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13 **UNITED STATES DISTRICT COURT**  
14 **CENTRAL DISTRICT OF CALIFORNIA**  
15 **WESTERN DIVISION**

16 SECURITIES AND EXCHANGE  
17 COMMISSION,

18 Plaintiff,

19 v.

20 WORLD CAPITAL MARKET INC.;  
21 WCM777 INC.; WCM777 LTD. d/b/a  
22 WCM777 ENTERPRISES, INC.; and  
23 MING XU a/k/a PHIL MING XU,

24 Defendants,

25 KINGDOM CAPITAL MARKET, LLC;  
26 MANNA HOLDING GROUP, LLC;  
27 MANNA SOURCE  
28 INTERNATIONAL, INC.;  
WCM RESOURCES, INC.; AEON  
OPERATING, INC.; PMX  
JEWELS, LTD. TOPACIFIC INC.;  
TO PACIFIC INC.; VINCENT J.  
MESSINA; and INTERNATIONAL  
MARKET VENTURES,

Relief Defendants.

Case No. CV-14-2334-JFW-MRW

**NOTICE OF MOTION AND  
MOTION FOR APPROVAL OF  
ASSIGNMENTS OF OIL AND GAS  
LEASE INTERESTS;  
MEMORANDUM OF POINTS AND  
AUTHORITIES**

Date: February 22, 2016  
Time: 1:30 p.m.  
Ctrm: 16-Spring St. Floor  
Judge: Hon. John F. Walter

1           **TO ALL INTERESTED PARTIES:**

2           **PLEASE TAKE NOTICE** that on February 22, 2016, at 1:30 p.m. in  
3 Courtroom 16 of the above-entitled Court, located at 312 North Spring Street,  
4 Los Angeles, California 90012, Krista L. Freitag ("Receiver"), the Court-appointed  
5 permanent receiver for Defendants World Capital Market Inc.; WCM777 Inc.;  
6 WCM777 Ltd. d/b/a WCM777 Enterprises, Inc.; and Relief Defendants Kingdom  
7 Capital Market, LLC; Manna Holding Group, LLC; Manna Source  
8 International, Inc.; WCM Resources, Inc.; ToPacific Inc.; To Pacific Inc.; and their  
9 subsidiaries and affiliates, will and hereby does move the Court for an order  
10 approving the assignments of oil and gas lease interests.

11           This Motion is based on this Notice of Motion and Motion, the attached  
12 Memorandum of Points and Authorities, the Declaration of Krista L. Freitag, the  
13 documents and pleadings already on file in this action, and upon such further oral  
14 and documentary evidence as may be presented at the time of the hearing.

15           **Procedural Requirements:** If you oppose this Motion, you are required to  
16 file your written opposition with the Office of the Clerk, United States District  
17 Court, 312 North Spring Street, Los Angeles, California 90012 and serve the same  
18 on the undersigned not later than 21 calendar days prior to the hearing.

19           **IF YOU FAIL TO FILE AND SERVE A WRITTEN OPPOSITION** by the  
20 above date, the Court may grant the requested relief without further notice. This  
21 Motion is made following the conference of counsel pursuant to L.R. 7-3.

22  
23 Dated: January 22, 2016

ALLEN MATKINS LECK GAMBLE  
MALLORY & NATSIS LLP

24  
25 By: \_\_\_\_\_ /s/ Ted Fates

26 TED FATES  
Attorneys for Receiver  
KRISTA L. FREITAG

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1 **MEMORANDUM OF POINTS AND AUTHORITIES**

2 **I. INTRODUCTION**

3 Prior to the commencement of this case, the Receivership Entities transferred  
4 \$4.3 million to WCM Resources, Inc. ("WCMR").<sup>1</sup> WCMR then invested  
5 approximately \$3.03 million of the funds in oil and gas leases in Texas and  
6 Louisiana through Aeon Operating Inc. ("Aeon"), located in Texas.<sup>2</sup> Aeon and  
7 WCMR were named as Relief Defendants in the Securities and Exchange  
8 Commission's Complaint and WCMR was included in the receivership pursuant to  
9 the Court's Temporary Restraining Order and Preliminary Injunction Order.  
10 Declaration of Krista L. Freitag ("Freitag Decl."), ¶ 3.

