

UNITED STATES DISTRICT COURT
MIDDLE DISTRICT OF FLORIDA
TAMPA DIVISION

SECURITIES AND EXCHANGE
COMMISSION,

Plaintiff,

v.

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

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

Defendants,

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

Relief Defendants.

**THE RECEIVER'S INTERIM REPORT ON
QUEST ENERGY MANAGEMENT GROUP, INC.**

Burton W. Wiand, the Court-appointed Receiver for Quest Energy Management Group, Inc. ("**Quest**" or the "**Company**"), hereby files this Interim Report On Quest (the "**Report**") to inform the Court, investors, and others interested in this Receivership of activities from May 24, 2013, the date the Receiver was appointed as Receiver of Quest, through the date of the filing of this Report as well as the proposed course of action.

BACKGROUND

On January 21, 2009, the Securities and Exchange Commission (“**SEC**”) instituted this enforcement action following the collapse of a massive Ponzi scheme (the “**scheme**”) perpetrated by Arthur Nadel (“**Nadel**”) through hedge funds (the “**Hedge Funds**”) from 1999 until January 2009. As part of this scheme, Nadel paid himself and his purported business partners, Neil and Christopher Moody (“the **Moodys**”), more than \$90 million in bogus management and performance fees which were based on fabricated asset values and performance data. Due to that conduct, Nadel was charged and pled guilty to securities, mail, and wire fraud. Nadel was convicted of all charges and died in prison while serving a 14-year sentence.

During the course of the 10-year scheme, Nadel and the Moodys used scheme proceeds – money stolen from the Hedge Funds’ investors – to found or otherwise fund numerous businesses. Since the inception of this Receivership and in accordance with his mandate to marshal assets for the benefit of defrauded investors, the Receiver has successfully sought expansion of the Receivership to include those businesses.¹ Quest is one such entity that was funded in large part with scheme proceeds.

¹ Those business include: Venice Jet Center, LLC; Tradewind, LLC; Laurel Mountain Preserve, LLC; Laurel Preserve, LLC; Laurel Mountain Preserve Homeowners Association, Inc.; Marguerite J. Nadel Revocable Trust UAD 8/2/07; Guy-Nadel Foundation, Inc.; Lime Avenue Enterprises, LLC; A Victorian Garden Florist, LLC; Viking Oil & Gas, LLC; Home Front Homes, LLC; Traders Investment Club; Summer Place Development Corporation; Respiro, Inc.; and Quest Energy Management Group, Inc. For more information on the Receivership as a whole, please refer to the Receiver’s regularly filed Interim Reports.

Quest is an oil and gas exploration and production company based in Texas. Paul Downey was its Chief Executive Office, and his son Jeff Downey was its Chief Operating Officer (collectively the “**Downeys**”). The Moodys, through Receivership Entities Viking Oil & Gas, LLC, and Valhalla Investment Partners, L.P., used approximately \$5.1 million of scheme proceeds to fund Quest.² Before moving to include Quest in this Receivership, the Receiver attempted to reach a resolution with Quest relating to the large amount of scheme proceeds used to fund the Company. In February 2009, the Receiver began communications with the Downeys for recovery relating to the scheme proceeds provided to Quest. After considerable time and effort, the Receiver reached a conditional agreement to resolve his claims against Quest dependant upon receipt of \$2.3 million from Quest.³ Quest failed to make this payment and ignored the Receiver’s repeated demands for payment. In February 2013, Quest informed the Receiver it was having cash flow problems. Because of Quest’s failings and to try to preserve the value of Quest for the benefit of the Receivership estate and, ultimately, for defrauded investors in Nadel’s scheme, on March 21, 2013, the Receiver moved to expand the Receivership to include Quest (Doc. 993). The Court granted this motion on May 24, 2013 (Doc. 1024).⁴

² In part, Quest’s obligation to the receivership entities was secured by a pledge of 100% of Quest’s stock.

³ Because of the Receiver’s lack of faith in the Downeys, he structured the proposed resolution so that it would not become an agreement until Quest delivered \$2.3 million to him. That never occurred.

⁴ The Downeys, purporting to act on behalf of Quest, have appealed the Court’s May 24, 2013, order to the United States Court of Appeals for the Eleventh Circuit (Doc. 1027). On July 19, 2013, the Circuit Court informed the parties to the appeal that the court may lack
(footnote cont’d)

I. Overview of Findings To Date

The Receiver has formed some preliminary conclusions based on his review of a portion of the records obtained from Quest. While these conclusions are not final, and may change as the review becomes more complete, the Receiver believes they should be shared with the Court, the investors, and other potentially interested parties. As a result of his actions and investigations, the Receiver has discovered that Quest (1) was severely mismanaged, in default of millions of dollars of outstanding debt, and insolvent; (2) had serious regulatory issues; (3) was sustained exclusively by money from new investors who were misled about the company's financial state or potential; and (4) was a defendant in several lawsuits and was facing other potential litigation. These findings are discussed in more detail below.

A. Brief Overview of Receiver's Efforts to Date

Since his appointment on May 24, 2013, the Receiver has taken a number of steps to fulfill his mandates under the Order appointing him as Receiver for Quest. The Receiver and his attorneys promptly secured bank accounts and began to review Quest's business records. The Receiver traveled to Texas to secure Quest's office, interview personnel, and examine records and assets. The Receiver also retained the services of Wheeler, Fairman & Kelley, CPAs ("**Wheeler**"), experienced forensic accountants in Texas familiar with the oil and gas industry, to examine Quest's financial records. The Receiver also has been assisted by his

jurisdiction over the appeal and requested briefing from them on this issue by August 2, 2013. On August 2, 2013, the Receiver responded to the Circuit Court's request and also moved to dismiss the appeal on other jurisdictional grounds. No decision has been rendered on these matters.

lawyers in efforts to gather information and compile a complete understanding of Quest's affairs.

B. Paul Downey's Refusal to Testify

On June 5, 2013, the Receiver's attorney deposed Paul Downey in an effort to gather important information about Quest's affairs under oath. However, Mr. Downey asserted his Fifth Amendment privilege against self-incrimination and refused to answer any questions without first receiving immunity from prosecution.

C. Quest Was Insolvent

Upon review, the Receiver discovered that Quest's financial records were in disarray. Despite this challenge, Wheeler has been able to determine that Quest was insolvent almost since its inception in 2006 and expenses were outpacing revenue by more than two to one. A copy of Wheeler's Preliminary Report is attached hereto as **Exhibit A**. At the time of the Receiver's appointment, the Company owed investors and others millions of dollars but had virtually no revenue with which to repay this debt. One way the Downeys had raised money on behalf of Quest from investors was through promises to repay the principal amount plus periodic interest. The Company had ceased making interest payments to those investors more than one year before the Receiver's appointment. Quest's records reflect that approximately \$19,124,326 was raised from investors between 2006 and May 2013. Due to the convoluted and disorganized nature in which the Company maintained its financial records, total liabilities have not yet been quantified although it is clear they are very significant. Further, Quest's minimal income was insufficient even to satisfy its operating expenses, let alone its debt obligations. As a result, there was no potential for the Downeys

to satisfy Quest's obligations other than by using money received from new investors to pay existing investors. The Company's operational failure and dire financial condition was not disclosed to the solicited investors.

