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STATE OF CALIFORNIA
BUSINESS, TRANSPORTATION AND HOUSING AGENCY
DEPARTMENT OF CORPORATIONS

TO: Pete Lippincott, President
Diamond “S” Oil, Inc.
Masada Petroleum LLC
4739 Ingersoll
Houston, Texas 77027

Michael P. Johnstone
5425 Heidi Street Apt 3F
La Mesa, California 91942-4817

DESIST AND REFRAIN ORDER
(For violations of sections 25110, 25210 and 25401 of the Corporations Code)

The California Corporations Commissioner finds that:

1. Diamond “S” Oil, Inc. is a Texas corporation with a registered place of business at 2431 Rice Boulevard, Houston, Texas 77005-3202, and more recently does business at the address of 4739 Ingersoll, Houston, Texas 77027. Pete Lippincott is the President of Diamond “S” Oil, Inc. Masada Petroleum LLC is a Texas corporation located at the same address of 4739 Ingersoll, Houston, Texas as Diamond “S” Oil, Inc. Its registered agent for service is Edward Lippincott III. Diamond “S” Masada LLC, is a Texas Corporation with a registered address of 6710 East Interstate 20, Abilene, Texas 79601-7644. Its registered agent for service is Bobby Fellers.

2. Michael P. Johnstone is an individual who does business at the address of 5425 Heidi Street Apartment 3F, La Mesa, California 91942-4817. Beginning in or about 2006 Michael Johnstone placed advertisements in newspapers including the Los Angeles Times and on the Internet advertising investments in oil and gas projects. California residents, responding to the contact information in the ads including the phone number 619-469-5859, were offered investments in oil and gas projects by Michael Johnstone and Pete Lippincott.

1 3. One of the oil and gas projects offered by Michael Johnston, Pete Lippincott and Diamond
2 “S” Oil, Inc. was for a “Fractional Undivided Working Interest Participation” in a project referred to
3 as the “Eisenhower/William Shallow Development Project” located in Callahan County, Texas.
4 According to the offering materials provided, each one percent (1%) unit would cost \$44,000.00.
5 The project was claimed to be owned and operated by Diamond “S” Oil, Inc. and Diamond “S”
6 Masada LLC. The “Private Placement Memorandum” for the project stated that Diamond “S”
7 Masada LLC would control all surface and sub-surface operations of the project and Diamond “S”
8 Oil, Inc. would issue all revenue checks and production statements from its Houston, Texas office. It
9 also states “Mr. Bobby Fellers will be head of operations at Diamond “S” Masada LLC”. The “Cash
10 Flow Projections” indicated that based on neighboring wells the project would generate \$337,500 per
11 month from 25 wells and \$1,350,000 per month when the 100 planned wells were completed and that
12 a one percent (1%) interest in the project could equal \$13,500.00 monthly revenue.

13 4. The other oil project investment which the California investor was offered by Michael
14 Johnston, Pete Lippincott and Masada Petroleum LLC was referred to as “ Hubert Gressett Oil Unit
15 1- Recompletion Project” located in Liberty County, Texas. The offer was for \$10,932.00 for each
16 1% “working interest” in the Gressett Oil Unit 1 well. The private placement memorandum states that
17 Masada Energy LLC would be the operator of record and the Masada Petroleum LLC was the owner
18 of the leases and was in “completed control of daily operations.” The memorandum claimed that
19 based on past well production located on neighboring properties, estimated monthly revenues of
20 \$480,000 per month were expected from the well and that payouts would be expected in the second
21 or third month with a life span of up to 8-10 years.

22 5. It was not disclosed to the California investor by Michael Johnstone, Pete Lippincott or any
23 of the offering materials that Diamond “S” Oil, Inc. and its President, Pete Lippincott, had been the
24 subject of a prior Desist and Refrain Order issued by the California Department of Corporations on
25 May 18, 2006 for violations of sections 25110 and 25401 of the Corporations Code for selling
26 unqualified nonexempt securities in the form of working interests in oil drilling projects in Texas and
27 misrepresenting or failing to disclose material facts with regard to the sale of those securities.
28 Material facts omitted from the previous and current offer to California investors included the fact

