

IN THE DISTRICT COURT OF OKLAHOMA COUNTY
STATE OF OKLAHOMA

OKLAHOMA DEPARTMENT OF)
SECURITIES, *ex rel.* IRVING L. FAUGHT,)
ADMINISTRATOR,)

Plaintiff,)

vs.)

Case No. CJ-2013-5023

JASMINE, INC., an Oklahoma corporation;)
OKLAHOMA ENERGY EXCHANGE, LLC,)
Oklahoma limited liability company;)
HARRISBURG PROSPECT LEASE FUND,)
LLC, an Oklahoma limited liability company;)
GATES OIL & GAS, LTD., an Oklahoma)
Corporation; HARRISBURG 2 PROSPECT)
LEASE FUND, LLC, an Oklahoma limited)
Liability company; JIMMY W. GRAY, an)
Individual; GREG L. GRAY, an individual;)
MICHAEL K. GRAY, an individual, and)
LANCE P. BOWMAN, an individual,)

Defendants.)

FILED IN DISTRICT COURT
OKLAHOMA COUNTY

NOV 26 2014

TIM RHODES
COURT CLERK

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**RECEIVER'S SECOND INTERIM APPLICATION FOR ALLOWANCE AND PAYMENT
OF FEES AND EXPENSES**

COMES NOW, the duly appointed Receiver for Defendants Jasmine, Inc. ("Jasmine"), Oklahoma Energy Exchange, LLC ("OEE"), Harrisburg Prospect Lease Fund, LLC ("Harrisburg"), Gates Oil & Gas, LTD ("Gates"), and Harrisburg 2 Prospect Lease Fund, LLC ("Harrisburg 2") (collectively the "Entities"), L. Vance Brown (the "Receiver"), and hereby files his Second Interim Application for Allowance and Payment of Fees and Expenses incurred (the "Application") and requests that this Court (1) find the total fees and costs incurred during the period of November 1, 2013, through October 31, 2014, (the "Application Period") are reasonable and appropriate, and (2) enter an

Order authorizing the Receiver to make payment for fees and costs incurred during the Application Period out of the designated account delineated below.

The Receiver respectfully requests that the Court authorize the Receiver to pay the reasonable fees and costs incurred by Elias, Books, Brown & Nelson, P.C. ("EBBN"), the Receiver's primary counsel.

I. RETENTION OF RECEIVER, DISCLOSURE OF COMPENSATION, AND ACTIVITIES OF RECEIVER DURING APPLICATION PERIOD.

On September 9, 2013, the Oklahoma Department of Securities ("ODS") filed its Complaint, and on September 30, 2013 an Order was entered approving appointment of the Receiver over Gates, Jasmine, and Harrisburg 2. On, or about, October 17, 2013, ongoing proceedings in Stephens County were combined with these proceedings, and on that same date, the Receiver was also appointed over OEE and Harrisburg, putting the Receiver over all five Entities. The Orders approved appointment of the Receiver at a rate of \$300.00 per hour. The Receiver was also approved to hire the necessary professional assistance from his firm, EBBN, or other necessary professional assistance. The Receiver hired EBBN to provide legal services and has engaged Campbell & Associates, Inc. ("Campbell") to provide consultation work, and has engaged Johnson, Badertscher & Moore, P.C., Certified Public Accountants ("JBM") to provide tax preparation services. The following necessary activities have been performed during the Application Period:

1. Ongoing review of voluminous records received as well as incoming records from Gates, Jasmine, OEE, Harrisburg 1, and Harrisburg 2, including Stephens County District Court documents, private placement memorandums, accounting records, creditor invoices, investor lists, bank statements, and memos from principals regarding operations

and history. These documents were reviewed and organized for their significance in deciphering the Entities' operations and business practices.

2. The documents the Entities' provided were not the entirety of the documents necessary to provide a meaningful evaluation, which has required the Receiver to create and maintain his own documents in order to identify problematic and troubling practices and to keep track of necessary accounts and documents. This has also required the Receiver to procure and subpoena documents and records from third parties (e.g. Oklahoma Corporation Commission, Oklahoma Secretary of State, First United Bank & Trust, Duncan Oklahoma).