D. Quest's Operations and Affairs Were in Shambles

Not only did the Downeys place Quest in dire financial conditions, but they also failed to properly manage Quest's oil and gas operations. The Receiver's investigation has uncovered the following:

- Due to the Downeys' failure to comply with regulatory requirements prior to the Receiver's appointment, the renewal of Quest's Operator's License had been denied by the Texas Railroad Commission ("RRC");⁵
- Additional prior regulatory violations by the Downeys had resulted in a significant fine of \$75,625;
- Quest's oil and gas wells were in disrepair and the Downeys failed to make even nominal efforts to maintain them as viable producing assets;
- As discussed in more detail below, the Downeys failed to disclose to existing and prospective investors that Quest was insolvent, not compliant with its regulatory obligations, and had few producing assets;
- Although the Downeys raised more than \$19 million from investors, it appears no more than \$1.5 million was ever used in connection with the purchase of oil and gas equipment;
- While the Receiver's motion to expand the Receivership to include Quest was pending, the Downeys solicited and received a \$350,000 investment from an investor without disclosing to the investor the pending motion, that the Company was insolvent, or that the renewal of the Company's operational license had been denied. The Downeys then used a portion of those funds to

⁵ The RRC is the primary regulator of the oil and gas industry in Texas. The RRC has extensive recording and compliance requirements and also has an enforcement division to enforce those requirements.

hire an attorney for themselves and failed to apply those funds to resolve Quest's critical outstanding regulatory issues;

- The Downeys had failed for some time to pay gas royalties owed by Quest on its gas sales. At the time of the Receiver's appointment over Quest, Quest owed approximately \$42,000 in gas royalties, and those payments had not been made since May 2012 on one property and October 2012 on another property;
- The Downeys never made a material investment of their own funds into the Company. Yet, they used Company funds to pay personal expenses of approximately **\$918,506** for the Downey family which included car payments for a BMW, Chevy Tahoe, Chevy Yukon, and Lexus. The Company also paid Jeff Downey's rent and expenses associated with another residential property in a subdivision near Houston as well as substantial rents and personal expenses for a condominium Paul Downey was renting in Naples, Florida;
- In addition to the personal expenses noted above, at the time of the Receiver's appointment, the Downeys were receiving annual salaries in the combined amount of \$352,000. Assuming they received this amount since the beginning of Quest's operation, they would have received approximately \$2,464,000 in addition to the personal expenses of \$918,506 noted above for a total of approximately **\$3,382,506**; and
- In 2010, the Downey family caused Quest to issue a series of notes payable to themselves in the amount of \$10,000,000 in exchange for shares of family member stock. Quest was insolvent at that time. The transaction was later reversed but before reversal Jamie Downey and Sandy Downey were paid a total of \$117,000 for no justifiable reason.

As is evident from the above, without the appointment of the Receiver, the collapse of Quest was inevitable.

E. Quest Faced Significant Regulatory Issues

In 2012 (well before the Receiver's appointment), Quest was notified that various wells were not in compliance with certain regulatory requirements and that because of these compliance issues the RRC would not renew Quest's Operator's License. Without its Operator's License, Quest would have to cease operations. Quest was given ninety days,

until April 2, 2013, to cure its deficiencies. The Downeys failed to resolve significant issues and further failed to request a hearing on these issues as permitted by law. As a result, on June 13, 2013, the RRC issued an order denying Quest's renewal application. A copy of the order denying the application is attached as **Exhibit B**. Upon learning of the situation, the Receiver took immediate steps to resolve these issues. The Receiver had extensive dialogue with the RRC's enforcement counsel and secured the RRC's consent to a Motion for Rehearing of the renewal application. The Receiver retained local counsel in Austin, Texas, to assist in accomplishing the tasks necessary to bring the various wells into compliance. The Receiver's professionals and remaining Quest employees expended extensive efforts to ensure this compliance; two of the four violations have been resolved and the remaining two are close to being resolved.⁶

This was not the first time the Downeys had failed to satisfy their regulatory obligations. In September 2011, the RRC informed the Downeys it was pursuing a penalty against Quest for violation of rules pertaining to safety or the prevention and control of pollution. A copy of this letter is attached as **Exhibit C**. To resolve this matter, in October 2011, the Downeys agreed to a Consent Order which required them to pay a \$75,625 fine which they agreed to pay in monthly installments over an 18-month period. Payments were

⁶ To satisfy the RRC's demands, the Receiver was required to make considerable corrections to records which had been improperly filed with the RRC. The Receiver also had to complete substantial work on a number of wells which included plugging certain wells and resolving some environmental issues.

not timely made and when the Receiver was appointed, the final payment on this settlement was overdue.⁷

F. Misrepresentations Made to Investors

The Receiver's preliminary investigation indicates that from 2006 through May 2013, approximately \$19 million was raised by the Downeys on behalf of Quest from approximately 115 investors. Included in this sum is approximately \$5.1 million owed to the Receivership as a result of the scheme proceeds transferred to Quest by the Moodys. Based on the documents the Receiver has reviewed to date, it appears that numerous misrepresentations, or material omissions, were made to investors. The Downeys failed to disclose to investors that Quest was insolvent and did not have the financial means needed to maintain the wells, produce the amount of oil and gas represented to investors, and resolve its regulatory issues. In Status Update Memoranda, Paul Downey represented to investors that a Fortune 100 Company was interested in purchasing Quest's assets which purportedly would have allowed Quest to repurchase all notes at full face value and pay interest. A copy of the Status Update Memoranda dated September 24, 2012 and October 16, 2012 are attached as composite **Exhibit D**. This never came to pass and the Receiver has been unable to find any evidence of any Fortune 100 company interested in purchasing Quest's assets, and, frankly, has found no evidence supporting any reason why such a company would have any genuine

⁷ Soon after the filing of the motion to expand the Receivership to include Quest, the Texas State Securities Board ("TSSB") contacted the Receiver because it had initiated an investigation of Quest following complaints by several Quest investors. The TSSB has requested information and assistance in its investigation of Quest and the Downeys' efforts to raise money on behalf of the Company. The Receiver is working cooperatively with the TSSB.

interest in Quest. Similar representations regarding other saviors continued to be made to investors until the Receiver's appointment. It is further believed that the Downeys, while knowing that Quest did not have the ability to pay its operating expenses, let alone outstanding debt, made repeated misrepresentations to investors that Quest would resume paying interest on the notes or, as noted above, would secure a purchaser who would allow Quest to pay the notes in full.

Most recently, the Downeys secured an investment from an individual investor after the Receiver had filed his motion to expand the Receivership to include Quest. The Downeys entered into an assignment of a lease agreement with this investor. The assignment purported to assign 91% of Quest's interest in an oil property lease agreement in exchange for the payment of \$350,000 to Quest. The Downeys were fully aware of the Receiver's pending motion to expand the Receivership to include Quest yet the Receiver's investigation has revealed they failed to disclose this information to the investor. Further, the Downeys did not disclose the insolvency of Quest and misrepresented to the investor how the funds obtained would be used by the Company. Without informing the investor, the Downeys then used a portion of the funds received from the investor to retain an attorney for themselves and to pay themselves wages while only 10% of these funds were used for well production. The assignment was not recorded until after the Receiver was appointed as Receiver of Quest. Further, the lessors have asserted that Quest's assignment to the investor invalidated the lease because the lease agreement contains a provision prohibiting any such assignment. The Receiver will vigorously contest the assignment and the alleged invalidation of the lease.

G. Pending and Prospective Litigation

At the time of the Receiver's appointment, Quest had three lawsuits seeking large amounts in damages pending against it in Texas State Courts. *Integrity Directional Services, LLC v. Quest*, Case No. 2013-028 (Tx. D. Ct. 259th Jud'1 Dist., Shackelford County, TX) (seeking damages of \$899,583.50 for goods and services which were provided to Quest for which payment was not received); *Ploegsma Sulpher Co. LLC v. Quest*, Case No. 2013-17235 (Tx. D. Ct. 189th Jud'1 Dist., Harris County, TX) (brought by an investor seeking damages of more than \$1.25 million for payment of a note); *Wallace d/b/a Graham Mud Co. and Rocking R Drilling Co., Inc. v. Quest*, Case No. 2013-050 (Tx. D. Ct. 259th Jud'1 Dist., Shackelford County, TX) (seeking to foreclose on liens for unpaid goods or services in the combined amount of \$398,722.93).⁸ The Receiver has filed Notices of Receivership and Injunction Barring Proceedings Against Quest in each action. Accordingly, these actions have been stayed as to Quest.

Further, the Receiver has reviewed documents indicating that several investors were threatening suit against Quest for the recovery of their investments. Absent the appointment of the Receiver, numerous additional claims were inevitable.

II. Current Operations and Assets

As noted above, upon the Receiver's appointment, he promptly secured Quest's bank accounts and its office located at 64 South Jacobs, Albany, Texas (the "**Office**"). At that

⁸ These litigation matters are in addition to the Receiver's claim for approximately \$5.1 million against Quest.

time, Quest had approximately \$58,570.67 in its bank accounts.⁹ The Receiver retained experienced forensic information technology experts with the firm E-Hounds, Inc. to assist in securing and analyzing the electronic data on computers located in the Office. E-Hounds personnel have secured the data and have begun their forensic analysis.

