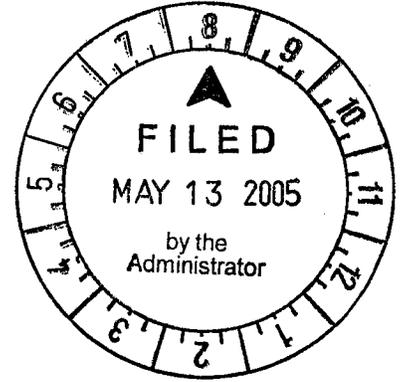


STATE OF OKLAHOMA
DEPARTMENT OF SECURITIES
FIRST NATIONAL CENTER
120 N. ROBINSON, SUITE 860
OKLAHOMA CITY, OKLAHOMA 73102



In the Matter of:

Target Oil and Gas Corporation,
Michael Dale Smith, and James Paul McElroy,

Respondents.

ODS File No. 04-082

NOTICE OF SERVICE ON THE ADMINISTRATOR
AND
AFFIDAVIT OF COMPLIANCE

STATE OF OKLAHOMA)
) SS.
COUNTY OF OKLAHOMA)

The undersigned Affiant, of lawful age, being first duly sworn upon oath deposes and states:

1. That he is the Administrator of the Oklahoma Department of Securities (Administrator).

2. That a copy of the Notice of Opportunity for Hearing (Notice) with Enforcement Division Recommendation (Recommendation) attached was delivered to Affiant in the office of the Administrator of the Department (Administrator) pursuant to Section 413(h) of the Oklahoma Securities Act (Predecessor Act), Okla. Stat. tit. 71, §§ 1-413, 501, 701-703 (2001 & Supp. 2003), and/or Section 1-611 of the Oklahoma Uniform Securities Act of 2004 (Act), Okla. Stat. tit. 71, §§ 1-101 through 1-701 (Supp. 2003).

3. That the Administrator has received service of process on behalf of Target Oil and Gas Corporation, Michael Dale Smith and James Paul McElroy pursuant to Section 413(h) of the Predecessor Act and/or Section 1-611 of the Act.

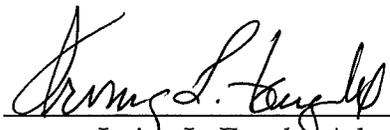
4. That a copy of the Notice, with the Recommendation attached, and a copy of this Notice of Service on the Administrator and Affidavit of Compliance (Affidavit) are being sent this 13th day of May, 2005, by certified mail, return receipt requested, delivery restricted to addressee, to the last known addresses of Target Oil and Gas Corporation, Michael Dale Smith and James Paul McElroy, in compliance with Section 413(h) of the Predecessor Act and/or Section 1-611 of the Act.

5. That this Affidavit is declared filed of record as of the date set forth below in compliance with Section 413(h) of the Predecessor Act and/or Section 1-611 of the Act.

FURTHER AFFIANT SAYETH NOT.

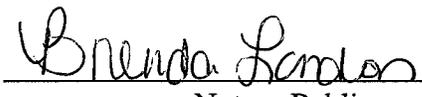
Dated this 13 day of May, 2005.

(SEAL)



Irving L. Faught, Administrator

Subscribed and sworn to before me this 13 day of May, 2005.



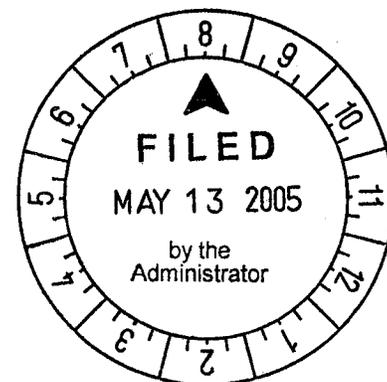
Notary Public

My Commission Expires: August 26, 2005

My Commission No.: 01013792

SEAL

STATE OF OKLAHOMA
DEPARTMENT OF SECURITIES
FIRST NATIONAL CENTER
120 N. ROBINSON, SUITE 860
OKLAHOMA CITY, OKLAHOMA 73102



In the Matter of:

Target Oil and Gas Corporation,
Michael Dale Smith, and James Paul McElroy,

Respondents.

ODS File No. 04-082

NOTICE OF OPPORTUNITY FOR HEARING

1. On the 10th day of May, 2005, the attached Enforcement Division Recommendation (Recommendation) was left in the office of the Administrator concerning the activities of Target Oil and Gas Corporation, Michael Dale Smith and James Paul McElroy (Respondents), in connection with the offer and/or sale of securities in and/or from Oklahoma.