11 Shortly after her appointment, the Receiver took possession of approximately  
12 \$1.27 million remaining in WCMR's bank account. On October 30, 2015, Aeon  
13 consented to a final judgment in favor of the Securities and Exchange Commission  
14 and relinquished any and all claims to the approximately \$1.27 million that  
15 remained in WCMR's account at the time of the Receiver's appointment. The  
16 proposed final judgment against Aeon was entered by the Court on November 2,  
17 2015. Freitag Decl., ¶ 4.

18 The Receiver and her counsel have been investigating and evaluating the oil  
19 and gas leasehold interests of WCMR. As part of this process, the Receiver engaged  
20 an oil and gas expert to ascertain the interests and assess their potential value. In  
21 addition, the Receiver has been in communications with Aeon and its counsel, as  
22 well as industry consultants, to gather information about the leases and operations  
23 and to evaluate options for disposing of the leases and maximizing the recovery  
24

25 \_\_\_\_\_  
26 <sup>1</sup> WCMR entered into a Promissory Note for \$4.1 million with World Capital Market, Inc.,  
27 although \$4.1 million of the \$4.3 million was transferred from a Kingdom Capital  
28 Market, LLC account. The remaining \$200,000 was transferred from a WCM777 bank  
account.

<sup>2</sup> Of the \$3.03 million invested, \$2.97 million was transferred to an Aeon bank account, and the  
other \$66,000 was spent on other WCMR operating expenses (primarily payroll).

1 therefrom. Through this investigation, the Receiver has determined that certain  
2 leases were never owned by WCMR and others have little present value. In fact, it  
3 appears that most of WCMR's interests are a potential source of ongoing liability.  
4 Freitag Decl., ¶ 5.

5 Notwithstanding the significant obstacles, subject to Court approval, the  
6 Receiver has managed to realize some cash and avoid further liability by assigning  
7 WCMR's interests in the two larger projects, known as Cameron Parish and  
8 S.M. Davis - to others already involved in the projects. Although the recoveries are  
9 small, the assignments will also eliminate ongoing potential claims against the  
10 receivership estate relating to the projects. Accordingly, the Receiver believes the  
11 assignments are in the best interests of the receivership estate and requests the Court  
12 approve them. Freitag Decl., ¶ 6.

## 13 II. BACKGROUND FACTS

14 The approximately \$3.03 million WCMR invested in oil and gas lease  
15 interests went to the following three projects: Cameron Paris, S.M. Davis, and  
16 Limestone County. Freitag Decl., ¶ 7.

### 17 A. Cameron Parish

18 This lease interest, located in Cameron Parish, Louisiana, was purchased from  
19 Homebound Energy, LLC and Aeon Exploration, Inc. ("Aeon Exploration") in the  
20 fourth quarter of 2013, and was reportedly producing only a few barrels of oil per  
21 day. Freitag Decl., ¶ 8. Through Aeon, WCMR paid approximately \$1.6 million  
22 for and was assigned a 70% working interest and 50% net revenue interest (before  
23 payout); 40% working interest and 30% net revenue interest (after payout), some  
24 personal property (a barge), and 3D seismic work. WCMR also entered into an  
25 Operating Agreement with Aeon Exploration as Operator. Aeon Exploration, as  
26 Operator, further entered into an associated Contract Operating Agreement with  
27 Aeon, as Contract Operator. Freitag Decl., ¶ 9.

28

1 Per offering information reviewed, the goal of this project was to fund three  
2 (3) well reworks to increase production from existing wells and to drill one (1) new  
3 well. Additional reworks and new wells were to be drilled using cash flow from the  
4 foregoing reworked and new wells. Significant work was performed and thus,  
5 significant costs incurred, some of which remain unpaid. The rework of one (1)  
6 well was completed without measureable improvement in oil production (or  
7 cashflow). Freitag Decl., ¶ 10.