After interviewing personnel, the Receiver determined to reduce Quest's staff. The Downeys were terminated as well as an individual involved in "investor relations" who was instrumental in disseminating information for the Downeys. Two other employees resigned. The Company retained a supervisor and two field employees. The Receiver has obtained a significant volume of documents from the Office and is in the process of reviewing these documents. The Receiver is evaluating the Company's assets and determining the appropriate course of action to take with respect to these assets. Quest's assets include (1) leases held on fields containing oil and gas wells and related equipment; (2) various vehicles; (3) residential property which is currently being used as the Office; and (4) other miscellaneous assets including office furniture, computers and the like.

A. Oil and Gas Wells

The Receiver has determined that Quest maintains leases on three fields which in turn contain 88 gas and oil wells. Of these 88 wells, only five wells are currently producing. The Receiver has begun evaluating the potential well output relative to the cost of making the wells productive. Since taking control of Quest, the Receiver has implemented some repair and maintenance activities designed to increase production and revenues. These efforts are

⁹ Quest's payables at that time substantially exceeded this amount.

showing signs of success. From the Receiver's review of the wells, it was evident that simple maintenance and basic well management had been ignored for some time. The Receiver has already more than tripled production by reinvesting a nominal amount of money in these wells. By taking relatively simple measures, the Receiver increased production from approximately 7 barrels per day to over 30 barrels per day.¹⁰ Indeed, in the last day Quest produced 45 barrels of oil.

B. Vehicles

The Receiver acquired possession and control of 16 vehicles titled in Quest's name or otherwise paid for by Quest, which primarily include trucks and trailers used in connection with business operations. One of the vehicles, however, was a 2009 BMW 535i ("BMW") which was being used by Paul Downey. On August 12, 2013 the Receiver filed a motion to approve the sale of the BMW for \$17,000 (Doc. 1049). The Court approved this motion on August 13, 2013 (Doc. 1050). After payment of the outstanding loan on the vehicle, the Receivership received the net amount of \$3,566.12 from this sale.

C. The Office Property

The Receiver has possession and control of an Office, which is a small free-standing office building. The Office has one known encumbrance: a loan with First National Bank with an outstanding balance as of July 2013 in the amount of \$46,522.48. Parties interested in purchasing the Office should contact:

¹⁰ The Receiver also sold approximately 160 barrels of stored oil for the gross amount of \$16,197.14 which prior management had made no attempt to sell for over a year.

David Cleveland
Clear Fork Realty
332 South Second
Albany, Texas 76430
(325) 762-3614 (office)
clrfork@camalott.com

D. Miscellaneous Items

The Receiver has also recovered a myriad of other items that he may be able to sell, including office furniture, computers, and miscellaneous supplies. The Receiver will make reasonable efforts to maximize the amount he is able to recover from the possible sale of these items.

III. Proposed Course of Action

As a result of the Receiver's preliminary investigation, it appears that the oil well leases held by the Company have potential value and may be able to be sold for the benefit of investors and other creditors. The Receiver will continue to evaluate the wells and their potential for production relative to the expense required to maintain the wells and make them productive. This activity is intended to generate cash flow while evaluation and liquidation activities are attempted. The Receiver will continue to work with the RRC to resolve all regulatory issues and will rework certain wells as required by the RRC and as appropriate. The Receiver will evaluate and market leases in an effort to generate as much value as reasonably possible. While marketing these assets, the Receiver will continue to operate the business in an effort to enhance its value. The Receiver will continue to review financial documents and other documents from the Company to further his investigation. The Receiver has and will continue to maintain a separate accounting of revenues and expenses

for Quest. He will also continue to consider all of the information he has gathered to date, additional information he gathers, and the Company's or its assets' prospects and value to determine how to address claims held by Quest investors and other creditors. At this time, the Receiver contemplates that he will conduct a separate claims process to deal with the claims of investors and other creditors of Quest if the sale of Quest's assets warrants such a process. The Receiver, however, currently believes that the assets and potential value of Quest is significantly less than the outstanding balance of investors' investment amount in Quest.

CONCLUSION

Creditors and investors in the Receivership Entities are encouraged to periodically check the informational website (www.nadelreceivership.com) for current information concerning this Receivership. The Receiver and his counsel have received an enormous amount of emails and telephone inquiries and have had to expend significant resources to address them. To minimize those expenses, creditors and investors are strongly encouraged to consult the Receiver's website before contacting the Receiver or his counsel. However, if you are an investor or creditor of Quest and have not yet provided your email or other contact information to the Receiver, please contact Jeffrey Rizzo by email to jrizzo@viandlaw.com or telephone (813) 347-5100. The Receiver also encourages anyone who may have information that may be helpful in securing further assets for the Receivership estate or identifying other potential parties who may have liability to either the Receivership estate or investors to also contact Mr. Rizzo with that information.

Dated this 26th day of August, 2013.

Respectfully submitted,

s/Burton W. Wiand

Burton W. Wiand, Receiver

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that on August 26, 2013, I electronically filed the foregoing with the Clerk of the Court by using the CM/ECF system.

s/Gianluca Morello

Gianluca Morello, FBN 034997

gmorello@wiandlaw.com

Maya M. Lockwood, FBN 0175481

mlockwood@wiandlaw.com

WIAND GUERRA KING P.L.

5505 West Gray Street

Tampa, FL 33609

T: (813) 347-5100

F: (813) 347-5198

Attorneys for the Receiver, Burton W. Wiand

EXHIBIT A



August 15, 2013

Mr. George L. Guerra
Wiand Guerra King
5505 W. Gray Street
Tampa, Florida 33607

Re: Quest Energy Management Group, Inc.

Dear Mr. Guerra:

At your request we have made a forensic analysis of certain financial data of Quest Energy Management Group, Inc., a/k/a Quest EMG, Inc. and Quest Operating, LLC. Between 2006 and 2010, all transactions were recorded on the books of Quest Operating, LLC. In 2010 all the transactions were re-posted to the books of Quest Energy Management, Inc. without explanation and with little or no detail. For the purpose of this report we are referring to the combined enterprises as "QEM". This report is intended to outline our work and findings to date.

I. Background and Qualifications

I am a certified public accountant and have practiced as such since 1974. I hold Texas certificate number 13433. I am a graduate of Texas Tech University with a BBA in accounting. Additionally, I am accredited in business valuation and forensic accounting by the American Institute of Certified Public Accountants. I am qualified to accept this engagement and I have no conflicts of interest. A copy of my resume is attached to this report.

II. Scope of Work

The information we reviewed was not audited as that term is defined by the American Institute of CPAs. I do not express an opinion regarding QEM's financial statements. Attached are three schedules summarizing some of the material financial activity from inception (2006) through May 31, 2013 prepared from the QEM books and records. Exhibit 1 is a summary of cash transactions and has been "line numbered" for ease of reference. Exhibit 2 is a summary of balance sheets. Exhibit 3 is a list of oil and gas revenues by year.

III. Sources of Cash

- QEM's records reflect that it has raised \$19,124,326 (line 12) from investors between 2006 and May 2013. Some of these funds raised were initially represented as loans from investors, but those loans subsequently disappeared from QEM's books.

- Revenue from oil and gas operations for the same period were \$8.2 million (line 22).
- The Downey family has made no material investment of their own funds into the enterprise. QEM recorded a common stock/member value of \$50 in the form of a note payable from Paul Downey.
- In 2010 the Downey family recorded a series of meaningless notes payable, in the amount of \$10,000,000, in exchange for shares of family member stock in QEM. This transaction was later reversed. However, before reversing the entries, it appears that Jaime Downey was paid a total of \$91,500 and Sandy Downey was paid a total of \$117,000 for no justifiable reason.

