

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

IN THE MATTER OF DETERMINING) Order No.: S-13-1261-14-FO01
Whether there has been a violation of the)
Securities Act of Washington by:) ENTRY OF FINDINGS OF FACT AND CONCLUSIONS
) OF LAW AND FINAL ORDER TO CEASE AND DESIST,
Armadillo Energy, Inc.; Paul Schuett; Doug) TO IMPOSE FINES, AND TO CHARGE COSTS AS TO
DeBoer; James Linde; and Bradley Belschner,) ARMADILLO ENERGY, INC., PAUL SCHUETT, AND
) BRADLEY BELSCHNER
Respondents.

On February 24, 2014, the Securities Administrator of the state of Washington issued order number S-13-1261-13-SC01, a Statement of Charges and Notice of Intent or Enter Order to Cease and Desist, to Impose Fines, and to Charge Costs (Statement of Charges) against Armadillo Energy, Inc., Paul Schuett, Doug DeBoer, James Linde, and Bradley Belschner.

The Statement of Charges, together with a Notice of Opportunity to Defend and Opportunity for Hearing (Notice) and an Application for Adjudicative Hearing (Application) were served on Respondents Armadillo Energy, Inc. (Armadillo Energy) and Paul Schuett on March 6, 2014. The Notice advised Respondents Armadillo Energy and Paul Schuett that a written application for an administrative hearing on the Statement of Charges must be received by the Securities Division within twenty days of receipt of the Statement of Charges. Respondents Armadillo Energy and Paul Schuett each failed to request an administrative hearing within twenty days of receipt of the Statement of Charges.

Additionally, the Statement of Charges, along with the Notice and the Application were served on Respondent Bradley Belschner on March 1, 2014. On March 20, 2014, Respondent Bradley Belschner notified the Securities Division that he did not request a hearing on the Statement of Charges.

The Securities Administrator therefore will adopt as final the following Findings of Fact and Conclusions of Law as set forth in the Statement of Charges and enter a final order against the Respondents Armadillo Energy, Paul Schuett, and Bradley Belschner to cease and desist from violations of the Securities Act, to impose fines, and to charge costs.

The Securities Administrator makes the following Findings of Fact and Conclusions of Law:

FINDINGS OF FACT

I.

Respondents

1. Armadillo Energy is a Nevada corporation established in 2008 for the purpose of extracting and selling oil. Armadillo Energy has operations in Oklahoma.

2. Paul Schuett acts as the President and Chief Executive Officer of Armadillo Energy and is a resident of Texas.

3. Douglas DeBoer serves as the Chief Financial Officer and Financial Director of Armadillo Energy and is a resident of Ontario, Canada. Doug DeBoer is the majority owner of Armadillo Energy.

4. James Linde works as the Chief Operating Officer and Operations Manager of Armadillo Energy and is a minority owner of the company.

5. Bradley Belschner is an Idaho resident who sold investments in Armadillo Energy from 2010 to 2012 as an independent contractor.

II.

Summary and Scope of the Offering

6. From approximately January 2010 to April 2012, Armadillo Energy raised at least six million dollars from investors in the United States, the United Kingdom, Canada, Ireland, and Germany by selling investments in the company, which it called Armadillo Energy Partnership Agreements.

7. Specifically, Armadillo Energy offered investors title to a specific amount of unextracted oil from Armadillo Energy's oil leases in Oklahoma. The number of barrels of oil that an investor received title to depended on the amount of money invested. Armadillo Energy represented that each month it would extract equal amounts of the oil that an investor purchased, then sell it to a refinery on the investor's behalf. Armadillo Energy would pay an investor the net proceeds from this sale on a monthly basis.

8. Armadillo Energy typically used third-party companies or individuals to sell its investments, paying them a commission based on the amount of investments they sold. Douglas DeBoer and James Linde provided these salespeople with training, explaining to them in day-long seminars, the terms of the investment and the contents of the Armadillo Energy offering material. Douglas DeBoer and James Linde also provided investors with a tour of Armadillo Energy's oil lease in Oklahoma.

9. Bradley Belschner attended three of these training seminars and he sold Armadillo Energy investments to at least eleven United States investors, who were mostly friends and friends of friends. Bradley Belschner received a commission of ten percent of the amount invested for the sale of a number of these Partnership Agreements.

10. Paul Schuett signed all outgoing Armadillo Energy correspondence and all Armadillo Energy Partnership Agreements as the President and CEO of Armadillo Energy.

11. Armadillo Energy stopped making monthly payments to investors in July 2012.

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III.

Nature of the Offerings

12. In 2011 and 2012, Bradley Beslchner solicited Investor A, a Washington resident, to invest in Armadillo Energy. Through Bradley Belschner’s communications with Investor A and in the Armadillo Energy offering material provided to Investor A, Armadillo Energy represented that it sought financing to commission new oil drilling projects and to operate its existing oil leases in Oklahoma. Armadillo Energy did not explain to investors how it had obtained its oil leases in Oklahoma or what type of infrastructure it already had in place at these leases.

