



JOHN MORGAN
SECURITIES COMMISSIONER

CARLA JAMES
DEPUTY SECURITIES COMMISSIONER

Mail: P.O. BOX 13167
AUSTIN, TEXAS 78711-3167

Phone: (512) 305-8300
Facsimile: (512) 305-8310

Texas State Securities Board

208 E. 10th Street, 5th Floor
Austin, Texas 78701-2407
www.ssb.state.tx.us

BETH ANN BLACKWOOD
CHAIR

DERRICK MITCHELL
MEMBER

E. WALLY KINNEY
MEMBER

DAVID A. APPLEBY
MEMBER

ALAN WALDROP
MEMBER

IN THE MATTER OF THE DEALER §
REGISTRATION OF CHESTNUT § **Order No. IC12-CAF-06**
EXPLORATION PARTNERS, INC. §

TO: Mark Allan Plummer, President
Chestnut Exploration Partners, Inc. (CRD No. 127228)
2201 N. Central Expressway, Suite 240
Richardson, Texas, 75080

DISCIPLINARY ORDER

Be it remembered that Chestnut Exploration Partners, Inc. ("Respondent"), by and through Mark Allan Plummer, its President, appeared before the Securities Commissioner of the State of Texas ("Securities Commissioner") and consented to the entry of this Order and Undertaking and the Findings of Fact and Conclusions of Law contained herein.

FINDINGS OF FACT

1. Respondent has waived (a) Respondent's right to notice and hearing in this matter; (b) Respondent's right to appear and present evidence in this matter; (c) Respondent's right to appeal this Order; and (d) all other procedural rights granted to Respondent by The Securities Act, TEX. REV. CIV. STAT. ANN. art. 581-1 et seq. (West 2010) ("Texas Securities Act"), and the Administrative Procedure Act, TEX. GOV'T CODE ANN. § 2001.001 et seq. (West 2008 & Supp. 2010) ("Administrative Procedure Act").
2. On or about August 18, 2003, Respondent (formerly known as Chestnut Energy Partners, Inc.) registered with the Securities Commissioner as a dealer. This registration is currently effective.
3. Since 2003, Respondent has engaged in the sale of interests in oil and gas joint ventures and limited partnerships managed by Respondent's affiliates.
4. On or about January 21, 2009, Respondent began selling interests in Chestnut Production Fund II, L.P. ("Production Fund II"). The Production Fund II is a limited partnership managed by Respondent's affiliate, Chestnut Exploration, Inc. ("Chestnut Exploration").

5. In connection with its sales of interests in the Production Fund II, Respondent provided a private placement memorandum ("Fund II PPM") to investors. The Fund II PPM was the primary disclosure document for the Production Fund II offering.
6. The Fund II PPM disclosed that the Production Fund II could acquire oil and gas properties from Chestnut Exploration or its affiliates. However, to indicate that conflicts of interest were minimized, the Fund II PPM contained the following provision ("Provision"):

The Partnership's cost will be the purchase price paid by Chestnut [Exploration] or its affiliates in any purchase of an interest in a prospect (or any other property). However, if the seller has reasonable grounds to believe that the fair market value of any property is less than the seller's cost, the sale must be made [at] a price of not more than its fair market value.

The Fund II PPM also permitted Chestnut Exploration or its affiliates to collect a seven percent acquisition fee.

7. On April 15, 2009, the Production Fund II purchased a property ("Property") from an affiliate of Chestnut Exploration, Chestnut Petroleum, Inc. ("Chestnut Petroleum"). Chestnut Petroleum paid \$45,000.00 in 2001 to acquire the Property. Chestnut Petroleum sold the Property to the Production Fund II for \$664,469.00 plus the seven percent acquisition fee. Chestnut Petroleum based the sales price on the estimated oil reserves left on the Property and not on the lesser of fair market value or its purchase price. This sale was contrary to the Provision in the Fund II PPM and rendered the Fund II PPM inaccurate.
8. After the Production Fund II purchased the Property from Chestnut Petroleum, Respondent sold interests in the Production Fund II. In connection with these sales, Respondent provided the inaccurate Fund II PPM to investors.
9. Throughout Respondent's sales of interests in the Production Fund II, Respondent had in place the following written supervisory procedures:

