

**STATE OF NORTH CAROLINA
DEPARTMENT OF THE SECRETARY OF STATE
SECURITIES DIVISION**

IN THE MATTER OF:)	
)	FINAL ORDER
PATRIOTS ENERGY GROUP, INC.,)	File No.: 17 SEC 015
)	
Respondent.)	

The North Carolina Secretary of State (the “Administrator”) enters this Order pursuant to her statutory authority and responsibility to administer and enforce the North Carolina Securities Act, N.C. Gen. Stat. Chapter 78A (“Securities Act”). This matter was heard by Administrative Law Judge Melissa Owens Lassiter (“Judge Lassiter”) on August 27, 2018, in Raleigh, North Carolina pursuant to N.C. Gen. Stat. § 150B-40(e) and Petitioner’s request for a hearing under Article 3A of the Administrative Procedures Act. On September 18, 2018, Judge Lassiter submitted her Proposed Agency Decision to the Administrator. The Office of Administrative Hearings and the Administrator served the parties with the Proposed Agency Decision. Neither party has objected to the Proposed Agency Decision or requested further hearing on the matter. Based on the Proposed Agency Decision, the Administrator enters this Final Order.

I. FINDINGS OF FACT

1. Patriots Energy Group, Inc. (“PEG”) is a Nevada corporation, organized in or around March of 2014. Its principal place of business is in Salt Lake City, Utah.
2. PEG is not registered to sell securities.
3. PEG holds itself out as a “premier domestic energy development organization.”
4. In 2014, PEG began two oil and gas projects in Kentucky that it labeled the Fentress Well Project and the Mattingly Well Project.
5. To fund these projects, PEG sought out investors from North Carolina and offered

them security interests in the wells at issue in the form of revenue interests.

6. On June 18, 2015, PEG filed for a Regulation D 506(c) securities exemption with the United States Securities Exchange Commission (“SEC”) for the security interests in the Fentress Well Project.

7. On July 27, 2015, PEG further submitted a notice filing with the Administrator by submitting a copy of its SEC registration document for the security interests in the Fentress Well Project.

8. On October 9, 2015, PEG filed for a Regulation D 506(c) securities exemption with the SEC for the security interests in the Mattingly Well Project.

9. On November 3, 2015, PEG further submitted a notice filing with the Administrator by submitting a copy of its SEC registration document for the security interests in the Mattingly Well Project.

10. PEG hired two salesmen, Gilbert Bailey (“Bailey”) and Richard Bartera (“Bartera”), to promote and sell the security interests in the wells in North Carolina.

11. Bailey and Bartera, on behalf of PEG, promoted the security interests in the wells in North Carolina, communicated with North Carolina investors, and facilitated the signing of the investment contracts by North Carolina investors.

12. Neither Bailey nor Bartera is or has ever been registered to sell securities in North Carolina.

13. Bailey and Bartera, on behalf of PEG, provided North Carolina investors with information about the security interests in the wells.

14. The PEG materials contained the following statements:

- a. “[E]ven if only a fraction of that oil can be recovered, this basin has the potential to become a massive horizontal play”;

- b. “Drilling has been completed on both these wells and has shown gas and fluid on the open flow test during drilling operations”;
- c. “They are both horizontal wells, with a ‘pay zone’ extension of over 2,500 feet!!! That’s All pay zone!”;
- d. “Both wells already have excellent shows of gas for commercial production ...”; and
- e. “This is truly a once in a lifetime opportunity to see annual returns of 30% or MORE (no guarantees, see Scenarios) and have a secondary income for years to come! This by far a 5-star recommendation! ACT NOW

15. The charts presented in the PEG materials contained gross exaggerations, including that:

- a. investors could expect a 52% rate of return for the first year for one scenario;
- b. investors could expect a 160% rate of return for the first year in the second scenario; and
- c. the wells would produce 30-100 barrels per day at \$45 a barrel.

16. Based on the representations made by both Bailey and Bartera and the marketing materials, two North Carolina residents invested in the PEG wells. The two North Carolina investors each signed Interest Purchase Agreements and paid money to PEG.

17. After receiving the Interest Purchase Agreements and the investment funds from the North Carolina investors, PEG ceased communication with them.

18. Despite repeated efforts, it was not until December 2016 that the North Carolina investors were able to speak with a representative of PEG.

19. In December 2016, one of the North Carolina investors spoke with a contractor of PEG who revealed, contrary to the representations made by PEG prior to their investments, that:

- a. the Mattingly Well had experienced significant problems and was yielding 3-4 barrels a day;

- b. the Fentress Well had never been fracked;
- c. the extraction of gas was not economically feasible; and
- d. no payments had been made to North Carolina investors.

