STATE OF WASHINGTON DEPARTMENT OF FINANCIAL INSTITUTIONS **SECURITIES DIVISION**

IN THE MATTER OF DETERMINING whether there has been a violation of the Securities Act of Washington by:

North American Resource Group, Inc.; Southeastern Energy, Inc.; Falling Waters Prospect; Southeastern Buck Mountain Prospect; Southeastern Caney Creek Prospect; **Huddleston Annex Prospect**; Stephens Prospect; Gilreath Mill Prospect; G. Alan Murrell; Thomas Emberton, Jr.; Doug Smith,

Order Number S-05-113-06-SC01

STATEMENT OF CHARGES AND NOTICE OF INTENT TO ISSUE AN ORDER TO CEASE AND DESIST, IMPOSE FINES, AND CHARGE COSTS

Respondents.

THE STATE OF WASHINGTON TO:

North American Resource Group, Inc. Southeastern Energy, Inc. Falling Waters Prospect Southeastern Buck Mountain Prospect Southeastern Caney Creek Prospect **Huddleston Annex Prospect Stephens Prospect** Gilreath Mill Prospect G. Alan Murrell Thomas Emberton, Jr.

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STATEMENT OF CHARGES AND NOTICE OF INTENT TO ISSUE AN ORDER TO CEASE AND DESIST, IMPOSE FINES, AND CHARGE COSTS

STATEMENT OF CHARGES

Doug Smith

Please take notice that the Securities Administrator of the State of Washington has reason to believe that Respondents, North American Resource Group, Inc., Southeastern Energy, Inc., Falling Waters Prospect, Southeastern Buck Mountain Prospect, Southeastern Caney Creek Prospect, Huddleston Annex Prospect, Stephens Prospect, Gilreath Mill Prospect, G. Alan Murrell, Thomas Emberton, Jr. and Doug Smith have each violated the Securities Act of Washington and that their violations justify the entry of an

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DEPARTMENT OF FINANCIAL INSTITUTIONS Securities Division PO Box 9033 Olympia, WA 98507-9033 360-902-8760

order of the Securities Administrator against each to cease and desist from such violations pursuant to RCW 21.20.390, imposing fines pursuant to RCW 21.20.395, and charging costs pursuant to RCW 21.20.390(5). The Securities Administrator finds as follows:

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TENTATIVE FINDINGS OF FACT

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Respondents

- 1. North American Resource Group, Inc. ("North American"), a Kentucky corporation, was established on January 21, 2004 and is currently conducting business at 219 Reynolds Road, Glasgow, Kentucky 42141 and was previously conducting business at 157 Reynolds Road, Glasgow, Kentucky 42141. North American is a development and management company that specializes in oil and gas exploration in Tennessee.
- 2. Southeastern Energy, Inc. ("Southeastern Energy"), a Kentucky Corporation, was established January 25, 1999 and is currently conducting business at 217 Reynolds Road, Glasgow, Kentucky and was previously conducting business at 157 Reynolds Road, Glasgow, Kentucky 42141. Southeastern is a development and management company that specializes in oil and gas exploration in Tennessee.
- 3. Falling Waters Prospect ("Falling Waters") is a partnership formed by North American for the purpose of oil and gas development in Tennessee. North American Resource Group is the managing general partner of Falling Waters.
- 4. Southeastern Buck Mountain Prospect ("Buck Mountain") is a partnership formed by North American for the purpose of oil and gas development in Tennessee. Southeastern Energy is the managing general partner of Buck Mountain.

