MINUTE ITEM

This Calendar Item No. C43 was approved as Minute Item No. 43 by the California State Lands Commission by a vote of 3 to 0 at its 6-2-03 meeting.

CALENDAR ITEM
C43

A) 3,8

S) 1

06/02/03
PRC 7976.1
A. Nitsche

CONSIDER APPROVAL OF A DEFERMENT OF DRILLING OBLIGATION, OIL AND GAS LEASE NO. PRC 7976.1, NURSE SLOUGH, SOLANO COUNTY

LESSEE/OPERATOR:

Slawson Exploration Company, Inc.
Attn.: Mr. Bruce Branson
1625 Broadway, Suite 1450
Denver, CO 80202-4714

Santa Barbara Resources, Inc.
Attn.: Ms. Phyllis N. Ventura
5813 Goleta Road
Santa Barbara, CA 93117

AREA, TYPE LAND AND LOCATION:

Oil and Gas Lease No. PRC 7976.1 (Lease) contains 42 acres in the bed of Nurse Slough in Solono County.

BACKGROUND:

Oil and Gas Lease No. PRC 7976.1 was issued on July 11, 1997, to McFarland Energy Company (80%) and Santa Barbara Resources, Inc. (20%). McFarland directionally drilled the Kirby Hills 24-1 Well under Nurse Slough in August 1997. The Kirby Hills 24-1 had significant shows of natural gas, but was considered uncommercial and was plugged and abandoned. One Hundred percent (100%) of McFarland Energy Company's 80 percent (80%) interest in PRC 7976.1 was assigned to Slawson Exploration Company, Inc. (Slawson) on January 29, 1999. Slawson drilled the B&B #1 Well adjacent to Nurse Slough in June 2001. The well was unproductive and was immediately plugged and abandoned in June 2001. Slawson, by letter of March 8, 2002, requested a one-year extension of the drilling term to negotiate with Towne Exploration Company (Towne) to re-drill

and deepen the B&B #1 Well adjacent to Nurse Slough. On June 18, 2002, the California State Lands Commission approved a one-year extension of the drilling term to July 10, 2003. Slawson, by letter of April 29, 2003, is requesting, citing permitting delays, another one-year extension of its drilling term to July 10, 2004. Slawson's April 29, 2003, letter (Exhibit C attached hereto), states " In line with terms of the May 16, 2002, agreement, had the re-entry been successful, the subject State lease would have been pooled and this will still be the case if Towne proceeds and achieves success with the operation" (pooling of the leased lands, however, is permitted only with the approval of the Commission, which approval is not being sought at this time). Slawson is, and has been, diligently pursuing activities to make PRC 7976.1 a productive lease. Commission staff recommends granting a one-year extension of the drilling term to July 10, 2004.

STATUTORY AND OTHER REFERENCES:

A. Public Resources Code sections: Division 6, Parts 1 and 2; Division 13.

B. California Code of Regulations sections: Title 2, Division 3; Title 14, Division 6.

OTHER PERTINENT INFORMATION:

1. Pursuant to the Commission's delegation of authority and the State CEQA Guidelines [Title 14, California Code of Regulations, section 15060(c)(3)], the staff has determined that this activity is not subject to the provisions of the CEQA because it is not a "project" as defined by the CEQA and the State CEQA Guidelines.

   Authority: Public Resources Code section 21065 and Title 14, California Code of Regulations, sections 15060 (c)(3) and 15378.

EXHIBITS:

A. Land Description
B. Location Map
C. Slawson's April 29, 2003, letter

PERMIT STREAMLINING ACT DEADLINE:

N/A

RECOMMENDED ACTION:
IT IS RECOMMENDED THAT THE COMMISSION:

CEQA FINDINGS:

FIND THAT THE ACTIVITY IS NOT SUBJECT TO THE REQUIREMENTS OF THE CEQA PURSUANT TO TITLE 14, CALIFORNIA CODE OF REGULATIONS, SECTION 15060(c)(3) BECAUSE THE ACTIVITY IS NOT A PROJECT AS DEFINED BY PUBLIC RESOURCES CODE SECTION 21065 AND TITLE 14, CALIFORNIA CODE OF REGULATIONS, SECTION 15378.

AUTHORIZATION:

APPROVE A ONE-YEAR DEFERMENT OF THE DRILLING OBLIGATION UNDER OIL AND GAS LEASE NO. PRC 7976.1 UNTIL JULY 10, 2004.

