IN THE UNITED STATES DISTRICT COURT
FOR THE NORTHERN DISTRICT OF TEXAS
FORT WORTH DIVISION

UNITED STATES SECURITIES AND EXCHANGE COMMISSION,	§	
Plaintiff,	§	
v.	§	
THE HEARTLAND GROUP VENTURES, LLC; HEARTLAND PRODUCTION AND RECOVERY LLC; HEARTLAND PRODUCTION AND RECOVERY FUND LLC; HEARTLAND PRODUCTION AND RECOVERY FUND II LLC; THE HEARTLAND GROUP FUND III, LLC; HEARTLAND DRILLING FUND I, LP; CARSON OIL FIELD DEVELOPMENT FUND II, LP; ALTERNATIVE OFFICE SOLUTIONS, LLC; ARCOOIL CORP.; BARRON PETROLEUM LLC; JAMES IKEY; JOHN MURATORE; THOMAS BRAD PEARSEY; MANJIT SINGH (AKA ROGER) SAHOTA; and RUSTIN BRUNSON,	§	**No. 4-21CV-1310-O-BP**
Defendants,	§	
and	§	
DODSON PRAIRIE OIL & GAS LLC; PANTHER CITY ENERGY LLC; MURATORE FINANCIAL SERVICES, INC.; BRIDY IKEY; ENCYPHER BASTION, LLC; IGROUP ENTERPRISES LLC; HARPRIT SAHOTA; MONROSE SAHOTA; SUNNY SAHOTA; BARRON ENERGY CORPORATION; DALLAS RESOURCES INC.; LEADING EDGE ENERGY, LLC; SAHOTA CAPITAL LLC; and 1178137 B.C. LTD.,	§	
Relief Defendants.	§	

DECLARATION OF DEBORAH D. WILLIAMSON, RECEIVER, IN SUPPORT OF MOTION FOR ORDER APPROVING DISTRIBUTION PLAN AND INTERIM AND/OR FINAL DISTRIBUTION
[ECF NO. 534]

I, Deborah D. Williamson, in my capacity as the Court-appointed Receiver (the "Receiver") over the Receivership Parties (as defined in this Court's December 2, 2021 *Order Appointing Receiver* [ECF No. 17] (the "Receivership Order"), file this *Declaration* in support of *Receiver, Deborah D. Williamson's Motion for Order Approving Distribution Plan and Interim and/or Final Distribution* [ECF No. 534] (the "Motion").[1]

My Appointment as Receiver

1. On December 2, 2021, this Court entered the Receivership Order, appointing me as Receiver over the Receivership Estates in this Case.

A. The Case and My Liquidation Efforts.

2. As alleged in the Complaint, this Case stems from an oil and gas offering fraud conducted over three years [ECF No. 1] of Plaintiff, U.S. Securities and Exchange Commission (the "Commission"). Complaint, ¶ 1. Over approximately $122,000,000.00 was obtained from victims, often the elderly who "invested" substantial portions of their life savings. *Id.*

3. On December 1, 2021, the Commission filed its *Complaint* and its *Emergency Motion for a Temporary Restraining Order and Emergency Ancillary Relief* [ECF No. 3], which included an application for the appointment of a receiver for the Receivership Parties.

4. On December 2, 2021, this Court determined that entry of an order appointing a receiver over the Receivership Parties was both necessary and appropriate to marshal, conserve, hold, and operate all of the Receivership Parties' assets pending further order of this Court.

[1] Capitalized terms used but not otherwise defined herein shall have the meaning ascribed in the Receivership Order, the Motion, the Claims Procedure Motion, or the Settlement Motion, as applicable.

Accordingly, the Court entered the Receivership Order on December 2, 2021, appointing me as the Receiver over the Receivership Estates in this Case. The Receivership Order directed me to take possession and control over all funds, property, and other assets in the possession of or under the control of the Receivership Parties. Receivership Order, ¶ 8.

5. Nearly all of the Defendants have agreed to entry of consent judgments in this Case that established liability on the causes of action asserted by the Commission, including violations of certain sections of the Securities Act of 1933 and certain sections of the Securities Exchange Act of 1934 and aiding and abetting both of the same.

6. Since my appointment, I obtained Court approval to liquidate substantially all of the Receivership Assets that were owned or held in the name of Receivership Parties. I will continue to seek authority to liquidate any recoverable and/or remaining Receivership Assets. The Receivership Estates have netted approximately $10 million in cash since the inception of the Case from sale proceeds of Receivership Assets.