3. Taking control of each of the Entities' bank accounts and becoming the responsible party for reviewing, approving, and finalizing payments to employees and creditors on an ongoing basis (including reconciliation of accounts). The Receiver or his designated agent is the only party permitted to sign checks and/or approve funds expenditure and withdrawal from the accounts. The Receiver has set up new accounts with BancFirst.¹

4. Receiving the Entities' mail changing registered agents with the Secretary of State, requiring an ongoing review of documents received for their importance and accounts maintenance.

5. Material participation in and providing analysis, input, and documentation related to the entities' filings of Chapter 11 bankruptcy on November 27, 2013, through attendance at the hearing (both in a consulting capacity and as a witness) on the ODS' Motion to Dismiss on February 12, 2014. This necessitated a compilation of all

¹ See First Annual Accounting filed November 21, 2014.

documents and investigation revelations to date for input into the necessary affidavit in support of ODS' Motion.

6. Participation in numerous and ongoing meetings and correspondence with multiple parties, including, but not limited to, the Court, the Entities' former principals, the Oklahoma Corporation Commission, and ODS regarding the Entities' business practices, history, and suggestions for resolutions and best practices to protect investors and creditors.

7. Multiple and ongoing communications with various parties, including, but not limited to:

- a. The Entities' creditors regarding payments, status, and the overall Receivership process;
- b. Oil and gas purchasers regarding payment, production, and changeover status;
- c. Website hosting companies regarding the Entities' site and the takeover and changing of the same (EBBN advanced the costs of same);
- d. Insurers regarding payment and continuing insurance on the Entities' various properties;
- e. Investors concerned over their investment;
- f. Regulatory agencies (e.g. Oklahoma Corporation Commission, ODS) regarding strategy for recovery and ongoing regulatory issues;
- g. Consultants and new operators regarding changeover of operations and operations generally;
- h. Parties that were never paid in prior pooling actions;

- i. Parties that were never paid for any surface damages (including the Mackenzie Well);
- j. Surface owners regarding access to wells and equipment; and
- k. The entities' principals regarding various topics.

8. Travel to the Entities' offices in Duncan, Oklahoma to retrieve documents and view/inventory assets on multiple occasions and to JBM offices in Chickasha, Oklahoma to retrieve files, documents, investigate issues, and provide the necessary documentation for the filing of the Entities' 2013 taxes.

9. Compiling and sending out information regarding Harrisburg 1 and Harrisburg 2 leasehold interests to possible purchasers; ensuring leases are held by proper entities; multiple meetings and correspondence with interested purchasers.

10. Ongoing meetings with qualified industry personnel regarding operational propriety and suggestions for operational takeover and/or remedies in relation to oil and gas prospects and operational wells. These efforts have resulted in:

- a. Releasing the Julie 1-14 Well from suspense and re-starting payments to working interest and royalty owners;
- b. Releasing the Wiley Post Well from suspense and re-starting payments to working interest and royalty owners;
- c. Procuring a Division Order Title Opinion for the Mackenzie #1 Well;
- d. Changeover and workover of the Mackenzie #1 Well in an effort to get it back online and producing for the benefit of its investors and the Estate.

11. Preparing and drafting necessary court documents for the Receiver's plan of action and report on what the Receiver has been able to decipher regarding the Entities and their business practices when necessary.

12. Preparation, attendance, and participation in Gregory Gray's deposition.

13. Compilation and sending of Investor Notice via certified mail to over 400 documented investors (costs of which advanced by EBBN).

14. Receipt, cataloging and organization of investor-submitted documentation used to prove up ownership in the various projects.

15. Ongoing efforts to ensure exhaustion of contact attempts to investors that have yet been able to be contacted, including searches for alternate addresses, email addresses, and phone numbers with follow ups via communication attempts.

