janece's part of the ranch.

11 THE COURT: Is your sister aware of this  
12 situation?

13 MR. HATCHETT: She is aware, Your Honor.

14 THE COURT: Any reason why she didn't come?

15 Any reason why she didn't say, hey, brother,  
16 represent my interests? You're a lawyer.

17 Do you understand the quandary I'm in?

18 MR. HATCHETT: I understand exactly the quandary  
19 you're in, Your Honor, but I am not authorized to speak on  
20 behalf of the other mineral interest owners.

21 THE COURT: And I know that and I appreciate that.

22 MR. HATCHETT: And the only reason that they would  
23 be involved in this particular hearing is because someone  
24 claimed that I did, and I didn't, and I don't think  
25 Mr. Carney did. We were acting on our own.

1 THE COURT: Okay. I understand.

2 MR. HATCHETT: The issue of the oil and gas lease  
3 has to do with the minerals, and it doesn't really matter  
4 who owns the surface, but the minerals are undivided, and so  
5 whatever argument that we have about the minerals being  
6 released should be released one or all, joint and severally.

7 THE COURT: Well, what if Mr. Gyska comes in and  
8 says, no, I disagree with your position, Mr. Hatchett and  
9 Mr. Carney, or the other people? What more do you have to  
10 add to me? Other than what Mr. Gray has testified and  
11 you've brought out -- and by the way, you've done a very  
12 good job. Are you sure you're not a lawyer? I don't say  
13 that facetiously. You've done a very good job representing  
14 your interests here.

15 MR. CARNEY: Sir, with all respect, I would never  
16 violate a court order.

17 THE COURT: Okay.

18 MR. CARNEY: And the actions that I took, good  
19 faith response.

20 THE COURT: Let's clear that up right now, and  
21 I don't want to cut off the receiver. I don't find that  
22 anything that's been done here would rise to a level of  
23 contempt, although I think you should have consulted a  
24 lawyer before you sent that letter, all right?

25 On an informal basis, do you know the position of

1 the other people involved with regard to the receiver's  
2 actions of trying to sell the assets of Quest? Do you know  
3 what their positions are?

4 MR. CARNEY: Your Honor, we buried Jim Hatchett's  
5 wife two weeks ago.

6 THE COURT: Well, I'm sorry to hear that.

7 MR. CARNEY: I had the occasion to discuss  
8 generally with some of the family, including Mr. Gryska, and  
9 Your Honor, these wells have been producing some revenue for  
10 the family for 50 years, and the receiver has had three  
11 years to do something with them and he did nothing, and  
12 they've scrambled around at the end to try and fix their  
13 problem, but they let the lease expire without doing  
14 anything.

15 THE COURT: You didn't answer my question.  
16 Assuming he can find a buyer for the assets of Quest that  
17 would start generating revenue, do you know what the  
18 position of the other people are?

19 MR. CARNEY: They want to get a qualified driller  
20 in there.

21 THE COURT: Okay.

22 MR. CARNEY: They want to control the lease terms  
23 that are negotiated with the new person.

24 THE COURT: Okay. Can that be accomplished,  
25 Mr. Wiand?

1           MR. WIAND: Your Honor, it absolutely can be, and  
2 in my conversation with Mr. Gryska we talked about that and  
3 he was also in favor of me going forward with this, and  
4 I have on the table right now a proposal that the buyer  
5 wants to close by April 10, that won't happen, but that's  
6 what they're proposing, and it's acceptable terms to me, and  
7 so I -- you know, and I believe these people are  
8 well-qualified to do this business, so --

9           THE COURT: What's their name?

10          MR. WIAND: It's called PROCONSULT International  
11 LLC. It's a group of petroleum consultants that invest and  
12 operate properties for investors.

13          THE COURT: Are you aware of them?

14          MR. CARNEY: No, sir, I've never heard the name.

15          THE COURT: Mr. Hatchett?

16          MR. HATCHETT: I'm not aware of them, Your Honor.

17          THE COURT: Where are they from, Mr. Wiand?

18          MR. WIAND: The five principals are from various  
19 places, some from Calgary, there's a couple in Texas, and  
20 there's some in other parts of the United States.