20. In February 2017, PEG finally contacted the North Carolina investors. In this communication, PEG requested that the investors make a second investment of \$500,000 in the Fentress Well in order to complete the well.

21. When the North Carolina investors requested a return of their investment principal, PEG refused.

II. CONCLUSIONS OF LAW

1. The Administrator administers the Securities Act. N.C. Gen. Stat. § 78A-45.
2. A security is any note, stock, bond, debenture, evidence of indebtedness, certificate of interest or participation in any profit-sharing agreement, collateral-trust certificate, transferable share, investment contract, certificate of deposit for a security, certificate of interest or participation in an oil, gas, or mining title or lease or in payments out of production under a title or lease, or any interest or instrument commonly known as a “security.” N.C. Gen. Stat. §78A-2(11).
3. A dealer is any person engaged in the business of effecting transactions in securities for the account of others or for his own account. N.C. Gen. Stat. §78A-2(2).
4. A salesman is any individual other than a dealer who represents a dealer in effecting or attempting to effect purchases or sales of securities. N.C. Gen. Stat. §78A-2(9).
5. It is unlawful for any person to transact business in this State as a dealer or salesman unless he is registered under this Chapter. N.C. Gen. Stat. § 78A-36. In an administrative

proceeding, the burden of proving an exemption or an exception from a definition is upon the person claiming it. N.C. Gen. Stat. § 78A-18(b).

6. It is unlawful for any dealer to employ a salesman unless the salesman is registered. N.C. Gen. Stat. § 78A-36.

7. All dealers and salesmen must observe high standards of commercial honor and just and equitable principles of trade in the conduct of their business. 18 NCAC 06A .1414

8. It is unlawful for any person, in connection with the offer, sale or purchase of any security, directly or indirectly, to make any untrue statement of a material fact or to omit to state a material fact necessary in order to make the statements made, in the light of the circumstances under which they are made, not misleading. N.C. Gen. Stat. § 78A-8.

9. When it appears to the Administrator that a person has engaged in an act or practice constituting a violation of the Securities Act or a rule or order thereunder, she may bring an action in a court of competent jurisdiction to enjoin the acts or practices and to enforce compliance. Upon a proper showing, a permanent order may be entered. N.C. Gen. Stat. § 78A-47.

10. When the Administrator elects not to hear a contested case, the Securities Division may apply to the Director of the Office of Administrative Hearings for the designation of an administrative law judge to preside at the hearing of a contested case. The administrative law judge assigned to hear a contested case shall sit in place of the Administrator. Following the hearing, the administrative law judge shall make a proposal for decision, which shall contain proposed findings of fact and proposed conclusions of law. N.C. Gen. Stat. § 150B-40(e).

11. The Administrator shall serve that Proposed Decision on the parties and give each party an opportunity to file exceptions to this Proposal Agency Decision, to submit proposed

Findings of Fact, and to present oral and written arguments to the agency pursuant to N.C. Gen. Stat. § 150B-40(e).

12. After providing the parties 30 days to file exceptions and present written and oral arguments, the Administrator enters its Final Decision.

13. In this case, the security interests in the wells were securities as defined by N.C. Gen. Stat. § 78A-2(11).

14. PEG is a dealer as defined by N.C. Gen. Stat. § 78A-2(2).

15. Bailey and Bartera were salesmen as defined by N.C. Gen. Stat. § 78A-2(9).

16. Bailey and Bartera were required to be registered pursuant to N.C. Gen. Stat. § 78A-36.

17. PEG violated N.C. Gen. Stat. § 78A-36 when it hired two unregistered salesmen, Bailey and Bartera, to sell its security interests in the wells.

18. PEG violated N.C. Gen. Stat. § 78A-8 when it made misrepresentations and omitted material facts regarding the wells in order to entice investors to purchase security interests in the wells.

III. ORDER

ACCORDINGLY, the Administrator orders the following:

1. PEG and any person, employee, officer, director, entity, agent, or independent contractor under its direction or control shall immediately and permanently cease and desist employing any unregistered salesmen to sell securities to North Carolina residents.

2. PEG and any person, employee, officer, director, entity, agent, or independent contractor under its direction or control shall immediately and permanently cease and desist offering or selling the profit-sharing investments to residents of North Carolina; and

3. PEG and any person, employee, officer, director, entity, agent, or independent contractor under its direction or control shall immediately and permanently cease and desist violating any other provisions of the Securities Act.

WITNESS MY HAND AND THE OFFICIAL SEAL of the North Carolina

Department of the Secretary of State, this the 25TH day of October 2018.

Time of entry: 2:43 P.M.



ELAINE F. MARSHALL
SECRETARY OF STATE OF NORTH CAROLINA and
SECURITIES ADMINISTRATOR, by


KEVIN M. HARRINGTON
Deputy Securities Administrator