

The Hatchett Lease

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

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

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

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

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