21          THE COURT: Well, assume, you know, I agree with  
22 your position and I say the lease is terminated, who are you  
23 going to go to?

24          MR. CARNEY: Your Honor --

25          MR. HATCHETT: Your Honor, if I might be

1 permitted?

2 THE COURT: Sure. Yes, sir.

3 MR. HATCHETT: There's an old adage, if you want  
4 things done right, do it yourself. The lease is about to  
5 expire. I myself went and put together an investment group  
6 that is willing to lease the Hatchett lease today. They  
7 will not do so unless we get a release from the lease from  
8 the receiver. I will be the operator, and I can assure this  
9 Court that no one will love the land or take care of it  
10 better than myself.

11 THE COURT: But, you know, that's all well and  
12 good, what about these people who want their money back, the  
13 claimants?

14 MR. HATCHETT: Well, I understand their position.  
15 Our family has also suffered collateral damage because we  
16 have had an income stream cut off from us. I would purport  
17 to this Court that I have discussed this with my uncle, my  
18 cousins, every one has agreed to sign a lease with me upon  
19 the release of this oil and gas lease. That was what's been  
20 reported to me from Peter Gryska, Jim Hatchett, Sarah  
21 Hatfield and all the other mineral owners. All we're  
22 waiting for is a release.

23 We had a situation where this lease was coming to  
24 a close, and the receiver has done nothing to perpetuate  
25 this lease beyond the primary term, and when it terminated,

1 we waited, because the lease calls for 60 days they're to  
2 give us a release; this they did not do. And then since  
3 there's no production, they need to plug the wells, but they  
4 have an extension, but -- the extension was made in December  
5 of 2016, but they didn't have a valid lease, and they --  
6 I believe that's one of the exhibits, I think number 3 in  
7 the response, but if they don't have a valid lease, they  
8 have nothing to sell, it's evaporated.

9 I understand at one time it was a very important  
10 asset for the receiver and for the SEC, but their inaction  
11 caused this lease to lapse, and I don't know how they can  
12 revive that. Either they have production or they have the  
13 leasing term or they are drilling a well at the end of the  
14 primary term. All the preparations they've talked about  
15 will not hold that lease unless they're actually drilling in  
16 the ground, and nothing that they've done according to Texas  
17 law would perpetuate this lease beyond the primary term.

18 Now, I understand the SEC is trying to recover  
19 funds for defrauded people and I think that's a noble cause.  
20 Quest got involved in some regard, which I don't understand  
21 how they were, but obviously they were part of this Ponzi  
22 scheme; but for the receiver now to try to sell a  
23 nonexistent lease to some other operator to me sounds like  
24 fraud in itself.

25 THE COURT: Watch out, Mr. Hatchett.

1 MR. HATCHETT: I understand, but --

2 THE COURT: Watch out.

3 MR. HATCHETT: -- they can't sell what they don't  
4 have.

5 THE COURT: I understand that. That's a decision  
6 I'll have to make.

7 MR. HATCHETT: I understand. I understand that,  
8 Judge, and I'll --

9 THE COURT: Why didn't you come to me first?

10 MR. HATCHETT: Well, Judge, when they filed some  
11 of the stuff they did with the Railroad Commission, they  
12 availed themselves to their authority on how to conduct  
13 business in the State of Texas. I questioned that because  
14 I believe the lease is expired and there's no production,  
15 and so I asked the Railroad Commission to do a good faith  
16 claim hearing to determine whether or not they could do what  
17 they were doing. I asked for that, but the Railroad  
18 Commission said, you need to contact the receiver and find a  
19 mutual date, a mutual date to have a hearing. I contacted  
20 Mr. Guerra. He would not give me a date.