2. Pursuant to Section 406(b) of the Oklahoma Securities Act (Predecessor Act), Okla. Stat. tit. 71, §§ 1-413, 501, 701-703 (2001 & Supp. 2003), and Section 1-701 of the Oklahoma Uniform Securities Act of 2004 (Act), Okla. Stat. tit. 71, §§ 1-101 through 1-701 (Supp. 2003), the Administrator hereby gives notice to Respondents of their right to request a hearing to show why an order based on the Recommendation should not be issued.

3. The request for a hearing on the Recommendation must be received by the Administrator within fifteen (15) days after service of this Notice of Opportunity for Hearing (Notice). Failure to request a hearing as provided for herein shall result in the issuance of an order to cease and desist against Respondent.

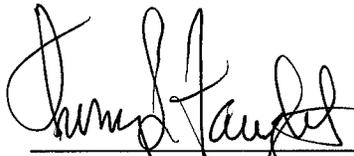
4. The request for hearing shall be in writing and Respondents shall specifically admit or deny each allegation in said request as required by 660:2-9-2(a) of the Rules of the Oklahoma Securities Commission and the Administrator of the Department of Securities (Rules).

5. Upon receipt of a written request, a hearing on this Notice shall be set within ninety (90) days or a written order denying hearing shall be issued pursuant to 660:2-9-2(b) of the Rules.

6. Notice of the date, time and location of the hearing shall be given to Respondents not less than forty-five (45) days in advance thereof pursuant to 660:2-9-2(c) of the Rules. Additionally, the notice may contain matters to supplement this Notice and the Recommendation attached hereto.

13 Witness my Hand and the Official Seal of the Oklahoma Department of Securities this day of May, 2005.

(SEAL)



IRVING L. FAUGST, ADMINISTRATOR OF THE
OKLAHOMA DEPARTMENT OF SECURITIES

CERTIFICATE OF MAILING

The undersigned hereby certifies that on the 13 day of May, 2005, a true and correct copy of the above and foregoing Notice of Opportunity for Hearing and attached Enforcement Division Recommendation was mailed by certified mail, return receipt requested, delivery restricted, with postage prepaid thereon, addressed to:

Target Oil and Gas Corporation
1000 E. Lexington Avenue, Suite 116
Danville, KY 40422

Target Oil and Gas Corporation
c/o Michael Smith, Registered Agent
190 Delbar Lane
Lancaster KY 40444

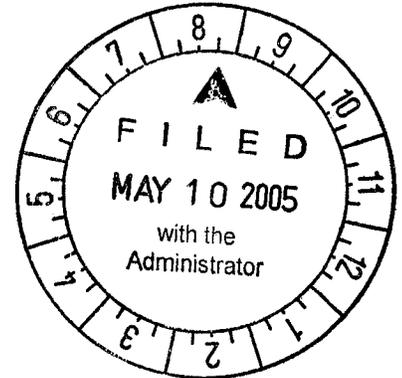
Michael Dale Smith
190 Delbar Lane
Lancaster KY 40444

James Paul McElroy
304 Baughman Avenue
Danville, KY 40422



Brenda London ~~Smith~~
Paralegal

STATE OF OKLAHOMA
DEPARTMENT OF SECURITIES
FIRST NATIONAL CENTER
120 N. ROBINSON, SUITE 860
OKLAHOMA CITY, OKLAHOMA 73102



In the Matter of:

Target Oil and Gas Corporation,
Michael Dale Smith, and James Paul McElroy,

Respondents.

ODS File No. 04-082

ENFORCEMENT DIVISION RECOMMENDATION

The Enforcement Division of the Oklahoma Department of Securities (Department) conducted an investigation into the activities of Target Oil and Gas Corporation, Michael Dale Smith, and James Paul McElroy (Respondents), in connection with the offer and/or sale of securities in and/or from Oklahoma. Based thereon, the following Findings of Fact, Authorities, and Conclusions of Law are submitted to the Administrator of the Department (Administrator), or his designee, in support of the issuance of an order to cease and desist pursuant to Section 406 of the Oklahoma Securities Act (Predecessor Act), Okla. Stat. tit. 71, §§ 1-413, 501, 701-703 (2001 & Supp. 2003), and Section 1-604 of the Oklahoma Uniform Securities Act of 2004 (Act), Okla. Stat. tit. 71, §§ 1-101 through 1-701 (Supp. 2003).

