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## *Texas State Securities Board*

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IN THE MATTER OF §  
LONESTAR MINERAL ASSETS, LLC § **Order No. ENF-15-CDO-1738**  
AKA LONE STAR MINERAL ASSETS, LLC §  
AND KENNETH WAYNE MCKAY §

TO: Lonestar Mineral Assets, LLC aka Lone Star Mineral Assets, LLC  
5485 Belt Line Road, Suite 290, Dallas, Texas 75254  
4113 Gateway Drive, Suite 100, Colleyville, Texas 76034

Kenneth Wayne McKay  
5485 Belt Line Road, Suite 290, Dallas, Texas 75254  
4113 Gateway Drive, Suite 100, Colleyville, Texas 76034  
520 Samuels Avenue, Apt. 3402, Fort Worth, Texas 76102

### **EMERGENCY CEASE AND DESIST ORDER**

This is your OFFICIAL NOTICE of the issuance by the Securities Commissioner of the State of Texas ("**Securities Commissioner**") of an EMERGENCY CEASE AND DESIST ORDER pursuant to Section 23-2 of The Securities Act, TEX. REV. CIV. STAT. ANN. arts. 581-1 to 581-43 (West 2010 & Supp. 2014) (the "**Texas Securities Act**").

The Staff of the Enforcement Division of the Texas State Securities Board ("**the Securities Board**") has presented evidence sufficient for the Securities Commissioner to find that:

#### FINDINGS OF FACT

1. Lonestar Mineral Assets, LLC aka Lone Star Mineral Assets, LLC ("**Respondent Lonestar**") purports to be a limited liability company engaged in oil and gas exploration. It maintains last known addresses at 5485 Belt Line Road, Suite 290, Dallas, Texas 75254 and 4113 Gateway Drive, Suite 100, Colleyville, Texas 76034.
2. Kenneth Wayne McKay ("**Respondent McKay**") is a Project Coordinator, Member and an owner of Respondent Lonestar. Respondent McKay maintains last known addresses at 5485 Belt Line Road, Suite 290, Dallas, Texas 75254, 4113 Gateway Drive, Suite 100, Colleyville, Texas 76034 and 520 Samuels Avenue, Apt. 3402, Fort Worth, Texas 76102.

3. Respondent Lonestar and Respondent McKay (collectively, "**Respondents**") are offering investments in mineral royalty rights in Texas through a website that is accessible by the public at [www.lonestarmineralassets.com](http://www.lonestarmineralassets.com).
4. Respondents are describing the mineral royalty rights offering by representing the following:
  - a. Respondent Lonestar acquired 1,280 acres of mineral rights in Meade County, Kansas and has been selling mineral royalty rights in those acres;
  - b. Respondents are offering to sell acres of mineral royalty rights in two tracts of land. When an investor invests in a tract he or she will receive mineral royalty rights that are pooled with other investors in that particular tract;
  - c. The investor submits a subscription agreement and tenders \$8,200 per acre for up to 150 acres of mineral royalty rights to become a mineral royalty rights "co-owner;"
  - d. Once the Respondents receive the investment proceeds, they will prepare a mineral deed that will be filed at the courthouse in Meade County, Kansas;
  - e. Returns on the mineral royalty rights may be derived in two ways:
    - i. First, third-party energy companies may lease mineral royalty rights from an investor in a particular tract; and
    - ii. Second, a mineral royalty rights investor may receive a return derived from production based on his or her percentage of ownership in the mineral royalty rights in that tract;
  - f. Respondents, through "a partner company," will be drilling four oil wells and one disposal well which may be completed around July 2015; and
  - g. Mineral royalty rights owners are not responsible for costs or risks associated with monthly upkeep, exploration or development on their property. Instead, mineral royalty rights owners simply receive their monthly percentage share from currently producing oil or natural gas wells.
5. Respondents are representing the potential profitability of the aforementioned securities as follows:
  - a. A conservative estimate of 721,875 barrels of recoverable oil, is expected to be produced per well;
  - b. Mineral royalty rights may provide a monthly cash flow for 40 years; and