21 In the interim time, I reviewed your order and  
22 I did a lot of study, and I contacted a lot of people that  
23 were both -- one of them was a magistrate like yourself for  
24 16 years in the Federal Court, and he said, you need to go  
25 to the Federal Court, and so when the ball came back into my



1 court, into my side -- because in order to have a hearing  
2 with the Railroad Commission I had to write a letter and I  
3 had to fill out the form asking for that official hearing,  
4 and this I did not do because I realized that the only place  
5 that has the authority is sitting right here, and so when  
6 they were filing the things with the Railroad Commission,  
7 I was trying to counter that with the Railroad Commission,  
8 but now I see that in order for the Railroad Commission to  
9 make that determination would ultimately end up taking that  
10 asset from them in their mind, and so I did not ask for that  
11 hearing to be finalized, there was no hearing before the  
12 Railroad Commission, because I realized that this is the  
13 court of continuing jurisdiction and you have authority.

14           But I want the Court to understand that my entire  
15 motivation in this is to be a good steward of what I've  
16 inherited and to do right by the people that I care about,  
17 my family, although I don't represent them in any kind of  
18 legal capacity, but I still want to see good for them and  
19 I want to see the collateral damage that's happened to them  
20 in this entire problem to cease, and we would like to pursue  
21 another course and try to get our minerals taken care of and  
22 produced but to have the land taken care of. We have ten  
23 well bores that need to be plugged, and if they don't have a  
24 valid lease and they don't have a valid plugging extension,  
25 they need to plug the wells.

1           Now, the truth of the matter is, since this is a  
2 receivership, similar to a bankruptcy, all the receiver  
3 would have to do is send a letter to the Railroad Commission  
4 and say that Quest does not have the money in its estate to  
5 plug these wells. The Railroad Commission would then put  
6 them on what they call the orphan well program and the wells  
7 would be plugged by the taxpayers of Texas.

8           Now, I'm concerned because I have two of the well  
9 bores on the land that I have inherited, one of them is a  
10 problematic saltwater well and the other one is just open,  
11 and those things need to be addressed. The reality of it  
12 is that steel and saltwater don't mix very well, and the  
13 longer there's inactivity, the more problematic it becomes  
14 that something bad is going to happen. It's my opinion that  
15 those wells need to be plugged.

16           Now, the group that I have put together are  
17 willing to drill ten new wells, new casing, new cement,  
18 everything. The wells that are in place now are over  
19 40 years old, they were first drilled in the '70s, and  
20 they're old, they're wore out, and as far as I'm concerned  
21 they're no longer a viable asset, because you can never  
22 bring them back online after the inactivity that's taken  
23 place over the last three years and I will say five or six  
24 years prior to that. But these wells are old, they're  
25 problematic and they need to be plugged. That's my concern

1 as a landowner.

2 As a mineral owner, I want to see my minerals  
3 developed, I want to see benefit to my family, and the last  
4 four operators, Your Honor, have been less than prudent in  
5 taking care of things.

6 So my motivation here is to preserve the land,  
7 protect it, and to be a good steward of my inheritance and  
8 to try to develop those minerals.

9 I know that because it's a receivership situation  
10 there's no way to sue for tortious interference of business  
11 or things of that nature, but we can bring this matter to a  
12 close if the receiver would simply realize that they have  
13 lost the term of the lease and they did nothing to  
14 perpetuate it. There's no production. That's the only  
15 thing that will really perpetuate it beyond the primary  
16 term, and if they're going to claim some kind of activity,  
17 they actually have to be digging in the ground, under Texas  
18 law, to preserve that. Just preparation as far as planning  
19 or even staking a well or putting a location or making  
20 application for a permit is simply not enough.

21 So what we would ask, one, is leave of court to  
22 either file this with the Railroad Commission to make that  
23 determination or for this Court to make the determination  
24 that this lease has in fact come to an end and then let us  
25 continue on with life.

1           THE COURT:  So the Railroad Commission has the  
2 authority --

3           MR. HATCHETT:  Well, the Railroad Commission --

4           THE COURT:  Has the authority to say this lease is  
5 or is not valid?

6           MR. HATCHETT:  I don't believe they have the  
7 actual to say whether it's valid or not, but they can  
8 determine whether or not they have a good faith claim,  
9 either they have term or they have production, and I believe  
10 the answer would be, yes, they would determine whether it's  
11 a good faith claim.