7. The books and records of the Receivership Parties were, for different reasons, in disarray. The Sahota-related Receivership Parties used at least two different software programs, including Wolfepak. Balance sheets were, at best, inconsistent. For example, the airplane title was in Receivership Party Dallas Resources, Inc. but Receivership Party Barron Petroleum LLC showed the airplane on its balance sheet and took a depreciation deduction on one or more tax returns. The Sahotas frequently changed the identities of officers, managing members, and other central parties. As established in prior testimony, one or more of the Sahota family members sent inflated, and/or false requests for payments to the Heartland-related Receivership Parties. The records for the Heartland-related Receivership Parties also had issues. The primary hurdle was the fact that most accounting records were maintained on a single desktop computer using QuickBooks. That computer is, for various reasons, unavailable. As a result, complete payroll and vendor records are

not available. The issue was particularly problematic for the 2021 tax year. Although I directed that the 2021 tax returns of certain Receivership Parties with filing obligations be prepared and filed, I had to rely upon incomplete information (at best). Once a tax return is filed, the Internal Revenue Service ("IRS") has three years to initiate an audit. As a result, there is the risk of an audit for three years after each tax return. As such, I propose a hold back of cash on hand to address any such Receivership Party tax and similar liabilities.

8. If the Motion is approved, there will be one or more distributions, depending on the class, to defrauded investors and other creditors of the Receivership Parties.

9. Potential Claimants in this Case fall into at least one of the following categories in the Claims Procedure: (i) Known Investors (as defined in the Claims Procedure Motion); (ii) Unknown Creditors (as defined in the Claims Procedure Motion); (iii) Other Creditors (as defined in the Claims Procedure Motion); and (iv) Non-Receivership Party Relief Defendants (as defined in the Claims Procedure Motion). **Based on current information, I do not believe that the ultimate recovery in this Case will be sufficient to return the full amount of principal contributions to the Known Investors and pay in full all claims of Other Creditors of the Receivership Estates.**

10. Since my appointment, significant efforts have been undertaken to identify the assets of the Receivership Parties, including cash, accounts, vehicles, equipment, real estate, art, collectibles, jewelry, and aircraft.

11. Throughout the course of the Case and pursuant to approval from this Court, those assets have been marketed and sold with the goal of maximizing the cash available for distribution to those who have claims against the Receivership Parties.

12. With the exception of the Overriding Royalty Interest ("ORRI")[2] related to certain properties in Val Verde and Crockett Counties, all oil and gas properties have been sold or abandoned.

13. The net recovery from the oil and gas operations and sales as of December 31, 2021 was approximately $650,000.00. In 2024, approximately $33,000.00 has been received as reimbursement for expenses, and funds have been expended on final royalty claims and escheat obligations.

14. There were five Receivership Parties which had the authority from the Railroad Commission of Texas (the "RRC") to operate oil and gas wells. At the commencement of this Case, there were over 413 wells theoretically capable of being operated by a Receivership Party. In actuality, very few wells actually produced in paying quantities. After entry of the Receivership Order, the oil and gas operations primarily consisted of attempts to address RRC notices and demands, evaluating the properties, and sale efforts. Funds attributable to operations from the oil and gas properties were segregated. Direct expenses related to such operations were paid from the segregated account. Further, general expenses were allocated to each Receivership Party.

Balance as of December 31, 2023

Arcooil Corp.	$ 611,143.49
Leading Edge Energy, LLC	(203,227.81)
Panther City Energy LLC/Dodson Prairie Oil & Gas LLC	(327,233.93)
Barron Petroleum LLC	569,162.05
Combined Operating Entities	**$ 649,843.80**

15. Prior to entry of the Receivership Order, ownership of the interests in Val Verde and Crockett Counties was 51% to one or more Sahota-related Receivership Parties, and 49% to one or more Heartland-related Receivership Parties. The ORRI is of very uncertain value at this time.

[2] The ORRI was approved without objection in the Court's December 22, 2022 *Order* [ECF No. 304].

The terms of the ORRI provide that all costs attributable to the ORRI will be "carried" by the new operator until the earlier of December 2024 or such costs equal $5 million. On information and belief, the current operator has incurred over hundreds of thousands of dollars in costs but has achieved very little production. In fact, production to date is less than accumulated royalty and transportation costs. Further, again on information and belief, vendors have asserted claims and liens arising from lack of payment. Absent a significant increase in production, I do not intend to risk limited funds on further investments or payment of costs in Val Verde or Crockett Counties.

16. I continue to analyze whether there are additional assets to recover and evaluate whether to pursue claims and litigation against third parties, all with a goal of increasing the assets available for distribution.