13. Armadillo Energy explained in its offering material that it had hired an oil and gas operator to manage the oil production and that Armadillo Energy would perform the following obligations: undertake daily oversight and supervision of the oil lease; arrange for the purchase, transportation, and storage of drilling equipment; make timely payments to vendors and investors; and obtain the required drilling permits and licenses. Armadillo Energy failed to disclose any information about the contractor that would manage the oil production on the Armadillo Energy leases.

14. Armadillo Energy sent Investor A an investment agreement that it named “Armadillo Energy Partnership Agreement.” However, investors were to be passive and did not participate in the day-to-day management of Armadillo Energy.

15. In a 2011 Armadillo Energy investment agreement given to Investor A, the company stated that it would sell investors title to unextracted barrels of oil for \$40 per-barrel. Armadillo Energy further represented that every month for a period of seven years it would extract 1/84th of an investor’s unextracted oil, sell it, and then provide the investor with the proceeds from the sale.

16. For the 2011 Armadillo Energy investment, based on a minimum investment of \$40,000, Armadillo Energy represented that investors could expect the following annual returns:

2011	2012	2013	2014	2015	2016	2017	2018
\$13,147.14	\$13,490.00	\$13,295.71	\$13,347.14	\$13,347.14	\$13,461.43	\$13,515.71	\$13,674.29

17. In April 2011, Investor A signed an Armadillo Energy investment agreement and wired \$40,000 for the investment to Armadillo Energy, LLC. Investor A subsequently received monthly payments of approximately \$1,000 from Armadillo Energy. As a result of these initial monthly payments, Investor A decided to invest more money with Armadillo Energy.

18. A 2012 Armadillo Energy investment agreement given to Investor A provided similar terms, but it also included a reinvestment provision, which provided for a delayed payment. The company stated that it would sell investors title to unextracted barrels of oil for \$40 per-barrel, and every month for a period of five years it would extract 1/50th of an investor’s unextracted oil, sell it, and then use the proceeds to purchase title to additional

unextracted barrels of oil at \$40 per-barrel on the investor's behalf. At the end of year five, every month over the following seven years, Armadillo Energy stated that it would extract 1/84th of an investor's unextracted oil, sell it, and then provide the investor with the proceeds from the sale.

19. In the 2012 Armadillo Energy investment, based on a minimum investment of \$40,000, Armadillo Energy represented that after the five year reinvestment phase, in the subsequent seven years, investors could expect the following annual returns:

Year 6	Year 7	Year 8	Year 9	Year 10	Year 11	Year 12
\$27,063.08	\$28,145.72	\$28,786.29	\$29,002.81	\$29,204.31	\$29,204.31	\$29,204.31

20. In January 2012, Investor A signed another Armadillo Energy investment agreement and wired an additional \$40,000 to Armadillo Energy, LLC. Investor A subsequently received monthly payments of approximately \$1,000 from Armadillo Energy.

21. In the profit projections for both investments, Armadillo Energy represented that an investor would receive the full profit from its monthly sale of an investor's oil. Armadillo Energy, however, did not explain how it would be compensated for its role in the investment.

22. The company further represented that its 110 acre lease had approximately 672,000 recoverable barrels of oil and that its 740 acre lease had approximately 4,500,000 recoverable barrels of oil.

23. In July 2012, Armadillo Energy stopped making payments to Investor A for both investments. That same month, Stoney Plains Inc. announced that it had acquired all of the assets and liabilities of Armadillo Energy and that it would be responsible for resuming monthly payments to investors. Investor A never received any payments from Stoney Plains Inc. In December 2012, Armadillo Energy wrote to Investor A stating that its oil operator would resume extracting oil that month, however, Investor A never received any subsequent payments from Armadillo Energy. A year later, in December 2013, Fortis Admin Ltd. took control of the Armadillo Energy oil leases in Oklahoma. Fortis Admin Ltd. represented to Investor A that it is acting as a trustee for Armadillo Energy investors and will assume responsibility for making monthly payments to investors. To date, Investor A has not received any further payments for either investment.

IV.

Other Actions

24. On July 27, 2011, the Ontario Securities Commission issued a Statement of Allegations against Armadillo Energy, Inc., Paul Schuett, Douglas DeBoer, James Linde, and other respondents. The Statement of Allegations announced the beginning of the Ontario Securities Commission's investigation into the respondents' collective compliance with the Ontario Securities Act.

1 25. On February 1, 2013, the Ontario Securities Commission also issued a Statement of Allegations against
2 Armadillo Energy and salespeople of Armadillo Energy investments. The Statement of Allegations documented the
3 named respondents' alleged violations of the Ontario Securities Act.