8 At the time of her appointment, the Receiver temporarily suspended further  
9 funding of this project (and the S.M. Davis project discussed below) until the lease  
10 interests, project costs, prospects for recovery, and related factors could be reviewed  
11 and evaluated. Freitag Decl., ¶ 11. At that time, approximately \$1.6 million had  
12 already been spent, there was several hundred thousand dollars owed to vendors, the  
13 reworked well output had not measurably improved, and there was no reason to  
14 expect better results if the well rework and new well project proceeded.  
15 Accordingly, the Receiver determined not to expend further receivership estate  
16 resources on the project. Freitag Decl., ¶ 12.

17 The factors severely limiting the value of this interest are numerous but  
18 include the work performed prior to the Receiver's appointment did not produce  
19 measurably improved well output, hundreds of thousands of dollars are owed to  
20 vendors for work performed, liens have been recorded, and secondary agreements  
21 necessary for the project - a Right of Way Agreement and a Dock Landing  
22 Agreement - are at risk if not already forfeited. Freitag Decl., ¶ 13. Furthermore,  
23 Aeon, the Contract Operator for the project, has filed Chapter 7 bankruptcy in the  
24 Northern District of Texas. Freitag Decl., ¶ 14.

25 **B. S.M. Davis**

26 In early February 2014, Aeon Exploration entered into a Purchase and Sale  
27 Agreement, a Partial Assignment, Bill of Sale and Conveyance, and an Operating  
28 Agreement with Merkaz Oil & Gas Development, LLC and Merkaz Drilling, LLC

1 ("Davis Operating Agreement") regarding three tracts of land comprising  
2 approximately 241 acres in Callahan County, Texas. Freitag Decl., ¶ 15. The land  
3 is comprised of 17 underlying leases and the interests purchased by Aeon  
4 Exploration consist of a 25% (32.252561% of an undivided 293/378 mineral  
5 interest) ownership interest or "working interest" and a fixed 20.625% of the net  
6 revenue interest derived exclusively from such leases (known in the industry as  
7 8/8ths). Merkaz Drilling, LLC is the Contract Operator of this project. Freitag  
8 Decl., ¶ 16.

9       Although approximately \$1.25 million of the funds WCMR transferred to  
10 Aeon went to Merkaz Oil & Gas Development, LLC for this project, the interest  
11 acquired by Aeon Exploration was never assigned to WCMR. As such, if there was  
12 anything to be realized from the project, this title issue (amongst other issues) would  
13 first need to be addressed. Freitag Decl., ¶ 17.

14       Per offering information reviewed and further information obtained, this was  
15 to be a "water flood" project, in which pressurized water is injected into existing  
16 wells to increase oil production - the goal is to force oil out of rock formations with  
17 the water pressure, oil which otherwise was not flowing under the naturally existing  
18 pressures. The project reportedly consisted of more than 40 wells which produced  
19 anywhere from 5 to 6 barrels of oil per day. When the decision was made in 2013 to  
20 proceed with flooding 3 zones, according to Texas Railroad Commission records,  
21 25 wells were approved, drilled, and cased. Injection wells were also reportedly  
22 drilled, but not equipped around the end of the first quarter of 2015. Freitag  
23 Decl., ¶ 18.

24       The Receiver is advised that additional work is needed to complete the  
25 infrastructure necessary to proceed with the project. The estimated costs for  
26 completion are \$300,000 to \$400,000. In addition, Merkaz has provided documents  
27 indicating Aeon Exploration's share of unpaid and outstanding bills is \$319,152.55.

28



1 Merkaz has also asserted the right to collect a 400% contractual penalty due to Aeon  
2 Exploration's failure to pay. Freitag Decl., ¶ 19.

3 Although the Receiver has been advised that the prospects for this project  
4 might draw interest from potential investors in the industry, the factors severely  
5 limiting the value of this interest include that Aeon Exploration never assigned the  
6 interest purchased from Merkaz to WCMR and Merkaz, (a) must approve any  
7 assignment of Aeon Exploration's interest, (b) claims Aeon Exploration is in default  
8 for nonpayment of the outstanding costs billed, and (c) asserts the right to collect a  
9 400% penalty under the Davis Operating Agreement. Freitag Decl., ¶ 20.