17. As of June 3, 2024, the Receivership Estates had $9,687,298.31 in cash.

B. The Court-Approved Claims Procedure.

18. On September 11, 2023, a *Motion for Order Setting Claims Bar Date, Establishing Claims Procedure, and Approving Notification Process* (the "Claims Procedure Motion") [ECF No. 408] was filed, seeking to provide a process through which claims could be asserted against the Receivership Estates. On October 16, 2023, the Court entered its *Order* [ECF No. 422] recommending that the Claims Procedure Motion be granted. On November 6, 2023, the *Order Accepting Findings, Conclusions and Recommendations of the United States Magistrate Judge* (the "Claims Procedure Order") [ECF No. 431] was entered. Pursuant to the Court-approved Claims Procedure, any Known Investors, Relief Defendants, Other Creditors, Unknown Creditors, and Unknown Investor Creditors were directed to submit any claims they had against any of the Receivership Parties by February 5, 2024 (the "Claims Bar Date").[3] *See* ECF No. 431. The Claims

[3] The Claims Bar Date was ninety days (90) after entry of the Claims Procedure Order.

Procedure provided a process through which claims could be reviewed and allowed the Claimant to respond to any objection. The Claims Procedure similarly provided a procedure through which the Court could resolve any disputed claims. *See id.*

19. My goals were to (a) protect against disclosure of the names of the investors and (b) to make the claims process as easy as possible. Each Known Investor was provided with a transaction schedule which summarized payments made to and by a Heartland Receivership Party (each, a "Net Transaction Schedule"). Filing of a proof of claim was required only if a Known Investor disagreed with the Net Transaction Schedule. Approximately 487 of Known Investors accepted the "Net Transaction Schedule" and didn't file a proof of claim.

20. The Claims Bar Date has now passed. No claims were submitted by Non-Receivership Party Relief Defendants. To date, 712 investor claims totaling $94,286,329.57 have been allowed. Currently, 29 investor claims are disputed, which total $7,405,964.19. The total potential liability of investor claims is $101,692,293.76. Thirty-six (36) non-investor claims have been allowed totaling $8,601,718.94. Six (6) non-investor claims totaling $234,140.10 have been disputed, including 2 unliquidated claims.[4] The total potential liability of non-investor claims is $8,835,859.04, not including the Unliquidated Claims. The combined potential liability (excluding any amount for the two Unliquidated Claims) of investor and non-investor claim submissions is $110,528,152.80.

21. There were $8,820,840.38 in claims asserted against one or more of the Operators,[5] including the claim[6] of the RRC totaling $7,871,365.45. There were two Unliquidated Claims

[4] The Sabine Royalty Trust and John Rogers both submitted claims which did not include any fixed or an estimated claim amount (collectively, the "Unliquidated Claims").
[5] The five Operators are Receivership Parties Arcooil Corp., Barron Petroleum LLC, Dodson Prairie Oil & Gas LLC, Panther City Energy LLC, and Leading Edge Energy, LLC.
[6] Judge O'Connor entered the *Order Approving Stipulation Between Deborah D. Williamson, Receiver and Railroad Commission of Texas* [ECF No. 498] on May 3, 2024, approving an allowed non-investor claim for the RRC in the amount of $7,871,365.45 as detailed therein.

asserted against one or more of the Operators. The Other Creditor remaining claims asserted against a Heartland-related Receivership Party total $207,458.00. There was only one claim for $87,340.44 asserted solely against Receivership Party Barron Energy Corporation ("Barron Energy") and only one claim for $142.00 asserted against Receivership Party Sahota Capital, LLC ("Sahota Capital"),[7] each of which have no assets.

C. Proposed Distribution Plan.

19. The proposed distribution plan (the "Plan") contains or provides for the following: (1) nine classes of Claimants based on their relationship to the Receivership Estates and the subordination of insider (Class 9) claims; (2) netting of investments and recoveries from third parties; (3) a "Net Investment" or "Net Loss" distribution methodology for Class 4 Claimants; (4) separate classification of claims against one or more of the Operators; (5) a separate classification of claims against Barron Energy and Sahota Capital (collectively, the "No Asset Entities"); (6) a separate classification of claims against Receivership Party 1178137 B.C. Ltd.; and (7) the pooling of assets of the certain other Receivership Parties[8] for distribution. After reserving sufficient funds to pay Claimants in Classes 1-3 and for potential tax or other liabilities, the Receivership Estates hold approximately $6 million. The Motion seeks approval to make an interim distribution to Class 4 Claimants and a potentially final distribution to Class 5 Claimants as described below, both on a *pro rata* basis. Distribution payments to Claimants whose Class 4 and 5 Claims remain in dispute will be held in reserve pending Court resolution and, to the extent allowed or otherwise agreed to by me, then paid to the disputing Claimant or included in subsequent

[7] John Rogers also asserted an unliquidated personal injury claim against Receivership Party Sahota Capital LLC.
[8] The Heartland Group Ventures, LLC, Heartland Production and Recovery LLC, Heartland Production and Recovery Fund LLC, Heartland Production and Recovery Fund II, LLC, The Heartland Group Fund III, LLC, Carson Oil Field Development Fund II, LP, and Dallas Resources, Inc.

distributions to allowed Claimants, as appropriate.