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- 5. Southeastern Caney Creek Prospect ("Caney Creek") is a partnership formed by North American for the purpose of oil and gas development in Tennessee. Southeastern Energy is the managing general partner of Caney Creek.
- Huddleston Annex Prospect ("Huddleston Annex") is a Kentucky general partnership formed by North American for the purpose of oil and gas development in Tennessee. North American Resource Group is the managing general partner of Huddleston Annex.
- 7. Stephens Prospect ("Stephens") is a Kentucky general partnership created by North American Resource Group for the purpose of oil and gas development in Tennessee. North American Resource Group is the managing general partner of Stephens.
- 8. Gilreath Mill Prospect Partners ("Gilreath Mill") is a Kentucky general partnership created for the purpose of oil and gas development in Tennessee. North American Resource Group is the managing general partner of Gilreath Mill.
- 9 G. Alan Murrell ("Murrell") is the Director and President of North American and retains a 50% interest of the company. Murrell is also the President, Secretary, Treasurer and Director of Southeastern.
- 10. Thomas Emberton, Jr. ("Emberton") is the Director and Executive Vice President of North American. Emberton is also the Executive Vice President of Southeastern Energy.
- 11. Doug Smith ("Smith") is the Director and Senior Partner of North American and retains a 50% interest of the company. Doug Smith is also the Vice President of Southeastern.

Nature of the Offering

12. There were approximately 116 Washington residents contacted by North American or Southeastern Energy via unsolicited telephone calls between January 2004 and July 2005 regarding

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Securities Division

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partnership interest offerings in, but not limited to, Falling Waters, Buck Mountain, Caney Creek, Huddleston Annex, Stephens and/or Gilreath Mill. There were approximately eleven Washington investors who invested in one or more of these partnership interest offerings between February 2004 and June 2005 whose investments total approximately \$226,500.

Resident A

- 13. In February 2004, Washington Resident A¹, a 56-year-old man, contacted North American by telephone after seeing an investment offering on the North American website at www.nargusa.com. Resident A spoke to an account representative at North American, whom offered him a partnership interest in Falling Waters for \$28,000. After speaking to the account representative, and receiving offering materials from North American, Resident A decided to purchase one-half of a partnership interest in Falling Waters, a four-well-prospect.
- 14. Resident A sent a personal check in the amount of \$14,000 via Fed Ex to North American for the purchase of a one-half interest in Falling Waters on February 23, 2004.
- 15. Resident A did not participate in the day-to-day operations or decision making of Falling Waters, nor did Resident A have any experience with oil and gas development. Resident A lived in Washington and the operations took place in Kentucky and Tennessee.

Resident B

16. On or about March 8, 2004, a North American and Southeastern Energy representative offered an investment opportunity in an oil venture at a seminar in New Orleans, Louisiana. Washington Resident B, a 73-year-old retiree, attended the seminar. The representative sold Resident

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¹ The names of the investors have been omitted to protect their privacy.

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B partnership interests in Falling Waters, Caney Creek and Buck Mountain for approximately \$28,000 after Resident B received the offer at the seminar.

17. Resident B's role in the partnership interest was limited to the sharing of profits and losses and he did not participate in the day-to-day operations or decision making of the partnerships. Resident B did not have any experience with oil and gas development. Resident B relied on the experience of North American and Southeastern Energy to determine the outcome of the oil ventures.

Resident C

- In May or June 2004 Washington Resident C contacted North American by telephone after learning about the investment offering from a friend. Resident C spoke to an account representative who offered him an interest in a five-well-prospect.
- On or about June 30, 2004, the account representative, on behalf of North American mailed or caused to be mailed to Resident C offering materials related to an oil venture in Tennessee called the Huddleston Annex Prospect.
- 20. After receiving the materials the account representative contacted Resident C to assist him with completing the investor questionnaire. The account representative instructed Resident C to put an incorrect net worth on the questionnaire so that Resident C would qualify as an accredited investor for the purpose of meeting Regulation D Rule 506 requirements.
- 21. Prior to investing, Resident C inquired about the location of the oil wells and the contractors involved with the project. North American refused to disclose the location of the wells.
- 22. On June 30, 2004, Resident C sent the form, along with a personal check for \$31,000 via U.S. mail to North American for the purchase of an interest in the Huddleston Annex.