1 that an Emergency Cease And Desist Order had been issued by the Texas State Securities Board on
2 or about February 14, 2003, which also found that Pete Lippincott had been offering and selling
3 unregistered nonexempt securities in the form of working interests in oil drilling projects in Texas.
4 The Order further found that Pete Lippincott and Diamond "S" Oil, Inc. were not registered to offer
5 or sell the securities, or to render investment advice within Texas, and that they had sold securities by
6 means of material misrepresentations or omissions of material facts. The omitted material facts
7 alleged in the Texas order included the failure to disclose the existence of a prior Summary Order to
8 Cease and Desist issued on or about November 12, 2002, to Pete Lippincott and Diamond "S" Oil,
9 Inc. by the Pennsylvania Securities Commission for selling unregistered nonexempt securities in the
10 form of working interests in Texas oil well projects. Michael Johnstone, Pete Lippincott and
11 Diamond "S" Oil, Inc. also failed to disclose to the California investor that a still pending lawsuit had
12 been filed by a prior California investor against Pete Lippincott and Diamond "S" Oil, Inc. with
13 regard to their prior illegal sale of securities and that the investor in that case did not receive his
14 initial investment back and the wells he invested in either did not produce at all or produced only a
15 small percentage of the estimates provided in the offering materials and were not profitable for the
16 investors.

17 6. The Department of Corporations has not issued any permit, license or other form of
18 authorization, approval or qualification to allow any person to offer and sell securities, including
19 certificates of interest or participation in, or in payments out of production under, oil or gas titles or
20 leases, in the form of working interests in oil projects owned or operated by Diamond "S" Oil, Inc. or
21 Masada Petroleum LLC.

22 7. Michael Johnstone had neither applied for nor secured from the California Corporations
23 Commissioner the certificate required to induce the purchase or sale of securities or otherwise operate
24 in the capacity of a securities broker-dealer in the State of California at the time of the offer of the
25 securities referred to above, nor was he exempt from such licensing requirements at the time.

26 Based upon the foregoing findings, the California Corporations Commissioner is of the
27 opinion that the working interests in oil projects owned or operated by Diamond "S" Oil, Inc. or
28 Masada Petroleum LLC offered to the California resident constitute securities, which are subject to

1 qualification under the California Corporate Securities Law of 1968, and that these securities have
2 been and are being offered without being qualified or exempt.

3 The California Corporations Commissioner is of the further opinion that the securities in the
4 form of working interests in oil projects owned or operated by Diamond "S" Oil, Inc. and Masada
5 Petroleum LLC have been offered in this state by means of written and oral communications, which
6 include untrue statements or omissions of material facts, in violation of section 25401 of the
7 California Corporate Securities Law of 1968.

8 The California Corporations Commissioner is further of the opinion that Michael P. Johnstone
9 has induced the sale of securities in this state without having first applied for and secured a license
10 authorizing him to act in the capacity of a securities broker-dealer, in violation of section 25210 of
11 the Corporate Securities Law of 1968.

12 Pursuant to Corporations Code section 25532, Diamond "S" Oil, Inc., Masada Petroleum
13 LLC, Pete Lippincott and Michael P. Johnstone are hereby ordered to desist and refrain from the
14 further offer or sale in the State of California of securities, including certificates of interest or
15 participation in, or in payments out of production under, oil or gas titles or leases, in the form of
16 working interests in oil projects owned or operated by Diamond "S" Oil, Inc. or Masada Petroleum
17 LLC unless and until qualification has been made under the California Corporate Securities Law or
18 unless exempt.

19 Pursuant to Corporations Code section 25532, Diamond "S" Oil, Inc., Masada Petroleum
20 LLC, Pete Lippincott and Michael P. Johnstone are hereby further ordered to desist and refrain from
21 the further offer or sale in the State of California of securities, including certificates of interest or
22 participation in, or in payments out of production under, oil or gas titles or leases, in the form of
23 working interests in oil projects with Diamond "S" Oil, Inc. or Masada Petroleum LLC, by means of
24 any written or oral communication which includes untrue statements or omissions of material facts.

25 Pursuant to Corporations Code section 25532, Michael Johnstone is also hereby ordered to
26 desist and refrain from effecting any transaction in, or attempting to induce the purchase or sale of,
27 any security in this state, unless and until he has applied for and secured from the Commissioner a
28 certificate authorizing him to act in that capacity or unless exempt.