16. Ongoing communications and negotiations with the Oklahoma Corporation Commission regarding:

a. The Jasmine Brinley D-4 Well in Garvin County Oklahoma previously claimed as plugged, but which began purging saltwater in late 2013. This well was subsequently remediated and plugged at the Oklahoma Corporation Commission's expense, to which the Receivership is now subject to contempt hearings at the Commission for recovery of said expense;

b. Multiple un-plugged Jasmine wells located in Garvin and Stephens County for which Jasmine did not properly plug in accordance with regulatory procedures;

- c. Contempt for prior regulatory violations in addition to the un-plugged wells;
- d. Status and effect of the Jasmine Brinley C-3 and Brinley A-1 wells regarding alleged change of ownership/operation and regulatory violations on same (and contempt hearings on the same); and
- e. Allowance for changeover of operational duties for the Mackenzie and Julie Wells, including procuring of necessary documentation to satisfy all Commission regulatory filings as well as pollution remediation at the Mackenzie well site associated with its saltwater disposal well (the Jamie SWD). This issue was finally resolved in mid-July, 2014, resulting in the Commission agreeing to allow the Receiver to sign over operations of these wells to a new operator and to simply turn the Mackenzie Well on to attempt to determine.

17. Receiving and defending suits filed against the Entities, including correspondence and coordination with opposing counsels and drafting and filing of necessary pleadings and responses. These current cases are:

- a. *First Bank & Trust Co., Duncan, Oklahoma v. Jasmine, Inc. et al.*, Case No. CJ-2014-66E, in the District Court for Stephens County Oklahoma. First Bank and Trust ("FBT") has alleged a lien against certain Jasmine property. The Receiver and his counsel have been working with counsel for FBT to enter into an Agreed Judgment to give up certain Jasmine equipment on which FBT has a valid lien;

- b. *Bunch Trucking, LLC v. Gates Oil & Gas, LTD.*, Case No. CJ-2014-53, in the District Court of Garvin County Oklahoma. Bunch Trucking sued Gates to recover for money owed. The Receiver has not agreed to payment of any sums alleged as owed, but instead has directed Bunch Trucking's counsel to file a creditor claim (which it has);
- c. *Ron Dunkin, Acting Director Oil and Gas Conservation Division, Oklahoma Corporation Commission v. Jasmine, Inc.*, Cause EN NO 201400023, before the Corporation Commission of the State of Oklahoma. The Corporation Commission has filed a contempt complaint regarding the Brinley A-1 and Brinley C-3 Wells in an attempt to nullify their status as disposal wells. The Receiver has been working with Keith Thomas (counsel for the Corporation Commission in this matter), the surface estate owner's counsel, and Magnum Energy, Inc. to resolve the issue and as of November 5, 2014, has reached an agreement with the surface owner to allow Magnum access to the wells to assess and test them. Upon inspection and passing of necessary mechanical integrity tests, the Corporation Commission should allow the wells to be used for disposal again. The Receiver plans to sell these wells soon thereafter.
- d. *Ron Dunkin, Acting Director Oil and Gas Conservation Division, Oklahoma Corporation Commission v. Jasmine, Inc.*, Cause EN NO 201400059, before the Corporation Commission of the State of Oklahoma. The Corporation Commission has filed a contempt complaint regarding the cleanup and plugging of the above-mentioned Brinley D-4

well. The Brinley D-4 had been improperly plugged and began purging large amounts of saltwater onto the surface² and into a nearby farm pond. With the help of Campbell as well as the efforts of the Corporation Commission, the purging was stopped and the well was plugged. Nonetheless, the Corporation Commission is seeking repayment of the amounts expended in the cleanup efforts. A minimum of \$47,390.25 will be sought, but Sally Shipley, counsel of the Corporation Commission in this matter, has informed the Receiver that the actual amount is closer to \$80,000.00. The Receiver made some early settlement attempts to no avail, but has otherwise not acquiesced to surrender any money or property in this case.

18. Coordination and logistics involved in repossession of rolling stock from the Entities (primarily from Duncan, Oklahoma, but also from other parties in possession) for auctioning at Dakil Auctioneers in Oklahoma City, resulting in net proceeds of \$64,376.64.

19. Coordination and correspondence with AIG regarding worker's compensation insurance refund for 2013, including searching for, pulling, and compiling records resulting in a refund of \$33,472.00.