IV. Uses of Cash

- Upon receipt of the Valhalla and Viking funds in 2006, QEM immediately purchased a Cadillac for Paul Downey at a cost of \$48,027 and a Chevrolet Tahoe for Jeff Downey at a cost of \$53,180.
- On or about April 17, 2006 QEM spent \$1,011,282 on a residential lot in a subdivision in The Woodlands, near Houston. (The lot was subsequently sold on May 14, 2008 for \$950,000, generating a loss of \$61,282.)
- The Company has paid personal expenses for the Downey families of approximately \$918,506 (line 30). See footnote A on Exhibit I.
- In addition to these expenses, we also noted that additional expenses including various payments to the Downey's (Paul, Jeff, Sandra, and Jamie) as well as car payments for a BMW, Chevy Tahoe, Chevy Yukon and Lexus. The company also paid Jeff Downey's apartment rent, as well as expenses associated with the Woodlands property and the Abilene Country Club.
- There have been payments made to related companies apparently owned by the Downey's. "Quest EMG" received \$232,790 (line 32). Another company, SCTEK, received \$515,000 (line 33). Total payments to these related entities was \$747,790.
- Substantial rents and personal expenses are being paid for operations in Naples, Florida. It is unknown why a West Texas oil and gas operating company would need offices in Florida. See lines 44, 45 and 46.
- Substantial sales commissions have been paid to several securities brokers, totaling \$824,270. See lines 38, 39, 40 and 41.
- Operating expenses (line 52) from inception through May 2013 total \$19.6 million.
- Of all the money invested, we estimate that no more than \$1.5 million was ever used in

connection with the initial purchase of oil and gas property and equipment, which is less than ten percent of the total investment money collected.

- Based upon information provided by QEM and its attorney at the time, Mr. H. Allen Pennington, Jr., Valhalla and Viking were to have obtained a material percentage interest in the oil and gas properties. According to Mr. Pennington's letter dated November 23, 2009, Valhalla and Viking purchased a 50% interest in the MCU and Kilgore properties. There is no evidence in the books or records of QEM reflecting that sale. There was never a partnership entity created, there were no division orders produced, nor were any interests assigned or recorded.
- In a sales prospectus dated January 1, 2013, Quest Energy Management Group, Incorporated proposed a joint venture development project which would acquire 75% working interests in three properties "currently owned and operated by Quest", which include the MCU and Kilgore units mentioned above.
- Between May 2010 and April 2012, QEM paid Christopher D. Moody consulting fees of \$5,000 per month and various expenses totaling \$89,897.

V. Assets

- As of May 31, 2013, the books show a bank overdraft of \$26,144 (line 55) and total assets of around \$2.8 million. The entity shows a deficit of \$755,000.
- QEM accrued millions of dollars in accounts receivable which were reflected as an asset on the balance sheet. At one point the accrued receivables reached \$5 million. The next year they were inexplicably written down to \$245,000.

VI. QEM Performance

- Income tax returns filed by QEM reflect a first year deficit of \$130,681. In the second year the deficit grew to \$441,196. By that time (December 31, 2007) QEM had recorded accounts receivable of \$1,874,679, which we believe were never of any value and were never collectable. In fact, they were written off by QEM in 2011.
- Without the receivables described above, QEM was insolvent, almost from its inception. By 2011, before the debt on the books was improperly written off against prior years' operating deficits, Quest was probably insolvent by a ratio of greater than 10:1.

VII. Conclusion

Based upon the data we have reviewed, it is apparent that QEM has been insolvent almost since inception and produced nominal amounts of oil and gas relative to the cost to produce it. Based on the amounts we have determined as oil and gas income, and as operating expenses, the expenses are outpacing revenue by more than two to one. Operations were not sustainable at this level and any possibility of a return of profits to the investors was

out of the question.

Respectfully submitted,

A handwritten signature in cursive script, appearing to read "O. Wheeler".

Otto L. Wheeler, CPA/ABV/CFE
Senior Partner

RESUME

OTTO L. WHEELER, CPA/ABV

PERSONAL DATA

Born July 28, 1948 at Pampa, Texas
Married

CURRENT EMPLOYMENT

Residence - 5925 Overlook Drive
Austin, Texas 78731

EDUCATION

Texas Tech University

B.B.A. - Accounting (1971)

**CERTIFICATION AND
ACCREDITATION**

Texas State Board of Public Accountancy
AICPA Accreditation in Business Valuation
Collaborative Law Institute of Texas
Certified in Financial Forensics

License No. 13433 (Issued August 6, 1974)
Credentialed December 22, 2003
Credentialed March 1, 2007
Credentialed March 31, 2009

PROFESSIONAL ORGANIZATIONS

Texas Society of Certified Public Accountants
Board of Directors
Tax Curriculum, Chairman
Federal Taxation

State Taxation
Texas Tax Institute, Program Chairman
Chapter Presidents' Committee

Austin Chapter - TSCPA
Past President
Board of Directors

Taxation Committee, Chairman

American Institute of Certified Public
Accountants

1979 - Present Wheeler Fairman & Kelley
Certified Public Accountants
301 Congress, Suite 550
Austin, TX 78701
(512) 472-2350; FAX (512) 472-3599
Email: owheeler@wfkcpa.com

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EMPLOYMENT HISTORY

1971-1978 Employed in public accounting (5 years), industry (2 years) and government (1 year).

EXAMPLES OF ENGAGEMENTS

Medical practices
Law firms
Retail jewelry store
Commercial bank
Cattle feeding operation
Professional basketball franchise
Retail clothing store
Publishing company
Computer software development
Fencing contractor
Oil and gas exploration
Veterinarian practices
Telephone answering service
Lumber and building materials company
Commercial photography
Food manufacturing company
Restaurants and catering
Auto repair shop
Funeral services
Cellular telephone sales
Timber production
Real estate partnerships
Real estate development
Retail grocery chain

QUEST ENERGY MANAGEMENT OR QUEST OPERATING, LLC
 SUMMARY OF CASH TRANSACTIONS
 FROM INCEPTION (2006) THROUGH MAY 31, 2013

	CASH - FNB ALBANY	CASH - QUEST MANAGEMENT ACCOUNT	CASH - REVENUE ACCOUNT	CASH - EMPLOYEE SHARE ACCOUNT	TOTAL OF ALL CASH ACCOUNTS - EXCLUDING TRANSFERS B/W ACCOUNTS
BEGINNING BALANCE	\$ -	\$ -	\$ -	\$ -	\$ -
ADD:					
INVESTED MONEY					
1 VIKING	4,000,000	-	-	-	4,000,000
2 VALHALLA OIL	1,100,000	-	-	-	1,100,000
3 ADVANTA	368,000	-	-	-	368,000
4 DESMOND BRIAN MCDONAGH	875,000	-	-	-	875,000
5 LESTER RAINIEW	500,000	-	-	-	500,000
6 DR. WILLIAM KING	900,000	-	-	-	900,000
7 THOMAS M. GIBBONS	500,000	-	-	-	500,000
8 WILLIAM B. EDWARDS REVOCABLE TRUST	450,000	-	-	-	450,000
9 WILLIAM EDWARDS IRA	300,000	-	-	-	300,000
10 ADVANTAIRA TRUST, LLC	500,000	-	-	-	500,000
11 OTHER INVESTED MONEY	6,806,326	2,475,000	350,000	-	9,631,326
12 TOTAL INVESTED MONEY	16,299,326	2,475,000	350,000	-	19,124,326
OTHER DEPOSITS (NOT INCOME)					
13 LOAN TO SHAREHOLDER PAYBACK	2,000,000	-	-	-	2,000,000
14 LOAN PROCEEDS FROM FNB ALBANY	1,188,840	-	-	-	1,188,840
15 OTHER DEPOSITS (NOT INCOME)	826,888	-	-	-	826,888
16 TOTAL OTHER DEPOSITS (NOT INCOME)	4,015,728	-	-	-	4,015,728
17 PRESUMED INCOME	73,656	-	-	-	73,656
18 DIVIDEND INCOME	8,415	-	-	-	8,415
19 PROCEEDS FROM SALE OF WOODLANDS LOT	99,105	-	-	-	99,105
20 INCOME FROM SALE OF ASSETS	27,112	40,912	45,000	-	113,024
21 INCOME FROM SALE OF WELLS	-	204,793	-	-	204,793
22 OIL & GAS REVENUE	51,546	6,682	8,124,628	-	8,182,856
23 INTEREST INCOME	31,899	5,596	-	-	37,495