20. The Motion also seeks approval to distribute the net proceeds from the Settlement[9] to Heartland-related Receivership Party investors in Class 4a. The net settlement amount for distribution to the Heartland-related Receivership Party investors is $9,375,000 (the "Net Settlement Proceeds").

D. Classes of Claimants and Subordination of Insider Claims.

21. The Plan would divide Claimants into nine different classes. The proposed classes are:

Class 1: Tax and Administrative Professional Fees and Claims: to be paid in full (up to the amount of the claims allowed by the Court).

Class 2: Priority Claims: to be paid in full up to the allowed amount of the claims, including claims of taxing authorities.

Class 3: Secured Claims: to be paid in full to the extent of the value of the collateral, with any deficiency to be paid as a Class 4b general unsecured claim.

Class 4a: Heartland Receivership Party Investor Claims:[10] to be paid their:

(i) *pro rata* share of the Net Settlement Proceeds pursuant to the Net Investment methodology plus,

(ii) (ii) after Classes 1, 2, and 3 are paid in full or after sufficient assets are reserved for payment in full of Class 1, 2, and 3 Claimants, their *pro rata* share of any distribution to Class 4a and 4b, pursuant to the Net Investment methodology.

Class 4b: General Unsecured Claims against Receivership Parties other than the Operators and the No Asset Entities: to be paid along with Class 4a after Classes 1, 2, and 3 are paid in full or after sufficient assets are reserved for

[9] On April 25, 2024, the *Findings, Conclusions and Recommendation of the United States Magistrate Judge* [ECF No. 492] was entered recommending approval of the *Receiver's Motion (I) to Approve Proposed Settlement with Former Counsel to Certain Heartland-Related Receivership Parties, (II) to Enter a Bar Order, and (III) to Approve Payment of Fees and Expenses of Reid, Collins & Tsai LLP Litigation Counsel to the Receiver* [ECF No. 464] (the "Settlement Motion"). On May 10, 2024, the *Order Accepting Findings, Conclusions, and Recommendation of the United States Magistrate Judge* [ECF No. 535] and the *Order Granting Receiver's Motion (I) to Approve Proposed Settlement with Former Counsel to Certain Heartland-Related Receivership Parties, (II) to Enter a Bar Order, and (III) to Approve Payment of Fees and Expenses of Reid, Collins & Tsai LLP Litigation Counsel to the Receiver* [ECF No. 536] (the "Settlement Order") were entered by Judge O'Connor.

[10] Class 4a Claims shall not include any claim not attributable to actual receipt of investments funds by a Receivership Party.

payment in full of Class 1, 2, and 3 Claimants.

Class 5: Claims Against an Operator: to be paid their *pro rata* share of $650,000 and 51% of any net recovery from the ORRI, received after June 1, 2024.

Class 6: Claims solely against a No Asset Entity will not be paid anything, as there were no assets against which a claim could be asserted.[11]

Class 7: Claims against Receivership Party 1178137 B.C. Ltd. will not be paid anything, as any assets which may have been titled in the name of 1178137 B.C. Ltd. were obtained without any consideration.[12]

Class 8: Claims arising or related to Texas International Energy Production, Inc. ("TIEP") will not be paid anything, as such claims related to funds paid to TIEP and not to a Receivership Party.

Class 9: Insider Claims: to be paid *pro rata* after Classes 1, 2, 3, 4, and 5 are paid in full.

22. I propose that allowed Class 1 Claimants recover the full amount of their claims upon approval of interim and final fee applications by the Court, as applicable. Among the professionals who fall into Class 1 are: (1) me, as Receiver; (2) my attorneys; and (3) professionals I have employed pursuant to the terms of the Receivership Order and other Orders entered by the Court, including Bankruptcy Management Solutions, Inc. d/b/a Stretto, Ahuja & Clark, PLLC n/k/a Ahuja & Consultants, Inc. ("A&C"), and Vicki Palmour Consulting, LLC ("Palmour").[13] Upon my application, input from the Commission, and Order of the Court, Class 1 Claimants have been paid their post-Receivership claims periodically throughout the course of the Case from the proceeds of the sale of the Receivership Assets, settlement of litigation and/or causes of action, or from the cash on hand. Class 1 Claimants will continue to seek payment by this process and be paid upon Court order. I am not proposing any change to the procedure for the payment of Class 1

[11] Based on the claims filed to date, there is one creditor holding an allowed claim for $142.00 against Sahota Capital.
[12] Based on the claims filed to date, there are no creditors in this Class.
[13] Palmour also has an allowed Class 5 Claim in the amount of $8,965.99.