Land Description

A parcel of State owned tide and submerged lands lying in the bed of Nurse Slough (Luco Slough) Solano County, California said parcel described as follows:

> All that portion of the bed of Nurse Slough bounded on the north by a line parallel with and 3400 feet southerly of the northerly line of Section 3, T04N, R01W, MDM, and bounded on the south by Little Honker Bay.

END OF DESCRIPTION

EXHIBIT B

PRC 7976.1

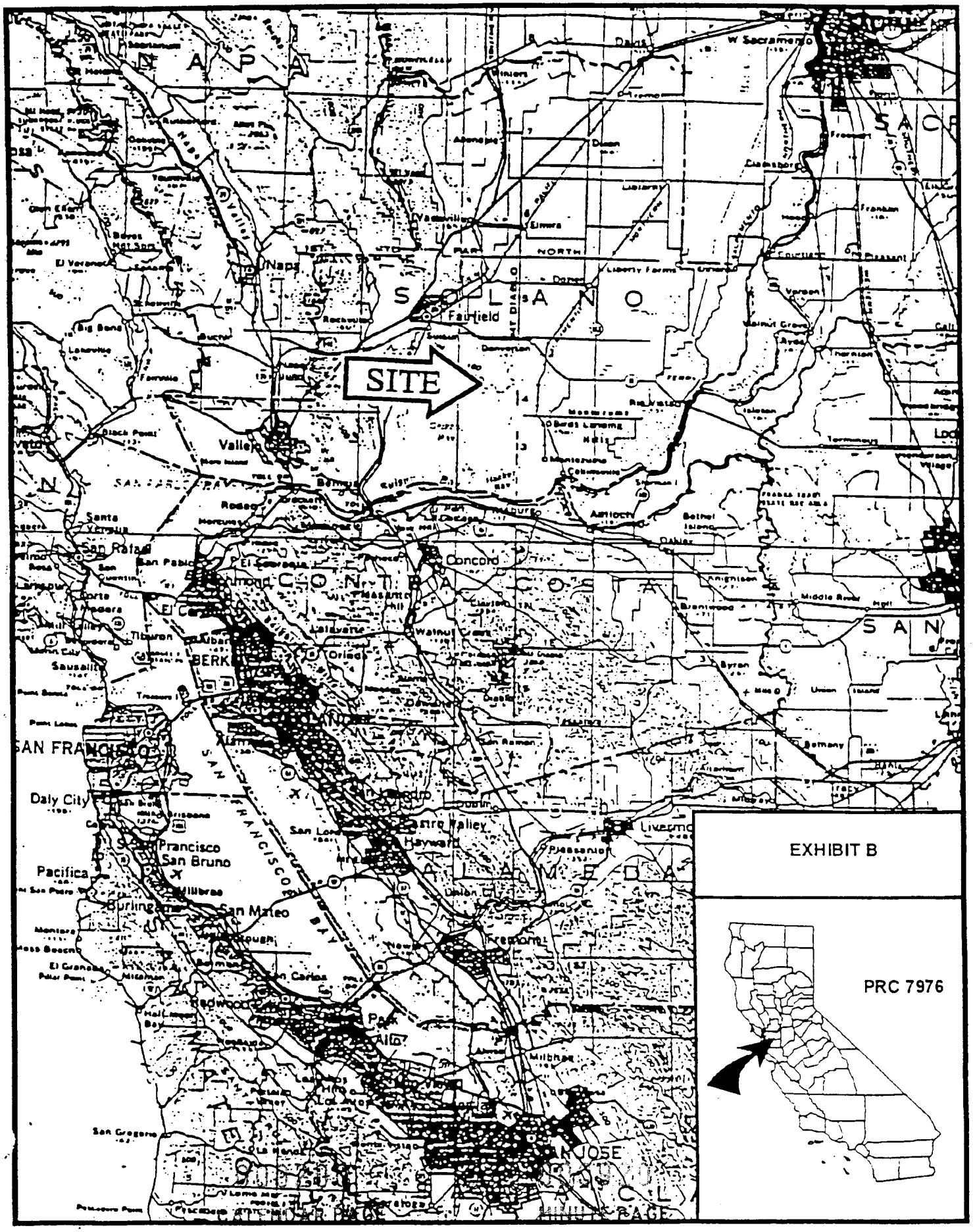

EXHIBIT C **PRC 7976.1**

SLAWSON
exploration company, inc.