Exhibit 1 of 3

24	CONDO BARTER - JOHN LEONARD	6,230	-	-	-	6,230	24
25	CD CASH-IN	-	200,000	-	-	200,000	25
26	CPA ADJUSTMENT	-	8,669	1,312	-	9,981	26
27	CHECKS VOIDED IN 2013 FROM 2012	-	-	99,400	-	99,400	27
28	TRANSFERS FROM CASH ACCOUNTS	10,527,479	-	27,146	-	-	28
29	ESTIMATED TOTAL DEPOSITS	31,140,496	2,941,652	8,647,486	101	32,175,110	29
LESS:							
PAYMENTS TO RELATED PARTIES							
30	PERSONAL EXPENSES	918,506	-	-	-	918,506	30
31	LOAN TO SHAREHOLDER	1,991,372	-	-	-	1,991,372	31
32	PAYMENT TO QUEST EMG	220,000	-	12,790	-	232,790	32
33	PAYMENTS TO SCTEK	515,000	-	-	-	515,000	33
34	TOTAL PAYMENTS TO RELATED PARTIES	3,644,878	-	-	-	3,657,668	34
PURCHASE OF OIL & GAS PROPERTIES							
35	PURCHASE OF KILGORE/PREMIERE CONS	699,767	-	-	-	699,767	35
36	PURCHASE OF WOODLANDS PROPERTY	256,730	-	-	-	256,730	36
37	TOTAL PURCHASE OF OIL & GAS PROPERTIES	956,497	-	-	-	956,497	37
COMMISSIONS PAID FOR SALE OF SECURITIES							
38	COMMISSIONS PAID TO INTEGRATED ENERGY GROUP	198,850	-	-	-	198,850	38
39	COMMISSIONS PAID TO WORKMAN SECURITIES	181,250	-	-	-	181,250	39
40	COMMISSIONS PAID TO JOHN LEONARD	436,170	-	8,000	-	444,170	40
41	TOTAL COMMISSIONS PAID FOR SALE OF SECURITIES	816,270	-	-	-	824,270	41
PURCHASE OF CADILLAC							
42	PURCHASE OF CADILLAC	48,027	-	-	-	48,027	42
TRANSFERS FROM CASH ACCOUNTS							
43	TRANSFERS FROM CASH ACCOUNTS	27,146	2,907,340	7,604,671	15,468	-	43
OFFICE RENT IN NAPLES, FL							
44	OFFICE RENT IN NAPLES, FL	5,501	-	-	-	5,501	44
PAYMENTS TO ACCOUNTANT IN NAPLES, FL							
45	PAYMENTS TO ACCOUNTANT IN NAPLES, FL	69,586	-	-	-	69,586	45
PAYMENTS TO FAMILY OFFICES - NAPLES, FL							
46	PAYMENTS TO FAMILY OFFICES - NAPLES, FL	137,000	-	-	-	137,000	46
ORDINARY EXPENSE							
47	ORDINARY EXPENSE	-	-	-	-	-	47
48	PAYROLL EXPENSE	2,351,884	-	-	-	2,351,884	48
49	PAYROLL TAXES	890,625	-	-	-	890,625	49
50	REPAYMENT OF INVESTED MONEY	1,937,325	-	-	-	1,937,325	50
51	INTEREST EXPENSE PAID TO INVESTORS	1,310,275	-	-	-	1,310,275	51
52	CONSULTING FEES & REIMBURSEMENTS PAID TO CHRIS MOODY	89,897	-	-	-	89,897	52
53	OTHER ORDINARY EXPENSE	18,891,436	54,199	977,064	-	19,922,699	53
54	TOTAL ORDINARY EXPENSE	25,471,442	-	-	-	26,502,705	54

Exhibit 1 2 of 3

55	TOTAL DISBURSEMENTS	31,176,347	2,961,539	8,602,525	15,468	32,201,254	56
		<u>\$ (35,851)</u>	<u>\$ (19,887)</u>	<u>\$ 44,961</u>	<u>\$ (15,367)</u>	<u>\$ (26,144)</u>	
56	ENDING BALANCE						57

A: PERSONAL EXPENSES ARE LIKELY TO EXCEED THE AMOUNT SHOWN. THERE WERE CREDIT CARDS PAID WITHIN THE COMPANY THAT WERE MAINLY EXPENSED TO TRAVEL, EMPLOYEE BENEFITS, ENTERTAINMENT & MEALS. INCLUDED WITHIN THIS NUMBER ARE ANY PAYMENTS MADE TO THE DOWNEY'S (PAUL, JEFF, SANDRA, & JAIME), ALONG WITH CAR PAYMENTS FOR A BMW, TAHOE, YUKON AND LEXUS. ALSO INCLUDED ARE PAYMENTS TO THE ABILENE COUNTRY CLUB, JEFF'S APARTMENT RENTAL, THE WOODLANDS PROPERTY EXPENSES, ETC.

B: REMAINING IN THE ACCOUNT ARE REFUNDS AND VARIOUS OTHER NON-INCOME DEPOSITS.

Exhibit 1 3 of 3

QUEST OPERATING, LLC
COMPARISON OF BALANCE SHEETS FROM 2006-5/31/2013

	12/31/2006	12/31/2007	12/31/2008	12/31/2009	12/31/2010	12/31/2011	12/31/2012	5/31/2013
ASSETS								
CURRENT ASSETS								
CASH - FNB ALBANY	-	-	-	-	100	47,149	(27,505)	(35,851)
CASH - OLD MGMT ACCT	5,538	219,333	14,427	60,365	(43,179)	-	-	-
QUEST MANAGEMENT ACCOUNT	-	-	-	-	-	376,162	29,224	(19,887)
CASH - REVENUE ACCOUNT	213,192	23,244	162,551	53,240	150,790	117,024	19,469	44,961
CASH - EMPLOYEE SHARE ACCT	-	-	-	-	101	101	(15,367)	(15,367)
WOODFOREST BANK - LOT ESCROW	60,546	11,327	-	-	-	(29,839)	-	-
A/R - OIL & GAS REVENUES	39,248	134,322	11,378	114,502	-	-	(29,000)	(29,000)
NEWCO FOUNDERS' GROUP	-	-	-	-	-	-	(875,000)	(875,000)
HATCHETT 3-WELL PROGRAM	-	-	-	-	-	-	1,000	1,000
55.5 NOTE	-	-	-	-	-	-	3,215	3,215
A/R - JIB	592,711	1,719,831	3,144,017	4,773,723	5,076,512	244,729	790,788	791,229
A/R - EMPLOYEES	4,368	10,000	-	-	-	-	-	(2,100)
NOTE RECEIVABLE - SHAREHOLDER	-	-	26,600	36,600	36,650	-	-	-
INTEREST RECEIVABLE	-	-	-	1,541	3,373	-	-	-
WORK IN PROGRESS - VICR	-	-	-	-	-	2,429	(18,322)	(18,322)
JIB - WORK IN PROGRESS	-	-	805	114,156	1,197,585	77,136	342,986	499,636
TOTAL CURRENT ASSETS	915,802	2,118,056	3,359,775	5,154,126	6,421,933	834,961	221,486	344,513
FIXED ASSETS								
LEASEHOLD COSTS - NONPROD	2,521	5,716	13,353	400,420	5,536	817,428	878,740	878,740
LEASEHOLD COSTS - PRODUCING	400,590	719,605	720,351	731,079	1,140,860	241,002	298,158	298,158
ACCUMULATED DEPLETION	-	-	(94,927)	(94,927)	(151,529)	-	-	-
LEASE & WELL EQUIPMENT	44,703	168,396	177,104	256,762	357,189	127,709	940,453	940,452
PRODUCTION EQUIPMENT	-	21,795	32,584	32,584	32,584	1,398	1,398	1,295
A/D - LEASE & WELL EQUIPMENT	(1,597)	(31,556)	(79,380)	(150,561)	(192,394)	-	-	-
A/C - PRODUCTION EQUIPMENT	-	(2,124)	(19,239)	(19,239)	(23,052)	-	-	-
BUILDING	144,725	144,725	144,725	144,725	144,725	-	-	-
A/D - BUILDING	(1,701)	(5,412)	(9,123)	(12,834)	(16,545)	-	-	-
OFFICE EQUIPMENT	84,468	94,295	105,779	124,394	130,194	130,194	130,194	130,194
A/D - OFFICE EQUIPMENT	(9,634)	(39,331)	(81,386)	(106,682)	(118,346)	(118,346)	(118,346)	(118,346)
FURNITURE & FIXTURES	36,082	75,982	77,652	77,652	77,652	83,184	83,184	83,184
A/D - FURNITURE & FIXTURES	(3,866)	(18,914)	(36,175)	(57,797)	(63,470)	(63,470)	(63,470)	(63,470)
VEHICLES & EQUIPMENT	239,558	246,851	222,904	462,885	523,730	568,608	568,608	568,608
A/D - VEHICLES	(19,464)	(70,253)	(91,127)	(191,936)	(286,328)	(286,328)	(286,328)	(286,328)
INVESTMENT - LOT	958,170	958,170	-	-	-	-	-	-
NET FIXED ASSETS	1,874,565	2,355,925	1,083,094	1,595,524	1,539,806	1,501,379	2,432,591	2,432,591
OTHER ASSETS								
CAPITALIZED LOAN FEES	-	-	-	201,251	149,923	-	-	-
LETTER OF CREDIT - RRC	250,000	260,436	271,910	250,000	250,000	50,000	50,000	50,000
N/R - DOWTEK	-	10,526	-	-	-	-	-	-
SECURITY DEPOSITS	2,250	2,250	2,250	2,250	2,250	-	-	-

