

IN THE DISTRICT COURT OF OKLAHOMA COUNTY
STATE OF OKLAHOMA

FILED IN DISTRICT COURT
OKLAHOMA COUNTY

AUG 17 2016

RICK WARREN
COURT CLERK

31 _____

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.

**RECEIVER'S APPLICATION FOR APPROVAL TO PAY CLAIMS ASSOCIATED
WITH EMERGENCY DISPOSAL WELL REMEDIATION PROCEDURES**

COMES NOW, Vance Brown (the "Receiver"), being the duly appointed Receiver for Defendants Jasmine, Inc., Oklahoma Energy Exchange, LLC, Harrisburg Prospect Lease Fund, LLC, Gates Oil & Gas, LTD, and Harrisburg 2 Prospect Lease Fund, LLC (collectively the "Entities"), and hereby files this Application for Approval of Funds Expenditure. In support, the Receiver states:

1. On November 21, 2013, the Receiver was notified by the Oklahoma Corporation Commission that the Brinley D-4 well ("Brinley") was purging water.
2. Jasmine was listed as the operator for the Brinley. The well is located in the SE/4 SW/4 of Section 4-3N-1W, Garvin County, Oklahoma.

3. In the summer of 2012, Jasmine, Inc. ceased business operations. Upon information and belief, Gates Oil & Gas, Ltd. assumed the business operations of Jasmine, Inc., including employees, office location, phone numbers, mailing address and all business operations formerly maintained by Jasmine, Inc.
4. In August 2013, Gates Oil & Gas, Ltd. (presumptive successor to Jasmine) hired Sooner Completions, Inc. to plug the Brinley.
5. The Entities and their principals had previously represented to the Receiver that the Brinley had been properly plugged and abandoned before the commencement of the receivership. Upon information and belief, the well was not properly plugged. In fact, well valves were still in place when the OCC discovered the well was purging. The Receiver's efforts to contact Sooner Completions regarding such work were unsuccessful.
6. Upon being notified of the well purging saltwater to the surface, the Receiver immediately engaged Magnum Energy, Inc ("Magnum") to investigate the situation.
7. Magnum's report to the Receiver confirmed the Brinley was in fact purging approximately 250 barrels of saltwater per day, which was running into a nearby pond. Further, the well had not been plugged in accordance with the OCC rules and regulations.
8. The Receiver approved Magnum to begin the process of investigating the problems, abating, to the extent possible, the flow of water into the landowner's pond, and to develop a plan, in cooperation with the OCC, to plug the well.
9. In cooperation with the OCC, Mangum hired RD Tank Service to haul and dispose saltwater. RD Tank Service timely filed a claim with the Receiver for \$4,728.25, and now seeks reimbursement for said amount.
10. Gates has funds available in the Receivership sufficient to cover the invoice from RD Tank Services. Various claims exist against these funds, including claims by the Gates Oil &

Gas, Ltd. investors (the funds represent funds for which a constructive trust should exist as they were invested for a specific well operation that has not been conducted); claims by trade creditors of Gates Oil & Gas, Ltd. and Jasmine, Inc. for unpaid bills; and claims by Harrisburg 2 Lease Prospect Fund investors (an approximate \$1.2 million accounts payable is owed by Gates to Harrisburg 2 Lease Fund).

11. Based upon the Receiver's records, there is approximately \$250,000 in cash available to Gates Oil & Gas, Ltd., but, as a result of the creditor claims described above, the entity is insolvent. Jasmine has no cash assets, but is the designated operator of the well.

12. The Receiver believes that Gates acquired all the assets of Jasmine, but left the company insolvent and without the ability to fund plugging and other obligations. Jasmine is listed as the operator on the Brinley well, yet Gates was the entity that assumed the plugging responsibility and hired the contractor to perform the plugging. In the Receiver's opinion, the creation of the new entity (Gates) and the transfer of assets from Jasmine to Gates, had no legitimate business purpose other than to avoid liabilities associated with Jasmine, to the benefit of Gates. Hence, there is a good faith basis for consolidation of the assets and liabilities of the two companies, and use of the Gates' funds to pay the invoice of RD Tank Services.

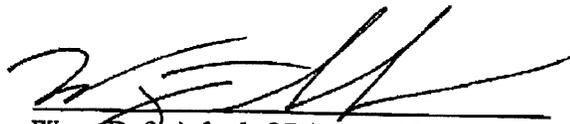
13. The Receiver requested the Oklahoma Corporation Commission to cover the cost of the plugging of the Brinley well through the Orphan Well Fund. However, the OCC refused such request upon the basis that Jimmy Gray, the principal of both Jasmine and Gates, and now deceased, was the active operator and should bear the financial obligation.

14. An emergency existed as the Brinley well was causing substantial environmental harm and the saltwater had to be immediately disposed of. In the Receiver's opinion, based upon prior experience with similar problems in this area, failure to promptly plug the well and dispose of the saltwater would have substantially increased the ultimate plugging costs as the continual purging

impairs wellbore integrity—making plugging efforts more difficult and expensive. Further, the size of the environmental impact caused by the purging, as well as the cost to remediate same, increased daily.

WHEREFORE, the Receiver requests that the Court approve the expenditure of Gates Oil & Gas, Ltd. funds from the receivership estate, up to the amount of RD Tank Service's original claim of \$4,728.25.

Respectfully submitted,



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Attorney for the Receiver, L. Vance Brown

CERTIFICATE OF SERVICE

I hereby certify that a true, correct and complete copy of the above and foregoing was mailed on the 17 day of August, 2016, via first-class U.S. Mail to the following counsel of record:

Irving L. Faight, Esq.
David Lawson, Esq.
Robert Fagnant, Esq.
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Attorney for Unspecified Investors


Wyatt D. Swinford

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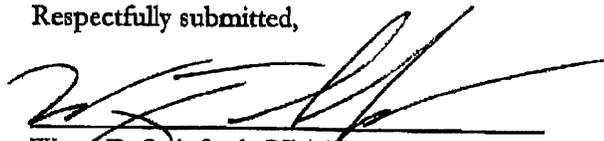
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individual; GREG L. GRAY, an individual;
MICHAEL K. GRAY, an individual, and
LANCE P. BOWMAN, an individual,

Defendants.

ENTRY OF APPEARANCE

COMES NOW, Wyatt D. Swinford, and enters his appearance herein for the Court-appointed Receiver, L. Vance Brown, and on behalf of each Defendant in receivership: Jasmine, Inc., Oklahoma Energy Exchange, LLC, Harrisburg Prospect Lease Fund, LLC, Gates Oil & Gas, Ltd., and Harrisburg 2 Prospect Lease Fund, LLC.

Respectfully submitted,



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Attorney for the Receiver, L. Vance Brown

CERTIFICATE OF SERVICE

I hereby certify that a true, correct and complete copy of the above and foregoing was mailed on the 16 day of August, 2016, via first-class U.S. Mail to the following counsel of record:

Irving L. Faught, Esq.
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