10 **C. Limestone County Leases**

11 Aeon entered into 18 leases for approximately 750 acres of land on sheer  
12 speculation that oil drilling activity would move in this general direction. Through  
13 Aeon, WCMR funded approximately \$100,000 for the acquisition of these leases.  
14 The leases were generally signed in November 2013 for a three-year term with one  
15 three-year option to extend. The Receiver is advised that the speculated drilling  
16 activity has not come to fruition and, based on official Limestone County records,  
17 the leases were never recorded or assigned from Aeon to WCMR. Accordingly,  
18 WCMR did not actually acquire any interest in the Limestone County leases. As  
19 noted above, Aeon filed bankruptcy. Freitag Decl., ¶ 21.

20 In summary, oil and gas investments are highly speculative in nature. In  
21 particular, the oil and gas lease interests WCMR invested in were highly  
22 speculative, not properly documented, and either never got off the ground or have  
23 produced disappointing results. Even if these speculative investments had been  
24 properly documented, properly managed, and successful, the investments would  
25 likely be significantly impaired as crude oil prices are more than 50% lower than  
26 what they were in late 2013.

27  
28

1 **III. PROPOSED ASSIGNMENTS**

2 As noted above, the Receiver has consulted with industry experts, including  
3 an oil and gas expert with more than 40 years of experience in the industry ranging  
4 from work as an Engineering Technician to Exploration and Production Manager to  
5 President of oil and gas companies. The Receiver also consulted with "landmen"  
6 who negotiate deals for clients much like brokers. These consultants examined  
7 information obtained from court clerks in the applicable jurisdictions and other  
8 public sources (*e.g.*, the Texas Railroad Commission) and also consulted with  
9 individuals involved in the projects (*i.e.*, Merkaz and other individual lessors).  
10 Freitag Decl., ¶ 22. Ultimately, the consultants recommended trying to negotiate  
11 assignments of the Cameron Parish and S.M. Davis leases with those already  
12 involved in the projects. As discussed above, the interests are severely impaired due  
13 to the amount of unpaid debts/liens, the high costs to complete the projects, the  
14 disappointing results from the Cameron Parish reworked well. With respect to  
15 S.M. Davis, the impairment is also a result of the interest being in Aeon  
16 Exploration's name and Merkaz having to approve any assignment thereof and  
17 asserting its purported contractual right to foreclose and/or collect a 400% penalty  
18 on amounts owed by Aeon Exploration. Freitag Decl., ¶ 23.

19 The proposed assignments of these two lease interests are as follows:

20 **A. Cameron Parish**

21 The Receiver was approached by Jim Renfro of Renfro Energy, LLC, which  
22 per documents provided, originally sold its interest in Cameron Parish to  
23 Homebound Energy, LLC ("Homebound"). The documentation indicates Aeon  
24 Exploration may have acquired an interest at the same time as Homebound.  
25 Homebound, along with Aeon Exploration, then sold and assigned the lease interest  
26 to WCMR. Mr. Renfro stated he is interested in finding a new partner and trying to  
27 revive the project. The Receiver had not received any interest from other investors  
28 and the Receiver's consultants believed it was highly unlikely an outsider would

1 invest due to the large sum of unpaid bills, liens recorded against the lease interests,  
2 potential forfeiture of secondary agreements providing access to the wells, and the  
3 bankruptcy of Aeon, the Contract Operator. Freitag Decl., ¶ 24.

4 Subject to Court approval, the Receiver and Mr. Renfro negotiated an  
5 assignment of WCMR's lease interest to Mr. Renfro's company (Lovcanaries, LLC)  
6 in exchange for \$15,000. Freitag Decl., ¶ 25. A copy of the proposed assignment,  
7 the terms of which Mr. Renfro has agreed to, is attached to the Freitag Declaration  
8 as Exhibit A.

9 **B. S.M. Davis**

10 The Receiver, through industry experts, obtained significant information on  
11 this project's history and prospects. Additionally, through counsel, she contacted  
12 Merkaz to obtain documentation regarding the purported outstanding bills for the  
13 project. Merkaz stated its intention to foreclose on Aeon Exploration's lease interest  
14 due to its alleged default under the Davis Operating Agreement. The Receiver  
15 asserted an equitable interest in Aeon Exploration's lease interest by virtue of the  
16 fact WCMR's funds were used to pay \$1.25 million to Merkaz. The Receiver also  
17 advised Merkaz that the Preliminary Injunction Order enjoins and restrains legal  
18 actions against WCMR and its interests. Freitag Decl., ¶ 26.

