

To: Investors/Potential Claimants upon the Receivership Estate

As many potential claimants are aware, upon the Motion of the Securities and Exchange Commission (the “SEC”), the U.S. District Court in Dallas entered an Order Appointing Receiver (Dkt. 142) (“September 25 OAR”) in the above-styled action. The District Court found the appointment of a receiver “necessary and appropriate for the purposes of marshaling and preserving all assets—in any form or of any kind whatsoever—owned, controlled, managed, or possessed by, ... directly or indirectly (“Receivership Assets”),” defendants Christopher A. Faulkner (“Faulkner”), Breitling Oil & Gas Corporation (“BOG”) and Breitling Energy Corporation (“BECC”) (together, the “Receivership Entities,” and collectively with Faulkner, the “Receivership Defendants”). The undersigned was “appointed to serve as temporary receiver (the “Receiver”) for the estates of the Receivership Entities and the Receivership Assets.” *Id.* ¶2. In its September 25, 2017 Memorandum Opinion and Order (Dkt. 141) this Court expressly held that “Faulkner’s assets [vis-à-vis the asset freeze and the Receiver’s control] ... encompass[] entities controlled by Faulkner to which the un rebutted evidence indicates he may have redistributed either BOG’s or BECC’s investors’ assets—including the Breitling Royalties Corporation.” *Id.* at 8.

Since his appointment, the Receiver has engaged in extensive efforts to marshal the books and records as well as the assets of the Receivership Entities and their affiliates. This task has been made difficult because of the absence of integrated, comprehensive files regarding (a) the identity and investments of the investors, (b) the oil and gas assets acquired by the Receivership Entities, (c) conveyancing regarding those assets and (d) the funds distributed -- directly or indirectly -- to investors and others. The Receiver has reviewed documents assembled by the Staff of the SEC in connection with the underlying enforcement action. In particular, the Receiver has reviewed an extensive expert analysis by Rodney Sowards of Veritas Advisory Group with supporting documentation. Expert testimony by Mr. Sowards and his firm was relied upon in connection with the SEC’s application for Preliminary Injunction. Mr. Sowards’ expert testimony was also propounded by the Receiver in connection with successful Motions for Order to Show Cause re: Contempt against Faulkner, his mother Carole Faulkner, and entities under their control. In addition, the Receiver has conducted depositions and interviews with the Receivership Entities’ former personnel who are knowledgeable with respect to the (a) securities offerings in question, (b) acquisition and disposition of assets by the Receivership Entities, (c) conveyancing and (d) calculation of distributions.

Although the Breitling investment scheme was, in substance, an ongoing, continuous scheme, potential claimants invested in the Breitling offerings in varying formats. Thus, for the most part, investors in working interest investments did not receive conveyances of specific assets but rather were assigned a participation in each respective program with administration of the working interests left to the Receivership Entities -- both for collection and distribution of revenue. Investors in royalty interests generally, but not in all instances, received purported conveyances of specific (albeit inaccurate) percentages in specified assets. Even though these purported conveyances were made to investors, the investment programs called for the collection and distribution of revenue arising from those royalty interests by the Receivership Entities. In the months prior to the collapse of the Breitling scheme, there was some effort to contact oil and

gas producers and to place investors (potential claimants) in “direct pay.” This redirection of revenue directly to investors was only partially successful in some individual instances.

Over the past several months, we have received a number of inquiries regarding the disposition of assets which were purportedly acquired by potential claimants in connection with their investments in the Breitling scheme. Some of these inquiries have come from oil and gas producers who have placed royalty revenue in suspense after having discovered material discrepancies in the conveyances which were made to investors and, in many instances, recorded in the counties. Specifically, in connection with the distribution of revenue, these producers have discovered that the Receivership Defendants “over conveyed” assets creating an anomalous situation in which investors held -- of record -- more than 100% of the asset which the Receivership Defendants purported to own. We have also received inquiries from individual investors who received conveyances but may or may not be aware of the over-conveyancing issue. In all of these instances, title to the interests acquired by investors is clouded, to say the least. This is further complicated by the fact that there is, in many cases, no definitive evidence of the nature and scope of the assets acquired by the Receivership Entities in the first place. Moreover, it is now clear that funds invested by potential claimants (on both the working interest and royalty sides of the business) were commingled between and among various offerings, entities and even as between working interests and royalty interests.

Although the Receiver has not yet formulated a definitive Plan of Distribution with respect to the Receivership Estate, we have reached several factual conclusions relevant to the formulation of such a plan. First, overwhelming evidence exists that BOG, BRC, BECC, Crude and Patriot were, in substance, operated as a single fraudulent enterprise. Notwithstanding representations to investors, their invested funds were not maintained in strictly segregated accounts. In fact, the evidence is that funds were commingled between and among the several working interest offerings; funds were commingled between and among the various royalty investments; and funds were commingled between accounts (including operating accounts of the Receivership Entities) irrespective of whether the invested funds were directed to working interests or royalty interests. These matters were extensively reviewed and analyzed by Mr. Sowards in connection with his expert testimony in support of the SEC’s Motion for Preliminary Injunction and the Receiver’s Motions for Order to Show Cause re: Contempt.