- c. Once the drilling starts revenue should begin in approximately 90 to 120 days.
6. The aforementioned investments have not been registered by qualification, notification or coordination and no permit has been granted for their sale in Texas.
7. Rule 506 of Regulation D under the Securities Act of 1933 authorizes an issuer to engage in general solicitation in offering and selling covered securities without first complying with state securities registration requirements, provided that, among other things, all purchasers of the securities are accredited investors and the issuer takes reasonable steps to verify that such purchasers are accredited investors.
8. Respondents are offering the aforementioned investments to purchasers who are not accredited investors. Respondents are not taking reasonable steps to verify that all purchasers are accredited investors.
9. In connection with the offer of the aforementioned investments, Respondents are intentionally failing to disclose the following material facts:
  - a. On or about October 20, 1997, Respondent McKay consented to the entry of a final judgment with the Securities and Exchange Commission in Securities and Exchange Commission v. Offshore Financial Corporation, Inc., William D. Brosseau, Kenneth W. McKay and Charles E. Rose et al., Civil Action No. 3:96-CV-2655-G, in the United States District Court, Northern District of Texas, Dallas Division. Thereafter:
    - i. Respondent McKay was found liable for disgorgement of \$1,180,663.74 and prejudgment interest prior to that amount being adjusted to take into consideration Respondent McKay's financial standing;
    - ii. Respondent McKay was permanently restrained and enjoined from the sale of any securities in the form of interests in oil, gas or mineral leases, or any other security unless and until a registration statement is in effect with the Securities and Exchange Commission as to such securities; and
    - iii. Respondent McKay was restrained and enjoined from acts that would cause him to:
      1. Employ any device, scheme or artifice to defraud;
      2. Obtain money or property by means of any untrue statement of a material fact or any omission to state a material fact; or



2. Respondents are violating Section 7 of the Texas Securities Act by offering securities for sale in Texas at a time when the securities are not registered with the Securities Commissioner.
3. Respondents are engaging in fraud in connection with the offer for sale of securities.
4. Respondents are making an offer containing statements that are materially misleading or otherwise likely to deceive the public.
5. Respondents' conduct, acts and practices threaten immediate and irreparable public harm.
6. The foregoing violations constitute bases for the issuance of an Emergency Cease and Desist Order pursuant to Section 23-2 of the Texas Securities Act.

#### ORDER

1. It is therefore ORDERED that Respondents immediately CEASE AND DESIST from offering for sale any security in Texas until the security is registered with the Securities Commissioner or is offered for sale pursuant to an exemption from registration under the Texas Securities Act.
2. It is further ORDERED that Respondents immediately CEASE AND DESIST from engaging in any fraud in connection with the offer for sale of any security in Texas.
3. It is further ORDERED that Respondents immediately CEASE AND DESIST from offering securities in Texas through an offer containing a statement that is materially misleading or otherwise likely to deceive the public.

#### NOTICE

Pursuant to Section 23-2 of the Texas Securities Act, you may request a hearing before the 31st day after the date you were served with this Order. The request for a hearing must be in writing, directed to the Securities Commissioner, and state the grounds for the request to set aside or modify the Order. Failure to request a hearing will result in the Order becoming final and non-appealable.

You are advised under Section 29.D of the Texas Securities Act that any knowing violation of an order issued by the Securities Commissioner under the authority of Section 23-2 of the Texas Securities Act is a criminal offense punishable by a fine of not more than \$5,000, or imprisonment in the penitentiary for not more than two years, or by both such fine and imprisonment.

SIGNED AND ENTERED by the Securities Commissioner this 25<sup>th</sup> day of March, 2015.

  
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JOHN MORGAN  
Securities Commissioner