20. Receiving and accounting for income from other sources, including:
- a. \$5,328.93 in insurance refunds not related to worker's compensation;
 - b. \$23,763.37 from Julie #1-14 Well production revenue;
 - c. \$3,164.96 from Wiley Post Well production revenue;
 - d. \$15,642.40 from costs fronted for the Mackenzie Well; and

² The surface owner here is the same surface owner where the Brinley A-1 and Brinley C-3 are located as well as the proposed and prepped site for the Jack Justice No. 3.

e. \$1,763.23 in miscellaneous income.

21. In depth investigation into the brokers involved with selling interests in the Entities' various projects for which the Receiver has prepared and is ready to file for attempted recovery of over \$2,000,000.00 in undisclosed and fraudulent commission paid to the brokers. Investigation included, but was not limited to, determining all identifiable amounts paid to the brokers through all Entities as well as research into the brokers' locations and business entity statuses. The case will be styled as *Jasmine, Inc.; Gates Oil & Gas, LTD.; Oklahoma Energy Exchange, LLC; Harrisburg Prospect Lease Fund, LLC; Harrisburg 2 Prospect Lease Fund, LLC, by L. Vance Brown, as Receiver; and Bernard Ryan v. Pixelbridge Media, LLC; Seabreeze Marketing, Inc.; North American Energy Exchange, Inc.; ALGO, LLC; Redrock Enterprises; Northwest Petroleum, Inc.; Manuatu, Inc.; Advanced Business Group; JB Geo Logic; Liberty Triangle, LLC; Data Financial; Steve Sparks; Robert Van Etten; Chris Colin; Alan Goda; Steve Clark; Bob Bennett; Mark Stevenson; Robin Charlet; James Brake; Harry Vaux; and Michael Donaldson*, in the District Court of Oklahoma County, Oklahoma.

22. Coordination and investigation of Eastern Starlight Energy as an entity to which fraudulent transfers were made.

23. Investigation and coordination with counsel for Michelle Gray (Jimmy Gray's daughter) to resolve issues of alleged fraudulent transfers and to resolve issues related to transfer of Norman, Oklahoma house to Bobbi Gray (Gregory Gray's mother)

24. Coordination and investigation of various other third party individuals and/or entities the Receiver has been made aware of in order to leave no stone unturned.

WHEREFORE, the Receiver respectfully requests that this Court enter an Order (i) finding that the total fees and costs are reasonable and appropriate; (ii) authorizing payment of costs in the amount of \$7,314.86, Receiver fees in the amount of \$49,230.00, and legal/administration fees in the amount of \$109,635.70, for a total of \$166,180.56,³ as further delineated in the statement for the Receiver's services and those performed by EBBN submitted to the Court under seal to protect attorney/client privileged communications and work product; (iii) directing the Receiver to make payment to EBBN based upon the authority submitted by the Receiver in support of this Application and allowing payment to be made from the following accounts:

ACCOUNT	BEFORE	FEE APP REQUEST	AFTER
Jasmine	\$ 15,417.36	\$ 15,000.00	\$ 417.36
Gates Suspense Revenue	\$ 38,080.60	\$ -	\$ 38,080.60
Gates Operating	\$ 471,167.30	\$ 35,180.56	\$ 435,986.74
Julie Revenue	\$ 23,763.37	\$ 13,000.00	\$ 10,763.37
Wiley Post Revenue	\$ 3,164.96	\$ 1,000.00	\$ 2,164.96
Harrisburg	\$ 320,207.25	\$ 32,000.00	\$ 288,207.25
Receivership Income	\$ 104,841.57	\$ 70,000.00	\$ 34,841.57
TOTAL	\$ 976,642.41	\$ 166,180.56	\$ 810,461.85

and (v) providing for such other relief as is appropriate under the circumstances.

³ See also First Annual Accounting on file herein.

DATED this 26th day of November, 2014.

Respectfully submitted,

BY:


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CERTIFICATE OF SERVICE

I hereby certify that a true, correct and complete copy of the above and foregoing was mailed on the 26th day of November, 2014, via first-class U.S. Mail to the following counsel of record:

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