April 29, 2003

Mr. Art Nitsche
California State Lands Commission
200 Oceangate, 12th Floor
Long Beach, CA 90802-4331

Re: State Oil and Gas Lease
Nurse Slough, PRC 7976
Solano County, California

Dear Art:

Based on our March 18, 2002 request, the California State Lands Commission approved a one-year extension of the drilling term for the State Oil and Gas Lease PRC 7976.1, Nurse Slough, Solano County, California.

You will recall that Slawson drilled the B&B #1 well that was plugged and abandoned on June 18, 2001. As provided in letter agreement of May 16, 2002 (copy enclosed), based on their review of the well logs and our proprietary seismic data, Towne Exploration Company intends to deepen the B&B #1.

We understand that Towne was unable to complete this operation last season because of permitting delays. In line with the terms of the May 16 agreement, had the re-entry been successful, the subject State lease would have been pooled in and this will still be the case if Towne proceeds and achieves success with the operation.

We understand that the deepening of this well remains viable for Towne. Timing at this point is unknown but, to protect the State's rights if the well is successful, and in order to allow adequate timing to know the results of the well, we are requesting an additional one-year extension of the drilling term for the captioned lease.

Thank you for your consideration and please let me know if you have questions.

Sincerely,

Bruce Branson
District Landman

11225

Rocky Mountain Division

1625 Broadway, Suite 1450
Denver, Colorado 80202-4704
(303) 592-8880 - FAX (303) 592-8881

000201
CALENDAR PAGE

000921
MINUTE PAGE

Slawson Exploration Company, Inc.
1625 Broadway, Suite 1450
Denver, CO 80202-4714
(303) 592-8880 – Phone
(303) 592-8881 – Fax

May 16, 2002

Via facsimile to (562) 590-5295

Mr. Arthur Nitsche
California State Lands Commission
200 Oceangate, 12th Floor
Long Beach, CA 90802-4331

Re: State Oil and Gas Lease, PRC 7976
Located in Nurse Slough
Solano County, CA

Dear Art:

By letter dated March 18, 2002, Slawson requested a one-year extension of the drilling term for the captioned lease. Recently, you brought to our attention the fact that Towne ~~Operating~~ Exploration Company filed a permit to re-enter the B & B #1 well adjacent to the subject lease. Your concern that a well will be located in close proximity to the State lease with no pooling arrangement is hereby acknowledged and addressed in this letter.

Slawson and Towne are in agreement that in the event operations are conducted on the stated well, which results in the establishment of production, all or a portion of State Oil and Gas Lease PRC 7976 will be included in a productive poolad unit and will comprise 7.1% of the pool. The balance of the pooled unit includes lands located on either side of the State Lease that are owned by Slawson and/or Towne.

The establishment of the pool is based upon 3D data. Utilization of 3D data enables us to identify expected natural gas pools prior to drilling. The allocation of production set forth in this letter is based upon a detailed geological and geophysical analysis of the percentage of the total gas pool that is underneath each tract of land in the unit. The surface acreage contribution of pooled tracts will be finalized upon achievement of production and will be designed to result in an exact match to the calculated percentage set forth herein. This approach to pooling ensures a fair sharing of the gas revenues in the event the well is productive.

Slawson requests the following:

1. Consent to pool California State Oil and Gas Lease, PRC 7976, as set forth herein. A formal Declaration of Pooling will be prepared with final pooling established upon production.

2. In the event less than the entire acreage associated with State Oil and Gas Lease, PC 7976 is pooled, Slawson wishes to maintain such leasehold by the extension of the drilling term as requested in our March 18, 2002 letter.

Thank you for your consideration of our request.

Sincerely,

Helen Capps

Helen Capps
District Landman

Towne ~~Operating~~ Exploration Company is in agreement with the inclusion of all or a portion of the California State Oil and Gas Lease, PRC 7976 into a pooled unit for the B & B #1 (re-drill) resulting in the production share of 7.1% of such unit. A formal Declaration of Pooling will be prepared in the event production is achieved on such well.

Executed this 17th day of May, 2002

TOWNE ~~OPERATING~~ Exploration COMPANY

By: [signature]

Title: General Partner

Towne Exploration Company