Claimants.

23. Allowed Class 2 Claimants would be paid in full. Class 2 Claimants include tax liabilities of the Receivership Estates at the federal and state level, if any. I believed I had filed all required tax returns due for periods prior to the filing of the Motion and/or paid all related taxes.[14] However, notices were received on May 28, 2024 from the IRS asserting that Receivership Party Barron Petroleum LLC did not file returns related to employee withholding for one or more quarters in 2021 or make the associated payments for 2021. In addition, there are potential tax liabilities for the 2024 tax year and subsequent years. There is also the potential for a taxing authority to assert claims for additional taxes for both earlier and subsequent years beyond the demands already received.

24. Allowed Class 3 Claimants, if any, would be paid in full up to the value of their respective collateral. I believe that all Class 3 Claimants with valid secured claims have been paid in full.

25. Class 4a Claimants includes Heartland-related Receivership Party investors with Allowed Claims. As discussed in more detail below, allowed Class 4a Claimants, along with allowed Class 4b Claimants, would be paid pursuant to the "Net Investment" methodology, pending Court approval. At this time, I do not believe that allowed Class 4a Claimants will be paid the full amount of their claims.

26. Class 4b Claimants would include general unsecured creditors that are (i) not Known Investors and (ii) not holding claims against one or more of the Operators. The general unsecured creditors in Class 4b would include individuals or entities who have claims against a

[14] The IRS has issued a notice demanding the payment of approximately $70,000.00 allegedly owed by Receivership Party Barron Petroleum LLC for pre-Receivership payroll taxes. I anticipate filing a motion relating to payroll related taxes and seeking a final determination of such amounts for all Receivership Parties.

Receivership Party that have been reduced to a judgment or are the subject of pending litigation to the extent the claim has been allowed by the Court, amounts owed pursuant to a contract, or other debts owed by a Receivership Party other than an Operator or Heartland-related Receivership Party. At this time, I do not believe that allowed Class 4b Claimants will be paid the full amount of their claim.

27. Class 5 Claimants would include general unsecured creditors with claims against one or more of the Operators. As discussed in more detail below, Class 5 Claimants would be paid their *pro rata* share of $650,000.00, which is the approximate net amount generated by the operations of the Operator and/or the sale of assets owned by Operators. As a Sahota-related Receivership Party also owned fifty-one (51%) percent of the Val Verde and Crockett leases, the Class 5 Claimants would also receive fifty-one (51%) of the net proceeds, if any, received on account of the ORRI. Absent a significant recovery from the ORRI, allowed Class 5 Claimants will not be paid the full amount of their claims.

28. Class 6 would include creditors, if any, with a claim asserted against Barron Energy and Sahota Capital, the No Asset Entities. Creditors in Class 6 would be paid nothing, as there were no assets attributable to those No Asset Entities.

29. Class 7 would include creditors, if any, with a claim against Receivership Party 1178137 B.C. Ltd. Creditors in Class 7 would be paid nothing, as any assets which may have been titled in the name of Receivership Party 1178137 B.C. Ltd. were obtained without any consideration.[15]

30. Class 8 would include all parties who assert a claim arising out of or related in any way to TIEP. Such parties shall be paid nothing. Such parties originally advanced or loaned funds

[15] Based on the claims filed to date, there are no creditors with allowed claims in this Class.

to TIEP and no monies were ever paid or delivered to any Receivership Party.[16]

31. Class 9 would include any insiders[17] of the Receivership Parties who have submitted claims against the Receivership Estates, provided, however no Defendant or Relief Defendant in this Case will qualify as a Class 9 Insider Claimant or otherwise be eligible to receive a distribution. "Insiders" shall include family members, employees, officers, directors, shareholders, members, or owners of any Receivership Party along with the spouses, children, or relatives of any such person, and any entity, individual, or their spouse who received a commission, finder's fee(s), or other compensation from a Receivership Party.[18] Any individual or entity falling within this category who has submitted a claim that is allowed by the Receiver be paid *pro rata* only after Class 1, 2, 3, 4, 5, 6, and 7 Claimants have been paid in full. At this time, I do not anticipate having sufficient funds to make any payments to Class 9 Claimants.