12          THE COURT:  All right.

13          MR. HATCHETT:  This Court also has that ability  
14 and can read the lease and see, but the Railroad Commission  
15 is the governing body that determines oil and gas matters.

16                 There's some other discrepancies that's been filed  
17 that are concerning, and maybe that's at a later date to  
18 take that up, but they made extensions to plug these wells  
19 making claims that aren't true, or what I believe are not  
20 true, and so they wouldn't be entitled to the plugging  
21 extension, and I think that's really the crux of the matter.

22          THE COURT:  Mr. Morello?

23          MR. MORELLO:  Just -- I'll be brief, Your Honor,  
24 but going back to the original issue about the lack of  
25 authority Mr. Carney or Mr. Hatchett have to act on behalf

1 of the other interest holders, Mr. Gyska, who as we  
2 mentioned before is one of the interest holders, sent my  
3 firm an e-mail on March 14th. Included in the e-mail, and  
4 I'm going to quote two short paragraphs, it says: Lastly,  
5 I have never -- and he puts "never" in all caps -- appointed  
6 or asked neither John Carney nor Byron Hatchett to be my  
7 attorney or representative. I specifically asked Byron  
8 Hatchett and told John Carney the same, that he not -- "not"  
9 in all caps -- proceed with any independent deals concerning  
10 the Hatchett lease until the bankruptcy court and the  
11 receiver had released the leases in writing. My brothers  
12 and I spent two years and thousands of dollars dealing with  
13 and extricating ourselves from our cousin John's IRS lawsuit  
14 and do not wish to be embroiled with him nor Byron again.

15           So I think that pretty much makes clear that  
16 Mr. Carney and Mr. Hatchett do not have the support of all  
17 of the lienholders.

18           While Mr. Hatchett and Mr. Carney are in a  
19 position where they are feeling the effects of the  
20 receivership, as anyone that has any connection to the  
21 receivership, unfortunately that's the way these things play  
22 out, that's the way these frauds play out, and there's a  
23 claims process which they have not availed themselves of  
24 through which they could seek any redress they believe  
25 they're entitled to, but one thing that the order makes

1 clear is that they're not entitled to engage in self-help,  
2 and that's precisely what has happened.

3 Bill Hatchett, Mr. Hatchett's father, stepped into  
4 the officer of the receiver the first time the receiver made  
5 a trip to this part of Texas, the Quest office, and  
6 Mr. Hatchett at the time made it clear that he was going to  
7 take things into his own hand in an effort to pull back the  
8 lease from the receivership.

9 It started right off at the beginning when, back  
10 in 2013, the same year the receiver was appointed, there had  
11 been some oil that had been -- some of this oil that we're  
12 discussing here that had been collected, typically there's a  
13 company called Transoil that sells the oil and then pays  
14 off -- the short of it is pays off all the interest holders.  
15 Mr. Bill Hatchett went to Transoil and told them that this  
16 Hatchett lease had been terminated and that the receiver had  
17 no right to anything. That required two years of  
18 proceedings and efforts by the receiver and the attorneys  
19 with my firm to come to some sort of resolution with the  
20 Hatchetts, and I think it's made clear from the record that  
21 we have countless times pointed them to paragraph 15 of the  
22 order that enjoins anyone from disturbing receivership  
23 assets.

24 So I think, you know, part of the reason that we  
25 are here today -- and I know Mr. Hatchett now recognizes the

1 Court's authority, but this is four years later. Countless  
2 times we've indicated to them that the order limits their  
3 ability to act --

4 THE COURT: Why hasn't more oil been produced,  
5 Mr. Morello, during this period of time?

6 MR. MORELLO: I think the receiver can answer  
7 that.

8 THE COURT: All right.

9 MR. WIAND: Your Honor, as you'll recall, when  
10 this was brought into receivership, I essentially had a  
11 separate receivership over this. It was the Court's -- and  
12 my representation to the Court that I was not going to  
13 utilize the assets from the other part of the receivership  
14 in order to support this thing, so we have been managing and  
15 operating this -- these oil properties in that light.