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	28.	U	n or about	June	14,	2003
an	unsolici	ted	telephone	call	to	Wasl
Ke	ntucky.					
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DESIST, IMPOSE FINES, AND CHARGE COSTS

23. The partnership interest in Huddleston Annex was limited to the sharing of profits and losses and did not include participation in the day-to-day operations or decision making. Resident C relied on North American's expertise in the oil and gas development business because did not have any similar experience and was a retiree residing in Washington. Resident C was notified about the success or failure of the oil prospects after they occurred and made or received payments based upon representations by North American.

- In September 2004, Resident C was contacted by the account representative with an additional investment offering in three-well-prospect in Tennessee called Stephens. The only documents Resident C received related to the Stephens offering were a five page geological report and a purchase agreement.
- 25. On September 13, 2004, Resident C sent the purchase agreement and a check in the amount of \$25,000 to North American via U.S. mail for the purchase of a three-and-one-half partnership interests in Stephens.
- 26. The partnership interest in Stephens was limited to the sharing of profits and losses and did not include participation in the day to day operations or decision making.
 - 27. Resident C is not an accredited or sophisticated investor.

Resident D

5, an account representative, on behalf of North American made hington Resident D to offer securities in an oil venture in

- offering a partnership interest in Gilreath Mill. The offering documents state, "North American Resource Group, Inc. will act as the Managing General Partner and manager of the Program," and "The control and management of the business and activities of the Partnership is vested in the Managing General Partner with the Partners generally having no voice in, or right to participate in, the management of the Partnership."
- On July 15, 2005, an account representative, on behalf of North American, made a telephone call to Resident D. He identified himself as the Senior Project Manager of North American. The account representative told Resident D that he was calling to follow-up with Resident D because the original account representative who contacted him did not have much experience with the project. He asked Resident D if he had any questions and then provided Resident D with his cell phone number.
 - 32. Resident D was not an accredited investor.

Misrepresentations and Omissions

33. North American failed to provide material information regarding the company and the Stephens Prospect, including, but not limited to: a financial statement, use of proceeds, the company history, and the background of the officers and general and specific risks involved with oil prospects.

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- 34. North American's Executive Statement projecting a possible 853% percent rate of return within twelve months of investing in Huddleston Annex was misleading. North American failed to provide a reasonable basis for its projections and failed to disclose the limitations on the projections.
- 35. North American's Executive Statement projecting a possible 1148% percent rate of return within twelve months of investing in Gilreath Mill was misleading. North American failed to provide a reasonable basis for its projections and failed to disclose the limitations on the projections.
- 36. North American's Program Highlights for Gilreath Mill projecting "Potential for large returns on investment with long-term income from production" and "Geological information indicates a potential for high-volume oil production" was misleading. North American failed to provide a reasonable basis for its projections and failed to disclose the limitations on the projections.
- 37. North American's video in the offering materials for Gilreath Mill which featured footage of oil wells pumping oil and Alan Murrell stating "oil is flowing 20-30 barrels an hour," was misleading. North American failed to provide a reasonable basis for the statement as it pertained to Gilreath Mill and failed to give a reasonable basis for the projected oil output of the prospect.

Registration Status

- 38. Falling Waters Prospect, Southeastern Buck Mountain Prospect, Southeastern Caney Creek Prospect, Huddleston Annex Prospect, Stephens Prospect and Gilreath Mill Prospect are currently not registered to sell their securities in the State of Washington and have not previously been so registered.
- 39. North American is not currently registered as a broker-dealer in the State of Washington and has not previously been so registered.
- 40. Southeastern Energy is not currently registered as a broker-dealer in the State of Washington and has not previously been so registered.