4 26. On September 26, 2013, in a hearing before the British Columbia Securities Commission, the Commission
5 ordered that Armadillo Energy cease trading investments in the company, that all persons cease trading investments in
6 Armadillo Energy, and for Armadillo Energy to pay an administrative penalty of \$800,000.

7 IV.

8 Misrepresentations and Omissions

9 27. Respondents failed to disclose any general or specific risks associated with investing in an oil company.

10 28. Respondents failed to disclose the financial condition of Armadillo Energy.

11 29. Respondents failed to disclose the bases or assumptions underlying the financial projections that they provided
12 to investors as well as their estimation of the number of recoverable barrels of oil in the two Armadillo Energy oil
13 leases.

14 30. Respondents failed to disclose the total amount of capital required to operate an oil lease or the risks associated
15 with inadequate capitalization.

16 31. Respondents Paul Schuett, Douglas DeBoer, James Linde, and Armadillo Energy failed to disclose that the
17 Ontario Securities Commission issued a Statement of Allegations against them on July 27, 2011.

18 V.

19 Registration Status

20 32. Respondent Armadillo Energy is not currently registered to sell securities in Washington and has not
21 previously been registered to do so.

22 33. Respondents Paul Schuett, Douglas DeBoer, James Linde, and Bradley Belschner are not currently registered
23 to sell securities in the state of Washington and have not previously been registered to do so.

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

25 CONCLUSIONS OF LAW

1. The offer and sale of the Armadillo Energy Partnership Agreements described above constitutes the offer and
2 sale of a security as defined in RCW 21.20.005(14) and (17).

3 2. The offer and sale of these securities is in violation of RCW 21.20.140 because no registration for such an
4 offer and sale is on file with the Securities Administrator of the state of Washington.

1 3. Respondents Paul Schuett and Bradley Belschner have violated RCW 21.20.040 by offering and selling
2 securities while not registered as a securities salesperson in the state of Washington.

3 4. The offer and sale of these securities were in violation of RCW 21.20.010 because Respondents Armadillo
4 Energy, Paul Schuett, and Bradley Belschner made untrue statements of material fact or omitted to state material facts
5 necessary to make the statements made, in light of the circumstances under which they were made, not misleading.

6 **FINAL ORDER**

7 Based upon the foregoing and finding it in the public interest:

8 IT IS HEREBY ORDERED that the Respondents Armadillo Energy, Paul Schuett, and Bradley Belschner
9 shall cease and desist from offering and selling securities in any manner in violation of RCW 21.20.140, the securities
10 registration section of the Securities Act of Washington.

11 IT IS FURTHER ORDERED that Respondents Paul Schuett and Bradley Belschner shall cease and desist
12 from offering and selling securities in violation of RCW 21.20.040, the securities salesperson registration section of
13 the Securities Act of Washington.

14 IT IS FURTHER ORDERED that the Respondents Armadillo Energy, Paul Schuett, and Bradley Belschner
15 shall cease and desist from violating RCW 21.20.010, the anti-fraud section of the Securities Act of Washington.

16 IT IS FURTHER ORDERED that Respondent Armadillo Energy shall be liable for and shall pay a fine of
17 \$15,000.

18 IT IS FURTHER ORDERED that Respondent Paul Schuett shall be liable for and shall pay a fine of \$15,000.

19 IT IS FURTHER ORDERED that Respondents Armadillo Energy and Paul Schuett shall be jointly and
20 severally liable for and shall pay investigative costs of \$8,000.

21 **AUTHORITY AND PROCEDURE**

22 This FINAL ORDER is entered pursuant to the provisions of RCW 21.20.110 and 21.20.390, and is subject to
23 the provisions of RCW 21.20.120 and Chapter 34.05 RCW. Respondents Armadillo Energy, Paul Schuett, and
24 Bradley Belschner have the right to petition the superior court for judicial review of this agency action under the
25 provisions of RCW 34.05. For the requirements for Judicial Review, see RCW 34.05.510 and sections following.
Pursuant to RCW 21.20.395, a certified copy of this Order may be filed in Superior Court. If so filed, the clerk shall
treat the Order in the same manner as a Superior Court judgment as to the fine, and the fine may be recorded,
enforced, or satisfied in like manner.

WILLFUL VIOLATION OF THIS ORDER IS A CRIMINAL OFFENSE.

1 SIGNED and ENTERED this 3rd day of April 2014.

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6 William M. Beatty
7 Securities Administrator

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11 Approved by:

Presented by:

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17 Suzanne Sarason
18 Chief of Enforcement

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20 Eric Palosaari
21 Financial Legal Examiner

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23 Reviewed by:

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27 Jack McClellan
28 Financial Legal Examiner Supervisor