16 We have been undertaking various different steps  
17 with respect to this property in light of the fact of the  
18 funds and assets that were available to do it. As Mr. Gray  
19 testified early on, we attempted a workover, we attempted  
20 subsequent workovers to try to get wells producing. It was  
21 done in a way, frankly, that was to try to get this  
22 producing and to -- and to do it in a way -- in light of  
23 what the capital was that I had to put into it.

24 The last portion of what we did is after it was  
25 determined that that injection well was not going to produce

1 more oil, we had been advised and consulted with geologists  
2 that we could drill some shallow wells without significant  
3 expense and begin production at that point in time, and  
4 that's what we proceeded to do beginning in March, April,  
5 whatever, preparing to drill those wells.

6 But, Judge, these are old wells. I think  
7 Mr. Hatchett is right, the wells that exist there have been  
8 around for a long time. With respect to reworking and  
9 producing with them, the expense or the likelihood of  
10 production from them was not great, other activities need to  
11 be engaged in, and that's the reason I have been continually  
12 working to try to bring in an appropriate operator with  
13 appropriate funds in order to do what might bring more oil  
14 and production for these people out of this -- out of this  
15 property.

16 THE COURT: He mentioned that there are ten wells  
17 that, what did you say, need to be capped?

18 MR. CARNEY: Plugged.

19 THE COURT: Plugged?

20 MR. HATCHETT: Yes, Your Honor, there's ten open  
21 well bores that need to be plugged.

22 MR. WIAND: And those ten open well bores that  
23 need to be plugged have probably been in that situation for  
24 20 years. They certainly were in that situation throughout  
25 the Downeys' time, and they were that way when the -- when



1 the receivership became -- administering these properties,  
2 and I take issue with the fact, with respect to the Railroad  
3 Commission, that we have done anything inappropriate with  
4 respect to that Railroad Commission in advising them what we  
5 were doing, posting a bond and complying with the  
6 requirements with respect to our plugging operations, and if  
7 my present proposal goes through, that new operator, or if  
8 he takes over this operator, will undertake those  
9 responsibilities and continue going with it.

10 So I think this -- this plugging thing is a bit of  
11 a red herring.

12 THE COURT: All right. Well, Mr. Morello, they  
13 claim the lease expired on April 16th of last year.

14 MR. MORELLO: Well, we believe, based on the  
15 testimony of Mr. Gray, that sufficient activity has been  
16 taking place from before and after the lease expired, or the  
17 original five year term expired, to trigger the provision  
18 that allows it to continue, to remain in the hands of the  
19 receivership.

20 THE COURT: Specifically?

21 MR. MORELLO: Specifically, ever since about March  
22 or -- February or March of 2016 the receiver has been taking  
23 steps to drill a new well, and drilling is one of the  
24 activities that triggers the additional time period.

25 THE COURT: Well, but it says lessee is then

1 engaged in drilling or reworking operations. You were  
2 taking steps to drill but never drilled.

3 MR. MORELLO: Well, there's -- Your Honor, there  
4 are specific things that have to take place before the  
5 drilling could occur, and that was -- there was no physical  
6 drilling, that's correct, Your Honor, but there were steps  
7 taking place at the time to be able to begin drilling,  
8 including getting the permit and geological survey and all  
9 those other things.

10 MR. CARNEY: There's no ambiguity in this  
11 language, Your Honor, and at best they would hold three  
12 tracks, three 160-acre tracks, 480 acres, or approximately  
13 10 percent of the ranch, is all they could possibly hold if  
14 planning constituted sufficient habendum clause activity to  
15 perpetuate the lease, and it doesn't even come close, and if  
16 the Court is going to make a determination on it, we'd like  
17 to be able to brief the status of the Texas law and the  
18 requirements of the habendum clause, because it's crystal  
19 clear, it's been litigated for 100 years, and the -- well,  
20 since the '30s, when it came, so 70 years.

21 But the planning -- the clause wouldn't have any  
22 meaning if thinking about doing something was sufficient  
23 activity to be doing it, because everybody could say they  
24 were thinking about it. It's not -- it's clear.