19 The Receiver and Merkaz negotiated an assignment of WCMR's interests to  
20 Merkaz in exchange for \$25,000. A copy of the proposed settlement agreement,  
21 which the Receiver and Merkaz have signed subject to Court approval, is attached to  
22 the Freitag Declaration as Exhibit B. The \$25,000 will be paid by Merkaz and an  
23 executed assignment (in the form attached to the settlement agreement) will be  
24 delivered to Merkaz by the Receiver upon Court approval. Freitag Decl., ¶ 27.

25 **IV. ARGUMENT**

26 "The power of a district court to impose a receivership or grant other forms of  
27 ancillary relief does not in the first instance depend on a statutory grant of power  
28 from the securities laws. Rather, the authority derives from the inherent power of a

1 court of equity to fashion effective relief." *SEC v. Wencke*, 622 F.2d 1363, 1369  
2 (9th Cir. 1980). The "primary purpose of equity receiverships is to promote orderly  
3 and efficient administration of the estate by the district court for the benefit of  
4 creditors." *SEC v. Hardy*, 803 F.2d 1034, 1038 (9th Cir. 1986). As the appointment  
5 of a receiver is authorized by the broad equitable powers of the court, any  
6 distribution of assets must also be done equitably and fairly. See *SEC v. Elliot*,  
7 953 F.2d 1560, 1569 (11th Cir. 1992).

8 District courts have the broad power of a court of equity to determine the  
9 appropriate action in the administration and supervision of an equity receivership.  
10 See *SEC v. Capital Consultants, LLC*, 397 F.3d 733, 738 (9th Cir. 2005). The Ninth  
11 Circuit explained:

12 A district court's power to supervise an equity receivership  
13 and to determine the appropriate action to be taken in the  
14 administration of the receivership is extremely broad. The  
15 district court has broad powers and wide discretion to  
16 determine the appropriate relief in an equity receivership.  
17 The basis for this broad deference to the district court's  
supervisory role in equity receiverships arises out of the  
fact that most receiverships involve multiple parties and  
complex transactions. A district court's decision  
concerning the supervision of an equitable receivership is  
reviewed for abuse of discretion.

18 *Id.* (citations omitted); see also *CFTC v. Topworth Int'l, Ltd.*, 205 F.3d 1107, 1115  
19 (9th Cir. 1999) ("This court affords 'broad deference' to the court's supervisory role,  
20 and 'we generally uphold reasonable procedures instituted by the district court that  
21 serve th[e] purpose' of orderly and efficient administration of the receivership for  
22 the benefit of creditors."). Accordingly, the Court has broad equitable powers and  
23 discretion in supervising the administration of the receivership estate and disposition  
24 of receivership assets.

25 **A. The Assignments Should Be Approved**

26 It is generally accepted that a court of equity having custody and control of  
27 property has power to order a sale or assignment of the same in its discretion. See,  
28 *e.g.*, *SEC v. Elliott*, 953 F.2d 1560, 1566 (11th Cir. 1992) (finding that the District

1 Court has broad powers and wide discretion to determine relief in an equity  
2 receivership). "The power of sale necessarily follows the power to take possession  
3 and control of and to preserve property." *See also SEC v. American Capital*  
4 *Invest., Inc.*, 98 F.3d 1133, 1144 (9th Cir. 1996), *cert. denied* 520 U.S. 1185  
5 (decision abrogated on other grounds) (*citing* 2 Ralph Ewing Clark, *Treatise on*  
6 *Law & Practice of Receivers* § 482 (3d ed. 1992) (*citing* *First Nat'l Bank v. Shedd*,  
7 121 U.S. 74, 87 (1887)). "When a court of equity orders property in its custody to  
8 be sold, the court itself as vendor confirms the title in the purchaser." 2 Ralph  
9 Ewing Clark, *Treatise on Law and Practice of Receivers* § 487).