Failure to Comply with Regulation D Rule 506

- 41. Southeastern claimed an exemption from registration of the Southeastern Buck Mountain offering under Regulation D Rule 506 with a notice filing submitted to the Securities Administrator on December 1, 2003.
- 42. Southeastern claimed an exemption from registration of the Southeastern Caney Creek offering under Regulation D Rule 506 with a notice filing submitted to the Securities Administrator on February 24, 2004.
- 43. North American claimed an exemption from registration of the Falling Waters offering under Regulation D Rule 506 with a notice filing submitted to the Securities Administrator on March 1, 2004.
- 44. North American claimed an exemption from registration of the Huddleston Annex offering under Regulation D Rule 506 with a notice filing submitted to the Securities Administrator on June 16, 2004.
- 45. North American claimed an exemption from registration of the Gilreath Mill offering under Regulation D Rule 506 with a notice filing submitted to the Securities Administrator on June 7, 2005.
- 46. Regulation D Rule 506 prohibits the issuer or any person acting on behalf of the issuer to offer or sell securities by any form of general solicitation. North American and its agents offered partnership interests in Falling Waters, Huddleston Annex and Gilreath Mill using general solicitations by making an offering on the North American website, making unsolicited telephone calls or making a general offering at a seminar. Southeastern and its agents offered partnership interests in Southeastern

Caney Creek, Southeastern Buck Mountain using general solicitations by making a general offering at a seminar.

47. Regulation D Rule 506 limits sales to no more than 35 non-accredited investors who must have such knowledge and experience in financial and business matters that he is capable of evaluating the merits and risks of the prospective investment. North American and its agents offered and/or sold partnership interests in Huddleston Annex and Gilreath Mill to non-accredited investors who did not meet the sophistication requirements of Rule 506.

Other Actions

- 48. On May 24, 2001, the State of Missouri, Office of Secretary of State, Securities Division, issued an Order to Cease and Desist, Order No.CD-01-17, against Southeastern Energy and G. Alan Murrell for offering and selling unregistered securities because of a failure to qualify for a Regulation Form D exemption based upon Southeastern Energy's general solicitations.
- 49. On November 6, 2002, the Commonwealth of Kentucky, Department of Financial Institutions, entered onto a settlement agreement with Southeastern Energy G. Alan Murrell and Doug Smith, Administrative Action No. 02-PPC-0756, after issuing a temporary Cease and Desist Order for failing to file reports with the Division on its Regulation D Section 506 offering.
- 50. In 2003, the State of Indiana issued a temporary cease and desist order against Southeastern Energy.
- 51. In May 2003, the Pennsylvania Securities Commission issued a Summary Order to Cease and Desist related to unregistered offers and sales of securities by Southeastern Energy, Southeastern Energy Red-Hill Prospect LP, G. Alan Murrell and Doug Smith.

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STATEMENT OF CHARGES AND NOTICE OF INTENT TO ISSUE AN ORDER TO CEASE AND DESIST, IMPOSE FINES, AND CHARGE COSTS

In 1997, Pennsylvania issued a Summary Order to Cease and Desist order against Doug Smith, as an officer of Kentucky-Tennessee Oil and Gas, Inc., for failing to pre-file his offering materials and for failure to comply with other provisions of the Securities Act of Pennsylvania.

Based upon the above Tentative Findings of Fact, the following Conclusions of Law are made:

CONCLUSIONS OF LAW

- 1. The offer and/or sale of the Falling Waters Prospect, Southeastern Buck Mountain Prospect, Southeastern Caney Creek Prospect, Huddleston Annex Prospect, Stephens Prospect and Gilreath Mill Prospect partnership interests described above constitute the offer and/or sale of a security as defined in RCW 21.20.005(10) and (12).
- 2. The offer and/or sale of said securities were in violation of RCW 21.20.140 because Falling Waters Prospect, Southeastern Buck Mountain Prospect, Southeastern Caney Creek Prospect, Huddleston Annex Prospect, Stephens Prospect and Gilreath Mill Prospect were not registered in the State of Washington and Respondents did not qualify for an exemption filing.
- 3. North American violated RCW 21.20.040 by offering or selling said securities while not registered as a broker-dealer in the State of Washington.
- 4. South Eastern violated RCW 21.20.040 by offering or selling said securities while not registered as a broker-dealer in the State of Washington.
- 5. The offer and/or sale of the Huddleston Annex Prospect, Stephens Prospect and Gilreath Mill Prospect securities were made in violation of RCW 21.20.010 because, as set forth in the Tentative Findings of Fact, Respondents made misstatements of material fact or omitted to state

material facts necessary in order to make the statements made, in light of circumstances under which they were made, not misleading.