25 MR. MORELLO: Your Honor?

1 THE COURT: Yes.

2 MR. MORELLO: Can I quote the specific language  
3 under which we're operating? It's a little bit broader  
4 than --

5 THE COURT: All right. Go ahead.

6 MR. MORELLO: And specifically -- and this is in  
7 paragraph 5 of the lease. If after the expiration of the  
8 primary term of this lease, and after oil or gas is produced  
9 from said land, which had occurred during the main term of  
10 the lease, the production thereof should cease from any  
11 cause, this lease shall not terminate --

12 THE COURT: Wait a minute. Where are you in that  
13 paragraph 5?

14 MR. MORELLO: Let's see. It's the second full  
15 sentence. It's the second clause that begins with an "if."

16 THE COURT: All right. I see it.

17 MR. MORELLO: So going back to where I left off,  
18 this lease shall not terminate if lessee commences  
19 operations for drilling or reworking production thereof.  
20 I'm sorry, for drilling or reworking within 60 days after  
21 the cessation of such production.

22 So our contention is the activities that were  
23 taking place satisfied the "commences operations for  
24 drilling" language of this document.

25 THE COURT: All right. Let's do this.

1           MR. CARNEY: Your Honor, that's 60 days. They  
2 have --

3           THE COURT: Hold on, Mr. Carney. Hold on.

4           All right. I don't find anything has been  
5 presented to me which would justify me issuing order to show  
6 cause to Mr. Hatchett and Mr. Carney or anybody else,  
7 all right? So that motion is denied.

8           The motion for leave to file suit for damages and  
9 declaratory relief, I'm going to deny that. However, I'm  
10 a little concerned about the issue of this lease, and it  
11 would seem to me that Texas law governs with regard --  
12 habendum, right?

13          MR. CARNEY: Yes, sir.

14          THE COURT: So I'm going to give everybody a  
15 chance to brief this issue. It's an important issue. It's  
16 an important issue to the -- not just to the receiver, but  
17 the defrauded people and also to Mr. Carney and  
18 Mr. Hatchett.

19          You know, I'm still -- Mr. Hatchett -- or,  
20 Mr. Carney, what was Mr. Gryska referring to in his e-mail  
21 about you and some IRS lawsuit?

22          MR. CARNEY: Your Honor, I had a 30 year battle  
23 with the IRS over a tax shelter from 1984.

24          THE COURT: 1984?

25          MR. CARNEY: Yes, sir.

1 THE COURT: And how is he involved?

2 MR. CARNEY: Well, they filed a lien on the ranch.

3 THE COURT: Is that lien still there?

4 MR. CARNEY: No, I paid that off in September of  
5 last year.

6 THE COURT: Were you aware there was a lien,  
7 Mr. Wiand?

8 MR. WIAND: No, Your Honor. I don't know who they  
9 might have noticed that to, but I was not aware that it had  
10 been liened, otherwise, Judge, if I would have known they  
11 were liening my interest, I probably would have been back to  
12 see you, so --

13 THE COURT: All right.

14 MR. CARNEY: They sued Mr. Gryska too, that's why  
15 he got it.

16 THE COURT: Well, I would imagine.

17 Did they sue everybody who had an interest in the  
18 Hatchett lease?

19 MR. CARNEY: That was related to me directly,  
20 yeah.

21 THE COURT: What's your relation to Mr. Gryska?

22 MR. CARNEY: He's my first cousin.

23 THE COURT: And to you, Mr. Hatchett?

24 MR. HATCHETT: He's a second cousin, Your Honor.

25 THE COURT: Okay. All right. How much time do

1 you want to brief the issue?

2 MR. CARNEY: Two weeks.

3 THE COURT: Mr. Hatchett?

4 MR. HATCHETT: Your Honor, I have a pretty heavy  
5 trial schedule. I would ask for more time than two weeks.

6 THE COURT: All right. How much time?

7 MR. HATCHETT: Can we have four weeks?

8 I have a manslaughter case that's coming up that's  
9 going to require --

10 THE COURT: You do criminal defense work?

11 MR. HATCHETT: Sorry?

12 THE COURT: You do criminal defense work?

13 MR. HATCHETT: Yes, sir.

14 THE COURT: Texas is unique. The jury sets the  
15 sentence, don't they?

16 MR. HATCHETT: You can go either to the judge or  
17 the jury, Your Honor.

18 THE COURT: That's an elective that you make?

19 MR. HATCHETT: It's an elective that you can make.

20 THE COURT: That's interesting.

21 MR. HATCHETT: If it please the Court, I've tried  
22 three jury trials this year, I have two more this coming  
23 month, so I have a heavy trial schedule.

