

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

TO: Eric Johnson
Source Oil & Gas, Inc.
Source Drilling Program I, LP
Source Drilling Program II, LP
Source Drilling Program III, LP
3 Park Plaza Suite 430
Irvine, California 92614

DESIST AND REFRAIN ORDER

(For violations of section 25110 and 25401 of the Corporations Code)

The California Corporations Commissioner finds that:

1. At all relevant times Eric Johnson (“Johnson”) is or was Chief Executive Officer and Director of Source Oil & Gas, Inc. (“Source”).
2. At all relevant times, Source is or was a California Corporation, formed in October of 2005 and purports to operate from 3 Park Plaza, Suite 430, Irvine, California 92614.
3. Beginning in or about May 31, 2005, Johnson and Source offered and sold securities in the form of common stock and investment contracts in the form of interests in limited partnerships in three oil and natural gas drilling programs. These offerings were in: Source Drilling Program I, LP; Source Drilling Program II, LP; and Source Drilling Program III, LP.
4. Johnson and Source advertised and solicited these securities on their website at <http://sourceoil.com> and through Internet advertisements with Google.
5. Between January 2006 and May 2007, Johnson and Source paid Google over \$84,000 in advertisement fees for internet advertisements such as:
 - IPO Alert- The Next Exxon;
 - High Rev, No Debt, Small Float!
 - Huge/Fast ROU-Call for Stock Ticker
 - www.sourceoil.com
6. Johnson and Source have claimed to raise at least \$3.4 million after selling both common

1 stock in its Management Company and limited partnerships in the aforementioned drilling programs.
2 Johnson and Source purport to have issued common stock at \$.20 a share in an offering that raised
3 \$499,650. Johnson and Source subsequently have purported to engaged in three separate offerings of
4 Limited Partnerships in “Drilling Programs I, II, and III” and raised \$720,000, \$1,445,000 and
5 \$310,500 respectively.

6 7. The purported purpose of the offering of common stock was to provide for working capital to
7 fund geographic exploration, fund costs to become a public company and create reserves for general
8 corporate purposes. The purported purpose of the offering of limited partnerships was to finance the
9 drilling of oil and natural gas wells on prospective properties described in the offering
10 memorandums.

11 8. In connection with the offer of these securities, Johnson and Source omitted to state material
12 facts necessary in order to make the statements made, in light of the circumstances under which they
13 were made, not misleading. Specifically, Johnson and Source omitted to tell investors in “Drilling
14 Program III” the material fact that on February 1, 2006, the State of Pennsylvania issued a “Cease
15 and Desist Order” against Source, d/b/a/ Source Management Company, for offering or selling
16 unregistered securities.

17 9. These securities were offered or sold in this state in issuer transactions. The Department of
18 Corporations have not issued a permit or other form of qualification authorizing any person to offer
19 and sell these securities in this state.

20 Based on the foregoing findings, the California Corporations Commissioner is of the
21 opinion that the common stock and investment contracts in the form of limited partnership interests
22 being sold by Johnson and Source are securities subject to qualification under the California
23 Corporate Securities Law of 1968 and are being or have been offered or sold without being qualified.

24 Pursuant to Section 25532 of the Corporate Securities Law of 1968, Eric Johnson; Source Oil
25 & Gas, Inc.; Source Drilling Program I, LP; Source Drilling Program II, LP; and Source Drilling
26 Program III, LP, are hereby ordered to desist and refrain from the further offer or sale in the State of
27 California of securities including, but not limited to common stock in Source Oil & Gas, Inc., and
28 investment contracts in the form of limited partnership interests in oil and gas drilling programs in

1 Source Drilling Program I, LP; Source Drilling Program II, LP; and Source Drilling Program III, LP,
2 unless and until qualification has been made under said law, or unless exempt. The sale of such
3 securities is subject to qualification under said law and such securities are being or have been offered
4 for sale without first being so qualified.

5 Further, the California Corporations Commissioner is of the opinion that the securities offered
6 by Eric Johnson, Source Oil & Gas, Inc. and Source Drilling Program III, LP, were offered in this
7 state by means of written or oral communications that included untrue statements of material fact or
8 omitted to state material facts necessary in order to make the statements made, in the light of the
9 circumstances under which they were made, not misleading, in violation of section 25401 of the
10 Corporate Securities Law of 1968.

11 Pursuant to Section 25532 of the Corporate Securities Law of 1968, Eric Johnson, Source Oil
12 & Gas, Inc. and Source Drilling Program III, LP, are hereby ordered to desist and refrain from
13 offering or selling or buying or offering to buy any security in the State of California, including, but
14 not limited to common stock or limited partnership interests by means of any written or oral
15 communication which includes an untrue statement of a material fact or omits to state a material fact
16 necessary in order to make the statements made, in the light of the circumstances under which they
17 were made, not misleading.

18 This Order is necessary, in the public interest, for the protection of investors and consistent
19 with the purposes, policies, and provisions of the Corporate Securities Law of 1968.

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21 Dated: August 20, 2007
22 Los Angeles, California

23 PRESTON DUFAUCHARD
24 California Corporations Commissioner

25
26 By _____
27 ALAN S. WEINGER
28 Lead Corporations Counsel
Enforcement Division