10 Generally, when a court-appointed receiver is involved, the receiver, as agent  
11 for the court, should conduct the sale of the receivership property. *Blakely Airport*  
12 *Joint Venture II v. Federal Sav. and Loan Ins. Corp.*, 678 F.Supp. 154, 156  
13 (N.D. Tex. 1988). "In authorizing the sale of property by receivers, courts of equity  
14 are vested with broad discretion as to price and terms." *Gockstetter v. Williams*,  
15 9 F.2d 354, 357 (9th Cir. 1925).

16 Here, as discussed above, the Cameron Parish and S.M. Davis lease interests  
17 are severely impaired. To begin with, the lease interests were very speculative,  
18 high-risk investments. The failure to properly document (including an assignment  
19 of the S.M. Davis interest to WCMR) and monitor the lease interests add to the  
20 problem. Market forces have also had a negative effect; there might be more  
21 interest in the leases today had the price of crude oil not dropped significantly since  
22 2013. As a result of the numerous impairments, there is essentially no market for  
23 the lease interests.

24 Even those already involved in the projects are only willing to pay small sums  
25 for the lease interests, primarily to avoid further delay and legal expenses. The  
26 proposed assignments provide a small cash recovery and also eliminate potential  
27 claims of vendors and other third parties against the receivership estate for unpaid  
28 bills relating to the projects. This is a particular concern with respect to Cameron

1 Parish as the Receiver has received a number of direct communications from  
2 vendors asserting claims.

3 The Receiver believes the proposed assignments are in the best interests of  
4 the receivership estate and present the best option in terms of generating a small  
5 recovery, avoiding further administrative expenses, and eliminating potential claims  
6 against the receivership estate.

7 It should be noted the assignments do not release or otherwise effect potential  
8 claims the receivership estate may have against Aeon and Aeon Exploration. As  
9 discussed above, however, Aeon has filed Chapter 7 bankruptcy. Aeon's schedules  
10 of assets and liabilities filed in the bankruptcy case indicate that pursuing claims  
11 against Aeon in its bankruptcy would not be productive. Moreover, the claims  
12 against Aeon and Aeon Exploration would require engaging one or more experts to  
13 estimate the value of the lease interests at the time WCMR paid for them. Such  
14 expert(s) would be expensive to engage. The Receiver also has concerns regarding  
15 the collectability of a judgment against Aeon Exploration based on her investigation  
16 into its assets. Accordingly, at this time, the Receiver does not believe it would be a  
17 productive use of receivership estate resources to pursue claims against Aeon or  
18 Aeon Exploration.

19 **B. Appraisal and Publication Requirements Should Be Waived**

20 Section 2004 of the Judicial Code provides:

21 Any personalty sold under any order or decree of any  
22 court of the United States shall be sold in accordance with  
23 section 2001 of this title, *unless the court orders  
otherwise.*

24 28 U.S.C. § 2004 (emphasis added). Section 2001 of the Judicial Code requires that  
25 real property sold via private sale must first be appraised by three independent  
26 appraisers and notice of the sale must be published in one or more newspapers of  
27 general circulation. See 28 U.S.C. § 2001.

28

1 Here, the lease interests being assigned have very limited value. Requiring  
2 three independent appraisals and publication of notice would likely consume the  
3 entire recovery from the assignments. The Receiver has consulted with several  
4 industry experts and conducted her own independent investigation of the lease  
5 interests and believes the assignments are in the best interests of the receivership  
6 estate. Accordingly, the Receiver requests the Court waive the appraisal and  
7 publication requirements under Sections 2004 and 2001.

8 **V. CONCLUSION**

9 Based on the foregoing, the Receiver requests an order approving and  
10 authorizing the proposed assignments of the Cameron Parish and S.M. Davis lease  
11 interests held by WCMR.

12  
13 Dated: January 22, 2016

ALLEN MATKINS LECK GAMBLE  
MALLORY & NATSIS LLP

14  
15 By:           /s/ Ted Fates          

16 TED FATES  
17 Attorneys for Receiver  
18 KRISTA L. FREITAG  
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