Findings of Fact

1. At all times material hereto, Target Oil and Gas Corporation was a Kentucky corporation, purportedly engaged in oil and gas production and exploration.
2. At all times material hereto, Michael Dale Smith (Smith), an individual, was President of Target Oil and Gas.
3. At all times material hereto, James Paul McElroy (McElroy), an individual, was Vice-President of Target Oil and Gas.
4. Beginning in March, 2000, and continuing through April, 2001, Respondents offered and sold subscription agreements for joint ventures in multiple oil and gas wells in Tennessee and Kentucky (Subscription Agreements) to an Oklahoma investor (Investor). Respondents initiated contact with the Investor by mailing information to him in Oklahoma. Respondents offered and sold five separate Subscription Agreements to the Investor. The Investor signed the Subscription Agreements in Oklahoma and mailed the Subscription Agreements and checks from Oklahoma.

5. Respondents Smith and McElroy were not registered under the Predecessor Act to transact business as broker-dealers or agents.

6. The Subscription Agreements offered and sold by Respondents were not registered pursuant to Section 301 of the Predecessor Act.

To the extent any of these Findings of Fact are more properly characterized as Conclusions of Law, they should be so considered.

Authorities

1. Section 1-701 of the Act provides in part:

A. The predecessor act exclusively governs all actions or proceedings that are pending on the effective date of this act or may be instituted on the basis of conduct occurring before the effective date of this act, but a civil action may not be maintained to enforce any liability under the predecessor act unless instituted within any period of limitation that applied when the cause of action accrued or within five (5) years after the effective date of this act, whichever is earlier.

2. Section 406 of the Predecessor Act provides in pertinent part:

(a) If the Administrator reasonably believes, whether or not based upon an investigation conducted under Section 405 of this title, that a person has violated the Oklahoma Securities Act, except under the provisions of Section 202.1 or 305.2 of this title, or a rule or order of the Administrator under the Oklahoma Securities Act or has engaged in dishonest or unethical practices in the securities business, the Administrator, in addition to any specific power granted by any other section of the Oklahoma Securities Act, may impose one or more of the following sanctions:

(1) issue an order against the person to cease and desist from engaging in such violation or dishonest or unethical practices or doing any act in furtherance thereof[.]

3. Section 2 of the Predecessor Act provides in part:

(d) "*Agent*" means any individual other than a broker-dealer who represents a broker-dealer or issuer in effecting or attempting to effect purchases or sales of securities.

* * *

(e) "*Broker-dealer*" means any person engaged in the business of effecting transactions in securities for the account of others or for his or her own account.

(v) "*Security*" means any:

* * *

(11) investment contract[.]

4. Section 201 of the Predecessor Act provides in pertinent part:

(a)(1) It is unlawful for any person to transact business in this state as a broker-dealer or agent unless the person is so registered under this act or unless the person is exempt from registration as provided in paragraph (2) or (3) of this subsection.

5. Section 301 of the Predecessor Act provides:

It is unlawful for any person to offer or sell any security in this state unless:

(1) it is registered under this act or the security or transaction is exempted under Section 401 of this title; or

(2) it is a federal covered security.

6. Section 1-604 of the Act provides in part:

A. If the Administrator determines that a person has engaged, is engaging, or is about to engage in an act, practice, or course of business constituting a violation of this act or a rule adopted or order issued under this act or constituting a dishonest or unethical practice or that a person has materially aided, is materially aiding, or is about to materially aid an act, practice, or course of business constituting a violation of this act or a rule adopted or order issued under this act or constituting a dishonest or unethical practice, the Administrator may:

1. Issue an order directing the person to cease and desist from engaging in the act, practice, or course of business or to take other action necessary or appropriate to comply with this act[.]

Conclusions of Law

1. The Subscription Agreements are securities pursuant to the Predecessor Act.
2. Respondents offered and sold unregistered securities in and/or from Oklahoma, in violation of Section 301 of the Predecessor Act.
3. Respondents Smith and McElroy were not registered under the Predecessor Act to transact business as broker-dealers or agents, in violation of Section 201 of the Predecessor Act.
4. The Administrator has the authority to order Respondents to cease and desist from offering and selling unregistered securities in and/or from Oklahoma, and from transacting business as broker-dealers or agents in the state of Oklahoma without the benefit of registration.
5. It is in the public interest to order Respondents to cease and desist from the conduct described above.

To the extent any of these Conclusions of Law are more properly characterized as Findings of Fact, they should be so considered.

WHEREFORE, it is recommended that the Administrator order Respondents to cease and desist from offering and selling unregistered securities in and/or from Oklahoma, and from transacting business as broker-dealers or agents in the state of Oklahoma without the benefit of registration.

Dated this 10th day of May, 2005.

Respectfully submitted,



Patricia A. Labarthe
Enforcement Attorney
Oklahoma Department of Securities
120 North Robinson, Suite 860
Oklahoma City, OK 73102
(405) 280-7700