Mr. Plummer shall conduct such reviews as may be necessary of the premises, books and records, and other assets of the issuer, and will interview the issuer's officers, directors, executives, partners, employees, legal counsel, auditors, suppliers, vendors, and other persons likely to have knowledge of the business and financial condition of the issuer as may be necessary to determine the accuracy and completeness of the information set forth in the prospectus or other applicable disclosure document used in connection with the offering of the securities of the issuer.
10. Respondent did not enforce its written supervisory procedures because Mr. Plummer did not conduct any reviews or interviews to determine the accuracy

and completeness of the information set forth in the Fund II PPM after the purchase of the Property.

CONCLUSIONS OF LAW

1. Respondent's failures to enforce its written supervisory procedures are violations of §115.10(b)(1) of the Rules and Regulations of the Texas State Securities Board ("Board Rules").
2. Pursuant to Section 14.A(6) of the Texas Securities Act, Respondent's violations of the Board Rules are bases for the issuance of an Order reprimanding Respondent.
3. Pursuant to Section 23-1 of the Texas Securities Act, Respondent's violations of the Board Rules are bases for the issuance of an administrative fine against Respondent.

UNDERTAKING

Respondent undertakes and agrees to ensure that, within thirty (30) days of the date this Order is entered by the Securities Commissioner, Chestnut Petroleum will repay to the Production Fund II Six Hundred Nineteen Thousand Four Hundred Sixty-Nine Dollars (\$619,469.00). This amount represents the difference between the price paid by Chestnut Petroleum for the Property in 2001 and the price paid by the Production Fund II for the Property in 2009.

ORDER

1. It is therefore ORDERED that Chestnut Exploration Partners, Inc. is hereby reprimanded.
2. It is further ORDERED that Chestnut Exploration Partners, Inc. is hereby ASSESSED AN ADMINISTRATIVE FINE in the amount of Fifty Thousand Dollars (\$50,000.00). Payment shall be made by delivery of a cashier's check to the Securities Commissioner in the amount of Fifty Thousand Dollars (\$50,000.00), payable to the State of Texas, contemporaneously with the delivery of this Order.
3. Chestnut Exploration Partners; Inc. is further ORDERED TO COMPLY with the terms of the Undertaking contained herein.

SIGNED AND ENTERED BY THE SECURITIES COMMISSIONER this 10th
day of January, 2012.


JOHN MORGAN
Securities Commissioner

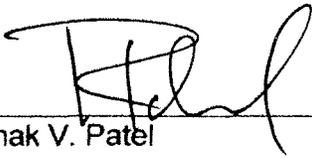
Respondent:

Chestnut Exploration Partners, Inc.



By: Mark Allan Plummer, President

Approved as to Form:



Ronak V. Patel
Director
Inspections & Compliance Division

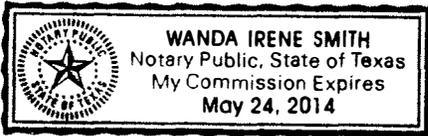


Courtney Bowling
Attorney
Inspections & Compliance Division

ACKNOWLEDGMENT

On the 9th day of January, 2012, Chestnut Exploration Partners, Inc. ("Respondent"), by and through Mark Allan Plummer, its President, personally appeared before me, executed the foregoing Order, and acknowledged that:

1. Mark Allan Plummer is duly authorized to enter into the foregoing Order on behalf of Respondent;
2. Mark Allan Plummer has read the foregoing Order;
3. Respondent has been fully advised of its rights under the Texas Securities Act and the Administrative Procedure Act;
4. Respondent knowingly and voluntarily consents to the entry of the foregoing Order and Undertaking and the Findings of Fact and Conclusions of Law contained therein; and,
5. Respondent by consenting to the entry of the foregoing Order, has knowingly and voluntarily waived its rights as set forth therein.



[affix notary seal here]



Notary Public in and for
the State of Texas

My commission expires on: 5/24/2014