32. Subordination of Class 9 Claimants is fair and reasonable. First, only one potential Class 9 Claimant filed a claim in the amount of $107,458.00. Further, in equitable receiverships, Courts have subordinated the claims of insiders or outright denied their right to a distribution on the grounds they are not similarly situated to other investors or victims. *See SEC v. Byers*, 637 F. Supp. 2d 166, 184 (S.D.N.Y. 2009). It is inequitable to make distributions to employees or others who participated in the Ponzi scheme or should have been aware of the fraudulent conduct at issue. *Id.*

E. Netting of Investments is Appropriate.

33. The Plan would permit the "netting" of investments where a person invested with a Receivership Party in multiple capacities. For example, there are some individuals who invested

[16] TIEP creditors were given notice of the Bar Date. Only five (5) TIEP creditors are still asserting claims and are the subject of pending objections. If the objections are sustained, there will be no Claimants in this class.
[17] Based on the claims filed to date, one creditor, a feeder fund, has an allowed claim in this Class.
[18] Except to the extent of actual receipt of investment funds by a Heartland-related Receivership Party.

directly with a Receivership Party and also through a pooled fund which invested with a Receivership Party. A person may have incurred a loss on their investment individually but received a profit based on their investment in the pooled fund. In addition, there may be individuals who received a profit on their direct investment with a Receivership Party but incurred a loss based on their investment in a pooled fund.

F. Settlement Proceeds.

34. On April 2, 2024, the Settlement Motion was filed. The Settlement Motion sought authority to distribute the Net Settlement Proceeds to Heartland investors as a return of capital, subject to approval of this Court. The Court entered the Settlement Order on May 10, 2024.

35. I seek to distribute $9,375,000.00 in Net Settlement Proceeds to Claimants in Class 4a. The recovery will be approximately 9 % of the Class 4a Claims.

G. A $650,000 Distribution to Class 5 Claimants is Appropriate.

36. My advisors have calculated that approximately $650,000.00 is attributable as net proceeds from the operation of oil and gas properties, sale of equipment and other assets, and/or royalty payments (the "Oil and Gas Net Proceeds"). The Oil and Gas Net Proceeds amount was calculated after payment of all post-Receivership direct expenses arising from oil and gas operations, allocation of indirect expenses, payment of royalty claims,[19] and payment of related taxes.

37. The Plan would have a one-time *pro rata* distribution of $650,000.00 to holders of claims against any Operator. The claims against Operators (including disputed amounts) total approximately $8,820,840.38, not including the two Unliquidated Claims. If the Unliquidated Claims are not allowed, the distribution will be approximately 7.3 % of the allowed claims (the

[19] Including amounts which have been escheated to a state.

"Operator Distribution").

38. Further, to the extent that I am able to obtain value attributable to the ORRI, the Class 5 Claimants will receive 51% of any net proceeds received by me and which remain after payment in full of all direct and allocated costs and expenses, including the costs of distribution.

H. Proposed Distributions to Class 4 Claimants.

39. After distribution of the Net Settlement Proceeds, the Operator Distribution, reserves for payment of taxes and/or related liabilities and future Court-approved expenses, including preparation of various tax filings, I will have available cash of approximately $6,500,000. Specifically, I request authority to pay or reserve funds as follows:

(a) Class 4 Claimants: I request authority to make an interim distribution of $5,000,000 to allowed Class 4a and 4b Claimants at this time. I believe an interim distribution of $5,000,000 to allowed Class 4 Claimants in accordance with the plan set forth above is fair and reasonable and appropriate at this time. If all objections are sustained, the distribution would be approximately 5.3%[20] of the allowed claims (the "Class 4 Distribution").

(b) Distribution payments to Claimants whose Class 4 Claim remains in dispute will be escrowed pending Court resolution, and then paid to the disputing Claimant or included in subsequent distributions, as appropriate. *See generally* ECF No. 500.

40. If and when I collect additional funds and/or the Receivership closes, I will propose to the Court another interim, or a final, distribution.

I. The Court should Adopt the "Net Investment" or "Net Loss" Distribution Method for Class 4 Claimants.

i. Distribution Methods.

41. There are three distribution methods that are often considered in equitable receiverships: (i) Rising Tide; (ii) Net Investment or Net Loss; and (iii) Last Statement methods. Approval of a particular method varies depending on what is equitable given the facts and

[20] $94,286,329.57 in allowed Class 4a claims and $29,074.29 in allowed Class 4b claims.

circumstances of a particular case. I have concluded, as more fully detailed below, that the "Net Investment" or "Net Loss" method is the most equitable and efficient method in this Case, as it provides the greatest recoveries for the largest number of Claimants. I therefore request the Court approve its use here.

ii. Net Investment or Net Loss Method.

42. Under the "Net Investment" or "Net Loss" method, recoveries are considered as an offset to the claim amount, and Claimants receive a *pro rata* distribution based on their allowed claim amount compared to the total amount of all allowed claims in the Case. In other words, a pre-receivership withdrawal (including any interest payments) would only reduce an investor's claim amount—not their eligibility to receive a distribution—as is the case under the Rising Tide method. This methodology would pay all Class 4 Claimants on a *pro rata* basis based on the dollar amount of their allowed claim compared to the total dollar amount of all Claimants. The Net Investment method was considered superior in *SEC v. Amerifirst Funding, Inc.*, No. 3:07-CV-1188-D, 2008 U.S. Dist. LEXIS 20044, *18 (N.D. Tex. Mar. 13, 2008).