24 THE COURT: All right. Well, is today the 23rd?

25 THE CLERK: 22nd, Judge.

1 THE COURT: 22nd?

2 MR. WIAND: Your Honor, if I might add, with  
3 respect to what I'm doing with respect to these folks that  
4 made a proposal to me, I have never been in this  
5 receivership less than open with anybody who wanted  
6 information about what we were doing or whatever. Neither  
7 of these gentlemen have ever contacted me for any reason.  
8 I'll be happy to share with them what we're doing and I'll  
9 be happy to put them in touch with these people to see if  
10 that's what it is, that might ease things.

11 I know the briefing process is going forward, but  
12 I just want to make sure they're quite aware that phones in  
13 Texas will actually call Florida, and I'm there and I'm  
14 ready to help them out and explain to them what I'm doing,  
15 as I did with Mr. Gryska, sir.

16 MR. CARNEY: Your Honor, I've been in contact with  
17 their lawyers for three lawyers now. So I haven't spoken  
18 with the receiver, but I've dealt with the law firm for  
19 three years.

20 THE COURT: Well, speak with the receiver.  
21 I mean, this is a new development, all right? Let's all try  
22 to be objective and reasonable and act in good faith and  
23 this may all resolve itself.

24 All right. Everybody file their briefs no later  
25 than April 19th, and then I'll try to expedite it.

1           Now, what's going on on the property itself? Is  
2 anybody --

3           MR. CARNEY: Absolutely nothing.

4           THE COURT: Is anybody overseeing it?

5           MR. CARNEY: It's -- there is family that lives on  
6 the property.

7           THE COURT: What about this equipment that's  
8 there? Is it deteriorating?

9           MR. HATCHETT: Your Honor, due to the inactivity,  
10 I believe that the equipment that they spoke of now has gone  
11 from salvage to scrap. I'm afraid that the lack of use and  
12 the lack of proper maintenance, I believe that it is -- now  
13 just needs to be hauled off and sold as scrap. But I do  
14 believe that the clause says that if they had 120 days from  
15 the end of their lease to come and get it --

16           THE COURT: Well, that's assuming I find the lease  
17 ended on April 16th.

18           MR. HATCHETT: I understand.

19           THE COURT: What do you say to that, Mr. Morello?  
20 Do you want to just leave the status quo, the property just  
21 stays as it is?

22           MR. WIAND: Your Honor, Mr. Gray and the fellow  
23 that works with him would be continuing to attend to the  
24 matters on the lease except that we've been told to get off  
25 the lease, and Mr. Gray said that he was told not to go back



1 there. That was my direction. This is out in Texas.  
2 I don't want anybody saying that we're trespassing or  
3 anything. I don't want to put these people -- I mean,  
4 I doubt they're in harm's way, but I don't want them going  
5 on there creating any problems.

6 THE COURT: I'll just leave the status quo.

7 I'll endeavor to rule as quickly as I can. If you  
8 can get your memos in before then, so be it.

9 All right. Thank you. It's been very  
10 interesting.

11 MR. MORELLO: Thank you, Judge.

12 MR. HATCHETT: Thank you, Your Honor.

13 MR. CARNEY: Thank you, Your Honor.

14 THE COURT: Have a safe trip back to Texas.

15 9-CV-87.

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17 (Proceedings concluded at 12:42 p.m.)

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## C E R T I F I C A T E

This is to certify that the foregoing transcript of proceedings taken in a motion hearing in the United States District Court is a true and accurate transcript of the proceedings taken by me in machine shorthand and transcribed by computer under my supervision, this the 30th day of March, 2017.

/S/ DAVID J. COLLIER

DAVID J. COLLIER

OFFICIAL COURT REPORTER