Exhibit 2 of 3

INTERCOMPANY - QUEST EMG SUSPENSE	-	-	-	(100)	(70,046)	-	-
TOTAL OTHER ASSETS	252,250	273,213	274,160	4,379	8,331	50,000	50,000
TOTAL ASSETS	3,042,418	4,657,194	4,717,032	8,368,191	2,324,625	2,704,078	2,827,104
LIABILITIES & STOCKHOLDERS' EQUITY							
CURRENT LIABILITIES							
ACCOUNT PAYABLE - TRADE	6,434	-	-	195,814	41,072	1,638,307	1,697,174
PAYROLL DEDUCTIONS	-	-	-	-	750	7,500	15,750
LEGAL SUSPENSE	-	5,650	25,593	121,988	153,952	173,841	173,643
PETTY SUSPENSE	-	1,166	1,221	(125)	(785,785)	59,924	131,335
PREPAID JIB	1,501,446	800,235	-	-	-	-	-
A/P - QUEST OPERATING, LLC	37,460	89,226	114,908	-	-	-	-
PAYROLL PAYABLE	-	-	-	-	-	-	(2,100)
PAYROLL TAXES PAY. - FICA	-	2,946	3,896	(136)	2,815	(447)	7,844
PAYROLL TAXES PAY. - FED W/H	-	9,755	10,829	-	5,640	(3,599)	(19,693)
PAYROLL TAXES PAY. - TEC	429	172	94	52	596	596	674
PAYROLL TAXES PAY. - FUTA	461	-	558	64	490	490	826
SEVERANCE TAX PAYABLE	-	3,462	-	-	-	-	-
HEALTH INS PAYABLE	-	-	-	-	-	8,365	18,491
LIFE/AD&D/DENTAL PAYABLE	-	-	-	-	342	384	384
CHILD SUPPORT PAYABLE	-	-	-	-	-	(7,500)	(15,750)
OIL & GAS PAYABLE	44,332	229,701	347,682	-	249,678	471,076	764,114
TOTAL CURRENT LIABILITIES	1,590,561	1,142,313	504,781	317,658	(330,448)	2,348,937	2,772,692
LONG TERM LIABILITIES							
NOTES PAYABLE - FNBA	195,038	628,951	553,869	745,176	(281,189)	203,010	113,918
NOTE PAYABLE - FFB	-	-	-	35,592	16,694	2,941	2,941
NOTE PAYABLE - WOODFOREST	787,500	787,500	-	-	-	-	-
NOTE PAYABLE - VAN OPER LTD	-	624,000	624,000	-	(150,000)	369,285	334,369
NOTE PAYABLE - ADVANTA	-	-	-	-	-	-	350,000
NOTES PAYABLE - CEP	-	-	-	-	-	-	-
NOTES PAYABLE - KPC LLC	600,000	1,875,000	(24,166)	-	(45,418)	-	-
NOTE PAYABLE - VALHALLA	-	-	1,875,000	595,000	-	-	(40,500)
NOTE PAYABLE - KPC 2	-	-	1,100,000	1,100,000	-	-	-
NOTE PAYABLE - JAIME DOWNEY	-	-	-	5,004,325	-	-	-
NOTE PAYABLE - SANDY DOWNEY	-	-	-	4,969,000	(91,500)	(40,500)	(40,500)
NOTE PAYABLE - VOLVO	-	-	-	4,963,000	(117,000)	(13,500)	(13,500)
NOTE PAYABLE - BMW FINANCE	-	-	-	15,667	7,121	1,388	1,389
NOTE PAYABLE - JPMORGAN CHASE	-	-	-	47,964	33,751	19,312	14,043
NOTE PAYABLE - FORD MOTOR	-	-	-	28,801	55,786	43,610	43,620
PAOR1 JIB PREPAYMENTS	-	-	-	81,559	44,019	10,529	4,096
NOTE PAYABLE - PAOR1	-	-	-	1,329,563	-	-	-
INTEREST PAY SEAGER/SOUTH HA	-	40,625	118,777	52,938	4,209	-	-
MCU 2 WELL PROGRAM	-	-	-	240,411	-	-	-
TOTAL LONG TERM LIABILITIES	1,582,538	3,956,076	4,247,481	19,858,733	61,474	596,075	810,376

Exhibit 2 2/3

STOCKHOLDERS' EQUITY								
COMMON STOCK ISSUED	-	-	-	-	50	-	-	-
PREFERRED STOCK ISSUED	-	-	-	-	542,500	-	-	-
NET MEMBERS CAPITAL	-	(130,681)	(441,195)	(43,261)	(1,136,738)	5,160,292	2,717,673	226,479
CURRENT YEAR INCOME (LOSS)	(130,681)	(310,514)	405,965	(1,093,477)	(1,194,742)	(2,442,620)	(2,491,194)	(515,030)
PREFERRED DIVIDENDS PAID	-	-	-	-	(19,289)	(124,074)	(170,413)	(170,413)
TREASURY STOCK - COST	-	-	-	-	(10,000,000)	-	(297,000)	(297,000)
TOTAL STOCKHOLDERS' EQUITY	(130,681)	(441,195)	(35,230)	(1,136,738)	(11,808,219)	2,593,599	(240,934)	(755,964)
	<u>3,042,418</u>	<u>4,657,194</u>	<u>4,717,082</u>	<u>7,204,152</u>	<u>8,368,191</u>	<u>2,324,625</u>	<u>2,704,078</u>	<u>2,827,104</u>
TOTAL LIABILITIES & EQUITY								

Exhibit 2 3/3

QUEST OPERATING, LLC
OIL AND GAS REVENUE BY YEAR

2006	\$	295,963
2007		760,984
2008		1,419,628
2009		846,340
2010		1,435,872
2011		1,797,375
2012		1,361,808
2013		264,886
	\$	<u>8,182,856</u>

Exhibit 3 1 of 1

EXHIBIT B

RAILROAD COMMISSION OF TEXAS
HEARINGS DIVISION

OIL & GAS DOCKET NO. 20-0282639

IN RE: P-5 ORGANIZATION REPORT OF QUEST EMG, INC.

FINAL ORDER

The Commission finds that after notice and an opportunity for hearing regarding the captioned matter, the Operator failed to request a hearing and pay the hearing fee as required by 16 TEX. ADMIN. CODE §3.15(g)(4) and TEX. NAT. RES. CODE §89.022(f). This matter having been duly submitted to the Railroad Commission of Texas at conference held in its offices in Austin, Texas, the Commission makes the following findings of fact and conclusions of law.