NOTICE OF INTENT TO ISSUE AN ORDER TO CEASE AND DESIST

Based upon the above Tentative Findings of Fact and Conclusions of Law, the Securities Administrator intends to order that Respondents, North American Resource Group, Inc., Southeastern Energy, Inc., Falling Waters Prospect, Southeastern Buck Mountain Prospect, Southeastern Caney Creek Prospect, Huddleston Annex Prospect, Stephens Prospect, Gilreath Mill Prospect, G. Alan Murrell, Thomas Emberton, Jr. and Doug Smith and their agents and employees, shall each permanently cease and desist from violations of RCW 21.20.140, RCW 21.20.040 and/or RCW 21.20.010.

NOTICE OF INTENT TO IMPOSE FINES

Pursuant to RCW 21.20.395, and based upon the Tentative Findings of Fact and Conclusions of Law, the Securities Administrator intends to order that:

- a. Respondents North American Resource Group, Inc., Southeastern Energy, Inc., Falling Waters Prospect, Southeastern Buck Mountain Prospect, Southeastern Caney Creek Prospect, Huddleston Annex Prospect, Stephens Prospect and Gilreath Mill Prospect, shall be jointly and severally liable for and pay a fine of \$30,000;
- b. Respondent G. Alan Murrell shall be liable for and pay a fine of \$10,000;
- c. Respondent Thomas Emberton, Jr. shall be liable for and pay a fine of \$10,000.
- d. Respondent Doug Smith shall be liable for and pay a fine of \$10,000.

NOTICE OF INTENT TO CHARGE COSTS

Pursuant to RCW 21.20.390(5), and based upon the based upon the Tentative Findings of Fact and Conclusions of Law, the Securities Administrator intends to order that the Respondents North American

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1	Resource Group, Inc., Southeastern Energy, Inc., Falling Waters Prospect, Southeastern Buck Mountain
2	Prospect, Southeastern Caney Creek Prospect, Huddleston Annex Prospect, Stephens Prospect, Gilreath
3	Mill Prospect, G. Alan Murrell, Thomas Emberton, Jr. and Doug Smith shall be liable for and pay the
4	Securities Division the costs, fees and other expenses incurred in the conduct of the administrative
5	investigation and hearing of this matter.
6	AUTHORITY AND PROCEDURE
7	This STATEMENT OF CHARGES AND NOTICE OF INTENT TO ISSUE AN ORDER TO
8	CEASE AND DESIST, IMPOSE FINES, AND CHARGE COSTS is entered pursuant to the provisions of
9	RCW 21.20.390 and RCW 21.20.395, and is subject to the provisions RCW 34.05. Each of the
10	Respondents may make a written request for hearing as set forth in the NOTICE OF OPPORTUNITY TO
11	DEFEND AND OPPORTUNITY FOR HEARING accompanying this Statement of Charges.
12	If a Respondent does not request a hearing, the Securities Administrator intends to adopt the above
13	Tentative Findings of Fact and Conclusions of Law as final, enter a permanent cease and desist order
14	against that Respondent, and impose the fine and/or charge costs, as sought in this Statement of Charges.
15	DATED AND ENTERED this 23rd day of May, 2006.
16	midel E, Stevenson
17	MICHAEL E. STEVENSON
18	Securities Administrator Approved by: Drescented by:
19	Approved by: Presented by:
20	Martin Cordell agen Oger
21 22	Martin Cordell Chief of Enforcement Angela R. Vogel Financial Legal Examiner