Mr. Sowards’ findings with regard to commingling are presented graphically and in summary form in the attached exhibit entitled “Diagram of Money Transfers (January 2011 – February 2016).” During the referenced time frame, over 500 money transfers occurred between BECC/BOG, BRC, Patriot, and Crude. In total, over \$74 million was transferred between and among BECC/BOG, BRC, Patriot, and Crude. It is noteworthy that these transfers between and among entities took place over the life of the enterprise. There is no evidence that the Receivership Entities restricted their investment activity to working interests or royalty interests during any period of time. Stated another way, funds were received by the Receivership Defendants for both royalty interests and working interests during the same periods of time. Thus, the commingling of investments in working interests and royalty interests almost certainly took place throughout the life of the fraudulent enterprise.

It is the Receiver’s preliminary conclusion that -- because of the extensive commingling of investor funds and the operation of the enterprise as a single fraudulent scheme -- it will not be possible to differentiate as to the standing of those who invested in royalty interests versus those

who invested in working interests. In substance, these investors were victimized in the same manner, by the same people, and in the same scheme as scores of other investors. Equity should not permit any group of victims a more substantial recovery merely because of the mechanics or packaging of any particular issue.¹

As mentioned above, it is clear that the Receivership Defendants over-conveyed interests to investors yielding the result that more than 100% of the assets owned by the Receivership Defendants was purportedly transferred to investors. It has been suggested by some potential claimants that these title defects can be cured by Stipulation to artificial and arbitrary percentages in interest. This is not feasible for several reasons. First, since the royalty interests in question were purchased from pools of commingled monies, it would be inequitable to concede ownership of these interests to investors who -- by happenstance -- ended up with a recorded deed. To do so would be to assign to these investors assets which may have been -- and probably were -- purchased in part with monies invested by other potential claimants. Second, there is insufficient evidence to establish with certainty the starting place for these conveyances (*i.e.*, the precise nature and extent of the asset which was conveyed away by the Receivership Defendants). Under the circumstances, the Receiver could not as an equitable -- or even factual -- matter, stipulate as to a specific interest conveyed to any potential claimant.

As previously stated in this letter, the Receiver has not yet formulated a definitive Plan of Distribution of Receivership Assets or delineated specifically the scope of the assets within the Receivership Estate. Please be assured that any potential Plan of Distribution will be presented to the Court and to all potential claimants with an opportunity afforded for all to object as they see fit. Everyone will have an opportunity to be heard including, in particular, those royalty interest holders who feel they are entitled to have a purported record interest ratified based upon a royalty interest conveyance which may be recorded in the counties.

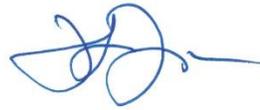
As one Court has noted: "it is best to consider the question of who owns which assets after they have been marshaled by the Receiver, not while the process is ongoing" *SEC v. Behrens*, No. 8:08-CV-13, 2008 WL 2485599, at *3 (D. Neb. Jun. 17, 2008) (quoting *SEC v. Novus Tech, LLC*, No. 2:07-CV-0235, 2008 WL 115114, at *4 (D. Utah Jan. 10, 2008)). Prior to any distribution, the competing claims of the investor groups to the assets of the Receivership Estate must be resolved by consensus or contested litigation in connection with the Court's consideration of a proposed Plan of Distribution. Moreover, in order to facilitate the distribution, the Receiver also anticipates asking for the Court's approval of a definitive form for submission of claims with documentation.

We hope the foregoing -- although not finally determinative -- will be helpful to potential claimants in understanding the direction of the Receiver and the substantive matters which must

¹ Federal courts have long held that investors in a fraudulent investment scheme generally occupy the same legal position as other investors, thereby leading to the prevailing view that equity should not permit one group a preference over another. *SEC v. Credit Bancorp, Ltd.*, 99 CIV. 11395 RWS, 2000 WL 1752979, at *27 (S.D.N.Y. Nov. 29, 2000), *aff'd*, 290 F.3d 80 (2d Cir. 2002) (finding that "the fundamental principle governing the adoption of a distribution plan is that it should be equitable and fair, with similarly-situated investors treated alike."); *U.S. v. Durham*, 86 F.3d 70, 73 (5th Cir. 1999); *SEC v. Elliot*, 953 F.2d 1560, 1569 (11th Cir. 1992). As the Supreme Court explained in the litigation that gave the Ponzi scheme its name, "equality is equity" among "equally innocent victims." *Cunningham v. Brown*, 265 U.S. 1, 13, 44 S. Ct. 424, 427, 68 L. Ed. 873 (1924); accord *Durham*, 86 F.3d at 73; *SEC v. Forex Asset Mgmt.*, 242 F.3d at 331-332.

be considered. Please continue to contact us with respect to questions and concerns. We hope that the Receivership website is helpful and urge potential claimants to monitor it for updates.

Respectfully,

A handwritten signature in blue ink, consisting of several loops and a long horizontal stroke extending to the right.

Thomas L. Taylor III
Receiver