FINDINGS OF FACT

1. Quest EMG, Inc. [Operator #684615] (the "Operator"), is the record operator or one or more inactive wells in the State of Texas and is required to file Organization Report (Form P-5) with the Commission. Operator's most recent P-5 was due on or before January 1, 2012.
2. After filing its most recent Organization Report (Form P-5) with the Commission, the Operator was notified they were deficient and had failed to comply with the requirements of 16 TEX. ADMIN. CODE § 3.15 (Surface Equipment Removal Requirements and Inactive Wells) and provided with a written statement of the reasons for the determination and allowed ninety (90) days from the date its P-5 was due to comply with the requirements of 16 TEX. ADMIN. CODE § 3.15 and TEX. NAT. RES. CODE §§89.021 - 89.030.
3. After the expiration of ninety (90) days and pursuant to 16 TEX. ADMIN. CODE §3.15(g)(4), an authorized Commission employee determined that the Operator's Organization Report still could not be renewed because the Operator continued to fail to comply with the requirements of 16 TEX. ADMIN. CODE §3.15 (Surface Equipment Removal Requirements and Inactive Wells).
4. The Commission sent the Operator a letter by certified mail giving notice to the Operator of the determination of continued non-compliance regarding specified inactive wells, attached as Exhibit A to this order, and advising the Operator of the right to request a hearing to show compliance. The letter notified the Operator that the hearing request must be received in docket services no later than 30 days after the date of the letter. The letter also notified the Operator that a final order denying renewal of the Operator's Organization Report (Form P-5) would result in the cancellation of all P-4 Certificates of Compliance and the severance of all pipeline or other carrier connections.

OIL AND GAS DOCKET NO. 20-0282639

PAGE 2

5. All notices and letters from the Commission to the Operator on this matter were addressed and mailed to the Operator's most recently reported address on the Form P-5 Organization Report.
6. The Operator did not timely request a hearing and pay the hearing fee on these issues as required under 16 TEX. ADMIN. CODE §3.15(g)(4) (Surface Equipment Removal Requirements and Inactive Wells).
7. Statewide Rule 15 (16 TEX. ADMIN. CODE §3.15) is a Commission rule that relates to safety or the prevention or control of pollution.

CONCLUSIONS OF LAW

1. The Operator received proper notice and an opportunity for hearing regarding compliance with 16 Tex. Admin. Code §3.15 and Tex. Nat. Res. Code §§89.021 - 89.030.
2. All things necessary to the Commission attaining jurisdiction over the subject matter and the parties in this matter have been performed or have occurred.
3. The Operator is in violation of Commission Statewide Rule 15 and did not timely request a hearing to contest the determination that it was in violation.
4. The Operator's P-5 Organization Report should not be renewed and all of the Operator's P-4 Certificates of Compliance should be cancelled, with all related pipeline or other carrier connections severed. 16 Tex. Admin. Code §3.15 (g)(4) and Tex. Nat. Res. Code §§89.022(f), 91.704 - 91.706.
5. The Operator's P-5 Organization Report cannot be renewed until the operator brings the inactive wells shown on the attached Exhibit A into compliance with the requirements of 16 Tex. Admin. Code §3.15 and Tex. Nat. Res. Code §§89.021 - 89.030.

IT IS ORDERED that renewal of Quest EMG, Inc.'s P-5 Organization Report is hereby **DENIED**.

It is further **ORDERED** that all P-4 Certificates of Compliance issued to Quest EMG, Inc. as operator of record are hereby **CANCELLED** and all related pipeline or other carrier connections are hereby **SEVERED**.

It is further **ORDERED** that Quest EMG, Inc. shall bring the wells on Exhibit A into compliance with Statewide Rule 15 (16 TEX. ADMIN. CODE §3.15) and that the Operator's P-5 Organization Report shall not be renewed until the wells on Exhibit A have been brought into compliance as required by this order.

It is further **ORDERED** that Quest EMG, Inc. and each person who held a position of ownership or control in the Operator at the time the Operator's most-recent P-5 Organization Report was filed shall be subject to the terms of TEX. NAT. RES. CODE §91.114.

OIL AND GAS DOCKET NO. 20-0282639

PAGE 3

It is further **ORDERED** by the Commission that this order shall not be final and effective until 20 days after a party is notified of the Commission's order. A party is presumed to have been notified of the Commission's order three days after the date on which the notice is actually mailed. If a timely motion for rehearing is filed by any party at interest, this order shall not become final and effective until such motion is overruled, or if such motion is granted, this order shall be subject to further action by the Commission. Pursuant to TEX. GOV'T. CODE §2001.146(e), the time allotted for Commission action on a motion for rehearing in this case prior to its being overruled by operation of law, is hereby extended until 90 days from the date the parties are notified of the order.

All requested Findings of Fact and Conclusions of Law which are not expressly adopted herein are **DENIED**. All pending motions and request for relief not previously granted or granted herein are **DENIED**.

RAILROAD COMMISSION OF TEXAS

(Signatures affixed by Rule 15 Inactive Well
Master Order dated June 13, 2013.)

QUEST EMC, INC.
APRIL 4, 2013

Page: 1

API Number	District	ID Number	Lease Name	Well Number
049 31739	7B	080587	HENRY, MACK	12
Must resolve UIC H-5 Test issue preventing 14(B)(2) approval				
049 35602	7B	26581	ARMSTRONG, ROY	6
Must resolve UIC H-5 Test issue preventing 14(B)(2) approval				
059 30918	7B	11653	MAIN HATCHETT RANCH	2
Electricity must be disconnected (certify on Form W-3C)				
Production fluids must be purged (certify on Form W-3C)				
059 31333	7B	106873	HATCHETT RANCH	R 1
Electricity must be disconnected (certify on Form W-3C)				

Docket No. 20-0282639

Exhibit A

**RAILROAD COMMISSION OF TEXAS
HEARINGS DIVISION**

**HEARINGS DIVISION'S
RULE 15 INACTIVE WELL MASTER ORDER**

JUNE 13, 2013

At a public conference held at its offices in Austin, Texas, the Commission finds that following notice and opportunity for hearing, the Operators listed below failed to timely request a hearing to contest the Staff determinations that they had not complied with inactive well requirements and that, as a result their P-5 Organization Reports were not eligible for renewal. The Final Orders for each of the below referenced dockets are incorporated by reference into this order, and by signing this Master Order, the Commission approves each of the Final Orders and adopts the provisions contained therein.

IT IS ORDERED that renewal of the P-5 Organization Report for each Operator identified on this Master Order is hereby DENIED.

It is further ORDERED that each Operator shall bring the inactive wells identified on its individual order, into compliance with Statewide Rule 15 (16 TEX. ADMIN. CODE § 3.15) and that the Operator's P-5 Organization Report shall not be renewed until those wells have been brought into compliance.

It is further ORDERED that each Operator and each person who held a position of ownership or control in the Operator at the time the Operator's most-recent P-5 Organization Report was filed shall be subject to the terms of TEX. NAT. RES. CODE §§91.114.

ITEM NO.	DOCKET NO.	OPERATOR NAME	OPERATOR NO.	RENEWAL DATE
37	20-0281956	Energas Corp.	251866	September 1, 2012
38	20-0281781	Argent Petroleum Corporation	029720	September 1, 2012
39	20-0281782	Blackburn, Ruth B	073063	September 1, 2012
40	20-0281785	Carpeo Efficient Energy Co., LLC	133490	September 1, 2012
41	20-0281786	Chisholm Oil & Gas, LC	149453	September 1, 2012
42	20-0281788	Cleveland Oil & Gas	160453	September 1, 2012
43	20-0281789	Coley, Thomas	167321	September 1, 2012
44	20-0281791	D & I Operating Co.	196477	September 1, 2012
45	20-0281793	DSB Energy, LLC	229365	September 1, 2012
46	20-0281794	DTE Gas Resources, LLC	235802	September 1, 2012