43. In *United States CFTC v. Barki, LLC*, the U.S. District Court of the Western District of North Carolina ultimately rejected the receiver's request to use the Rising Tide approach and instead directed the receiver to distribute the funds using the Net Investment method. *See United States CFTC v. Barki, LLC*, No. 3:09CV106-MU, 2009 U.S. Dist. LEXIS 112998, *6 (W.D.N.C. Nov. 12, 2009). Siding with the Net Investment method, the court found that it was "more equitable to compensate all the Investors rather than a fraction of them," as only 55% would receive a distribution under Rising Tide. *Id.* at *5. In *Byers*, the court rejected the Rising Tide method since 45% of the investors would receive no additional compensation. *Byers*, 637 F. Supp. 2d at 182.

iii. Rising Tide Method.

44. Under the Rising Tide method, an investor's pre-receivership withdrawals

(including payments characterized as "interest") are considered a part of the overall distributions received by an investor. As such, the investor's pre-receivership withdrawals are credited dollar-for-dollar against the principal amount they invested with the Receivership Parties. *SEC v. Huber*, 702 F.3d 903, 906–09 (7th Cir. 2012). For non-investor claims (*i.e.*, Class 4b general unsecured claims), and assuming there has been no payment on such claim prior to the appointment of the Receiver, the claim is treated as a 100% loss so that general unsecured claims are paid *pro rata* with investor Claimants who lost 100% of their principal investment. The Rising Tide method was approved in *Huber*. *See* 702 F.3d at 909.

iv. Last Statement Method.

45. Under the Last Statement method, an investor's claim amount is determined by taking the value of their investment as of the last investor statement. *Diana Melton Tr. v. Picard (In re Bernard L. Madoff Invs. Secs., LLC*), No. 15-CV-01151, 2016 U.S. Dist. LEXIS 4655, *63 (S.D.N.Y. Jan. 14, 2016). In this Case, investor statements do not reflect any actual gains or losses.

v. *Rising Tide versus Net Loss.*

46. I have identified 650 investor claimants with amounts still owed as of my appointment date. Total investments among those claimants comprise $119,189,106[21] with a net loss amount of $98,796,170.

47. The following example sets forth a hypothetical planned distribution of $12,000,000 to compare the outcomes of each approach's calculation.

[21] Eighty-four investors received a full return of their investment prior to my appointment.

Based on Hypothetical Planned Distribution of $12,000,000 (12.1% of Total Net Loss)

	Net Investment Method	Rising Tide Method
Average Distribution Amount:	$16,348.77	$22,263.45
Median Distribution Amount:	$8,968.16	$11,917.78
# of Investor Claimants Receiving Payout:	650	539
# Investor Claimants Receiving Payout / Total # Investor Claimants:	100%	83%
Average Receivership Recovery % (excludes Investor Claimants with 100% recovery prior to distribution):	22.9%	23.9%
Range of Final Recovery %	12.1% - 88.3%	20.1% - 86.6%

48. As illustrated above, 17% more investor claimants would be entitled to a distribution payment under the Net Investment method as opposed to the Rising Tide method. Furthermore, 111 investor claimants would receive no distribution payment under the Rising Tide method due to previously received withdrawals exceeding their *pro rata* amount of the total distribution (this figure excludes the 84 investors who have already recovered 100%).[22]

49. In the case of this Receivership, the majority of Heartland investors (600) lost 50% or more of the principal investment with 158 investors losing 100%. Under the Rising Tide method, 539 investor claimants would receive a distribution increasing the lowest recovery from 12.1% to 20.1%. Under the Rising Tide method, 111 investor claimants (27%) would not receive a distribution as they already recovered at least 20.1% of their principal investment.

50. If the Court adopts the Net Investment or Net Loss method, all Heartland investors who suffered a net loss in any capacity (650) would receive a distribution. In other words, distribution under the Net Investment method is more equitable to a larger number of investors.

[22] Approximately $126.4 million was received from investors and only $27.6 million was returned to investors prior to my appointment.

vi. I believe the Net Investment method is the most equitable distribution method for the Class 4 Claimants in this Case.

51. The majority of investor claimants are not corporate entities. Many are elderly individuals who are desperately hoping for some payment to help with basic living expenses, healthcare, and similar expenses. Telling 111 of them that years ago they received a payment for reasons beyond their control has the result that they may never receive any payment will not deliver equity today. Accordingly, I recommend the Court adopt the Net Investment or Net Loss method because it equalizes the lowest percentage return to victims to recover on their investment and allows more Claimants to receive a distribution than using Rising Tide method.