HEARINGS DIVISION
 RULE 15 INACTIVE WELL MASTER ORDER
 JUNE 13, 2013 CONFERENCE
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ITEM NO.	DOCKET NO.	OPERATOR NAME	OPERATOR NO.	RENEWAL DATE
47	20-0281796	El Jefe Oil & Gas	250185	September 1, 2012
48	20-0281797	Fambrough, Tim D.	261260	September 1, 2012
49	20-0281799	Forbes, C. C. Company	275603	September 1, 2012
50	20-0281801	Golden, Marty Joe	312774	September 1, 2012
51	20-0281802	Great Texas Crude Inc.	328774	September 1, 2012
52	20-0281803	Hays, John H.	369100	September 1, 2012
53	20-0281804	HCE Operating LLC	369827	September 1, 2012
54	20-0281806	Holli-Tex Supply Co.	393278	September 1, 2012
55	20-0281807	Knutson Oil & Gas	474450	September 1, 2012
56	20-0281808	Konantz, Ronald J. Inc.	474900	September 1, 2012
57	20-0281809	LTS Oil & Gas	511745	September 1, 2012
58	20-0281810	Lufkin Production Company Inc.	512248	September 1, 2012
59	20-0281811	Mesquite Land & Minerals Co.	561921	September 1, 2012
60	20-0281813	Morin, Joseph P	586569	September 1, 2012
61	20-0281814	Mineral Technologies, Inc.	593635	September 1, 2012
62	20-0281815	Mustang Fuel Corporation	596921	September 1, 2012
64	20-0281818	New Territory Petroleum	606611	September 1, 2012
65	20-0281820	O.G.P. Operating, Inc.	617041	September 1, 2012
66	20-0281821	OGL Holdings, LLC	619265	September 1, 2012
67	20-0281822	Old Pine Energy Corporation	621144	September 1, 2012
68	20-0281823	OZTX Oil & Gas, L.L.C.	630575	September 1, 2012
69	20-0281824	Pierco Energy Corp.	665422	September 1, 2012
70	20-0281826	Premium Exploration Company	676051	September 1, 2012
71	20-0281827	Rebel Production Company	696251	September 1, 2012
72	20-0281831	Sedco Operating, LLC	763159	September 1, 2012
73	20-0281833	Sonco Holdings LLC	801653	September 1, 2012
74	20-0281835	Stiff and Whisnand Oil, LLC	821761	September 1, 2012

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ITEM NO.	DOCKET NO.	OPERATOR NAME	OPERATOR NO.	RENEWAL DATE
75	20-0281837	U S Energy Corp. Of Amer. Inc.	875391	September 1, 2012
76	20-0281838	V.L.M. Company	880382	September 1, 2012
78	20-0281840	Waggnner, Fred	889880	September 1, 2012
79	20-0281842	Warren, Earl T.	897730	September 1, 2012
80	20-0281844	Wildeat Cement Co.	923295	September 1, 2012
82	20-0282617	B. & L. Oil Company	040737	September 1, 2012
83	20-0282618	Bayer, Arthur	057975	September 1, 2012
84	20-0282619	Conner-Marrs Company	172005	September 1, 2012
86	20-0282622	E & F Construction Company	238524	September 1, 2012
87	20-0282623	Goforth Production Company	312535	September 1, 2012
88	20-0282625	Indian Exploration, Inc.	423771	September 1, 2012
89	20-0282626	Jenex Petroleum Corporation	431135	September 1, 2012
90	20-0282627	Loudon Operating Company, L.L.C.	509363	September 1, 2012
91	20-0282628	LTX Oil Company, L.L.C.	511755	September 1, 2012
92	20-0282629	Meguffin, Joe Jr.	549892	September 1, 2012
93	20-0282630	Midway Operating Company, L.L.C.	566398	September 1, 2012
94	20-0282631	Mogul Operating LLC	573652	September 1, 2012
95	20-0282632	O & O Operators, LLC.	617028	September 1, 2012
96	20-0282633	Oilton Resources, Inc.	621012	September 1, 2012
98	20-0282635	Origin Prod Co Gonzales Prop LLC	625627	September 1, 2012
99	20-0282636	P,B&B Operating Inc.	631644	September 1, 2012
100	20-0282637	Petrosearch Operating Co, LLC	660938	September 1, 2012
101	20-0282638	Phillips, Jack L. Co.	663109	September 1, 2012
102	20-0282639	Quest EMG, Inc.	684615	September 1, 2012
103	20-0282640	Reneau Oil Co.	701746	September 1, 2012
104	20-0282641	Reneau, James Seed Co.	701747	September 1, 2012
106	20-0282643	Sibley Creek Ranches, L.L.C.	779273	September 1, 2012

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ITEM NO.	DOCKET NO.	OPERATOR NAME	OPERATOR NO.	RENEWAL DATE
107	20-0282644	South Oil, Inc.	802623	September 1, 2012
108	20-0282645	Spitfire Partners, LLC	809960	September 1, 2012
110	20-0282647	United Operating, LLC	877448	September 1, 2012
111	20-0282648	Upland Resources LLC	878931	September 1, 2012
113	20-0282650	Woolley, Gary W.	941486	September 1, 2012
114	20-0282613	XOG Operating LLC	945921	September 1, 2012

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JUNE 13, 2013 CONFERENCE
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IT IS ORDERED that each referenced Final Order shall become effective when this Order is signed and that a copy of this Order shall be affixed to each Final Order.

Done in Austin, Texas on June 13, 2013.

RAILROAD COMMISSION OF TEXAS


CHAIRMAN BARRY T. SMITHERMAN


COMMISSIONER DAVID PORTER


COMMISSIONER CHRISTI CRADDICK

ATTEST:



SECRETARY

EXHIBIT C

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



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

RAILROAD COMMISSION OF TEXAS

OFFICE OF GENERAL COUNSEL

September 14, 2011

SEP 19 2011

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

91 7108 2133 3939 1894 1002

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

Dear Mr. Downey and Mr. Downey:

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

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



September 14, 2011
Quest EMG, Inc.
01-0272145
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For your information, the penalty must be paid by check made payable to the Railroad Commission of Texas, reference the fact that it is in payment of a penalty in Oil & Gas Docket No. 01-0272145 and be sent to my attention at the Railroad Commission of Texas at the post office box address below. *Please sign the Order on the last page only, it should not be dated or notarized, as it will be dated on the day the settlement is presented to the Commissioners.*

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

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

Sincerely,



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

Enclosure

EXHIBIT D



TO: QUEST NOTE HOLDERS
FROM: PAUL DOWNEY
RE: STATUS UPDATE MEMO
DATE: SEPTEMBER 24, 2012

Following a successful week of meetings, I am able to report that that we have made excellent progress in the sale of Quest assets that will enable Quest to re-purchase all Notes at full face value, pay accrued interest and most all other production interest in our leases. The Buyer is a Fortune 100 company with a long, successful track record of acquiring and developing Texas oil and gas properties in partnership with the current operator. The next two steps will be first to re-format our lease/well data to be compatible with their system and then to conduct a field audit. We expect to complete these steps in the next 2-3 weeks, and at that time, we will be able to go public with an announcement of the Buyer and transaction. We are optimistic that we will achieve our previously stated target of completing the sale by the end of this year.

V:325-762-3281
F:325-762-3284

WWW.QUESTEMG.COM

64 S. JACOBS ST.
ALBANY, TX. 76430



TO: QUEST NOTE HOLDERS
FROM: PAUL DOWNEY
RE: STATUS UPDATE MEMO
DATE: OCTOBER 16, 2012

Let me begin by thanking you for your support and patience as we continue to progress in the resolution of the Note redemption.

At the April maturity date, we had what we believed to be a firm commitment from a local funding group to provide the necessary financing to retire the Notes. Due to internal problems with that company, including the sudden death of their founder, that financing never closed.

At that point, we analyzed finding the best solution that we could have confidence in. Our decision was that a partial asset sale to a proven asset buyer with a successful track record of acquisitions in the Permian Basin would be in the best interest of the Note holders and Quest. The decision required us to develop an extensive data presentation for any prospective buyers to review. That package consists, among other items, of several third-party engineering reports, over 50 subsurface maps, historical production data, service contracts, testing results and various permit filings. Concurrently, Quest was involved in the significant of drilling our first horizontal Caddo well, a watershed moment in the Company's history.

Upon completion of the data package, we identified three qualified buyers and made those presentations. Of the three, two were interested in pursuing the acquisition. Of those two, we determined to move forward with the prospective buyer that we believed offered us the best opportunity to close the transaction in the shortest time.

As of this week that prospective buyer, a Fortune 100 Company, and Quest have met 2 of the 3 pre-conditions necessary to complete the transaction. Quest is confident that the third condition can and will be met, resulting in the successful closing of the transaction by year's end.

We ask that you understand that this negotiated sale process has multiple moving parts and is structured in a way that enables Quest to retire all of the outstanding debt. We anticipate making a partial interest payment in the next 2-3 weeks, with the timetable of redeeming the Notes by the end of the year still in place. As we move closer to completing this transaction, we will provide more updates.

We appreciate your patience as we are moving to the positive conclusion of the note retirement process.

V: 325-762-3281
F: 325-762-3284

64 S. Jacobs St.
Albany, TX 76430

www.questemg.com