J. IRS Form W-9 Documentation and Distribution Checks.

52. To be eligible for a distribution payment, each allowed Claimant should be required to provide a completed and signed IRS Form W-9 on the most recent form issued by the IRS, which is available online and can be mailed to an allowed Claimant upon request.[23] If the Plan is approved, a check[24] will be issued to the allowed Claimant by the 15th day of the month following sixty (60)[25] days after the receipt of the properly completed IRS Form W-9 and the Court's entry of an order authorizing the distribution. **To be clear, any investor distribution check will not be distributed to a feeder fund, financial advisor, custodian, or other such alleged agent or similar entity or individual; rather, it will be issued directly to the allowed Claimant**.

53. Each allowed Claimant will have ninety (90) days from the date the check is issued to negotiate the payment. To the extent the distribution is not negotiated within ninety (90) days from the date of the check, then such check and distribution will be canceled, and the underlying

[23] My counsel has mailed numerous IRS Form W-9s to date and will continue to do so upon request. I have already begun receiving signed IRS Form W-9s from allowed Claimants.
[24] As detailed in the Settlement Motion, distribution checks "sent to Claimants pursuant to the distribution of Net Settlement Proceeds, above where the endorser will sign" shall contain specific release language.
[25] The Net Settlement Proceeds won't be due until 20 days after an order approving the Settlement becomes final—or 50 days after entry of such order.

funds will remain in the Receivership Estates for distribution to other allowed Claimants in this Case pursuant to the priority established by the Plan or as otherwise ordered by this Court. No further payments will be issued for the benefit of such allowed Claimant. In other words, failure to negotiate a check will result in a forfeiture of that payment and future payments.

K. Tax Considerations

54. There was insufficient documentation to support transaction entries recorded in the books, extensive commingling of funds among entities, and incorrectly recorded assets on the books of entities that did not own the assets, particularly on the Sahota side. Tax returns for the year ending December 2021 were based on books maintained by the Defendants and/or Relief Defendants, contributing to exposure to audit assessment if the income or expenses differ materially from the recorded information. A&C and I made efforts to comply with tax regulations despite having messy accounting records and limited information available for the tax years ending in December 2021, 2022, and 2023. To achieve compliance, I had to make specific determinations or take certain positions regarding transaction entries that were previously recorded on the accounting records and tax returns filed before the Receivership was established. Given a three-year audit exposure period, there is always a risk of a reversal of these determinations or positions by the IRS, which may trigger a tax liability.

55. Certain of the Receivership Parties are classified as partnerships for federal income tax purposes. With respect to those Receivership Parties classified as partnerships (each, a "Receivership Partnership"), the IRS takes the position that I, as Receiver, am responsible for preparing IRS Form 1065, U.S. Return of Partnership Income (a "Partnership Return") and delivering Schedule K-1s to the partners. Any net gain or loss for such Receivership Partnership, along with other items of income, gain, loss, and credits, is passed through to the partners. However, under the centralized partnership audit regime enacted by the Bipartisan Budget Act of

2015, if a Partnership Return is audited by the IRS, any adjustments to partnership-related items for such tax year (the "Reviewed Year") resulting in an imputed underpayment of tax, along with applicable penalties and interest (collectively, an "Imputed Underpayment"), becomes a liability of the partnership under Section 6225 of the Internal Revenue Code of 1986, as amended (the "Code"). Under Code Section 6226(a)(1), the person designated as the "Partnership Representative" (as defined in Code Section 6223) has the authority to make a push-out election with respect to the Imputed Underpayment (a "Push Out Election"), in which case, the liability for the applicable Imputed Underpayment will be transferred to the partners who owned an interest in the partnership during the Reviewed Year. Given that the IRS has the ability to audit a Partnership Return for three years following the filing of the Partnership Return, it is uncertain whether I will have the authority or otherwise be able to make the Push Out Election for Partnership Returns filed, or caused to be filed, by the Receiver (each, a "Receiver Partnership Return"). As a result, if an Imputed Underpayment is assessed to a Receivership Partnership with respect to a Receiver Partnership Return, I request that Court order that at such time the Partnership Representative shall make on a timely basis, a Push Out Election, and any corresponding elections applicable for state and local tax purposes, to treat a "partnership adjustment" as an adjustment to be taken into account by each partner of each Receivership Partnership in accordance with Section 6226(b) of the Code and that each respective Receivership Partnership be required to pay no amount pursuant to Section 6225 of the Code.

I declare under penalty of perjury that the foregoing is true and correct.

Executed this 3rd day of June, 2024.

Deborah D. Williamson, Solely in her capacity as Court-Appointed Receiver for the Estates of Heartland Group Ventures, LLC, *et al.*