

MINUTE ITEM

This Calendar Item No. C68 was approved as Minute Item No. 68 by the California State Lands Commission by a vote of 3 to 0 at its 4-17-06 meeting.

CALENDAR ITEM
C68

A 8

04/17/06

S 2

PRC 8525.1

J. L. Smith

**CONSIDER ACCEPTANCE OF THE FULL QUITCLAIM DEED
OF CASTLE MINERALS INC.'S 50 PERCENT INTEREST IN
NEGOTIATED SUBSURFACE (NO SURFACE USE)
OIL AND GAS LEASE NO. PRC 8525.1
(103 ACRES UNDER THE CACHE SLOUGH),
SOLANO COUNTY**

LESSEE:

Castle Minerals Inc.
Attn.: Mr. Jeff E. Stiles, President
1107 A Airport Rd
Rio Vista, Ca. 94571

AREA, LAND TYPE, AND LOCATION:

Oil and Gas Lease No. PRC 8525.1 contains 103 acres of State tide, submerged and proprietary lands in the vicinity of Cache Slough, Solano County, California.

BACKGROUND:

Negotiated subsurface (no surface use) Oil and Gas Lease No. PRC 8525.1 (Lease) was issued to Castle Minerals Inc. (Castle Minerals), and Calpine Natural Gas, L.P. (Calpine) on April, 5, 2004. Each company acquired a 50 percent (50%) undivided interest in the Lease. The negotiated subsurface lease contains 103 acres of tide, submerged and proprietary lands in the bed and vicinity of the Cache Slough in Solano County, California (leased lands). Under the terms of the Lease, the lessee is required to pay an annual rental of \$40 per acre (\$4,120 for 103 acres) and commence drilling operations on the leased lands within three years. Castle Minerals has requested that the California State Lands Commission (Commission) accept a quitclaim of its 50 percent (50%) interest in the Lease.

In July 2004, the lessees drilled and abandoned an unsuccessful well from an adjoining private upland lease. The well was directionally drilled and bottomed under PRC 8525.1. This well, the "Blue Heron" #1, was plugged and abandoned

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CALENDAR ITEM NO. C68 (CONT'D)

to Division of Oil, Gas, and Geothermal Resources (DOGGR) standards on or before July 29, 2004, as shown on Exhibit C, attached hereto. No drilling or associated well operations have been conducted on the lease, no surface occupancy or disturbance of any kind has occurred and no other wells have been drilled into or through the lease.

Public Resources Code section 6804.1 and Lease Paragraph 29 permit the lessee to make, at any time, a written quitclaim of all rights under the lease or of any portion of the leased lands comprising a ten-acre parcel or multiple thereof in a compact form. The quitclaim is effective when it is filed with the State subject to the continued obligation of the lessee and its surety to pay all accrued rentals and royalties and to abandon all wells drilled on the leased lands.

On March 23, 2006, the Commission's Long Beach office staff received the document "(Full) Quitclaim Deed for State Oil and Gas Lease." This document was dated March 23, 2006, and quitclaims back to the State all of Castle Minerals' right, title and interest in the leased lands described in Exhibit A, attached hereto, of Oil and Gas Lease No. PRC 8525.1.

A review of the Commission's files reveals that no default exists on the Lease, that the lessee has complied with all applicable laws and Lease provisions, and has paid all rentals (no royalty is due as the leased lands were not developed).

STATUTORY AND OTHER REFERENCES:

- A. Public Resources Code section 6804.1 and Lease Paragraph 29.

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. Report of Well Plugging and Abandonment

RECOMMENDED ACTION:

IT IS RECOMMENDED THAT THE COMMISSION:

CEQA FINDING:

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:

1. ACCEPT FROM CASTLE MINERALS INC. (LESSEE) THE FULL QUITCLAIM DEED FOR ITS 50 PERCENT INTEREST IN OIL AND GAS LEASE PRC 8525.1, WHEREIN THE LESSEE QUITCLAIMS BACK TO THE STATE ALL OF ITS RIGHT, TITLE AND INTEREST IN THE LEASED LANDS DESCRIBED IN EXHIBIT A, ATTACHED HERETO.
2. RELEASE CASTLE MINERALS INC. FROM ALL OBLIGATIONS UNDER OIL AND GAS LEASE NO. PRC 8525.1 ACCRUING AFTER MARCH 23, 2006, THE FILING DATE OF THE QUITCLAIM DEED.
3. AUTHORIZE THE EXECUTIVE OFFICER OR HIS DESIGNEE TO EXECUTE ANY DOCUMENTS NECESSARY TO IMPLEMENT THE COMMISSION'S ACTION.

LAND DESCRIPTION

A parcel of tide and submerged land lying within protracted Sections 31 and 32, T5N, R3E, MDM, and protracted Section 5, T4N, R3E, MDM, County of Solano, State of California, more particularly described as follows:

BEGINNING at a point having California Coordinate System 1983, Zone 2 North y-coordinate = 1,848,630.00 feet and East x-coordinate = 6,655,385.00 feet; thence the following four (4) courses:

1. N90°00'00"W 4325.00 feet;
2. S24°30'03"E 4593.63 feet;
3. N90°00'00"E 2420.00 feet;
4. N00°00'00"E 4180.00 feet to the point of beginning.

EXCEPTING THEREFROM any portion lying landward of the ordinary high water mark.

This description is based on the California Coordinate System of 1983, Zone 2.

END OF DESCRIPTION

Prepared by the California State Lands Commission Boundary Unit January 15, 2004



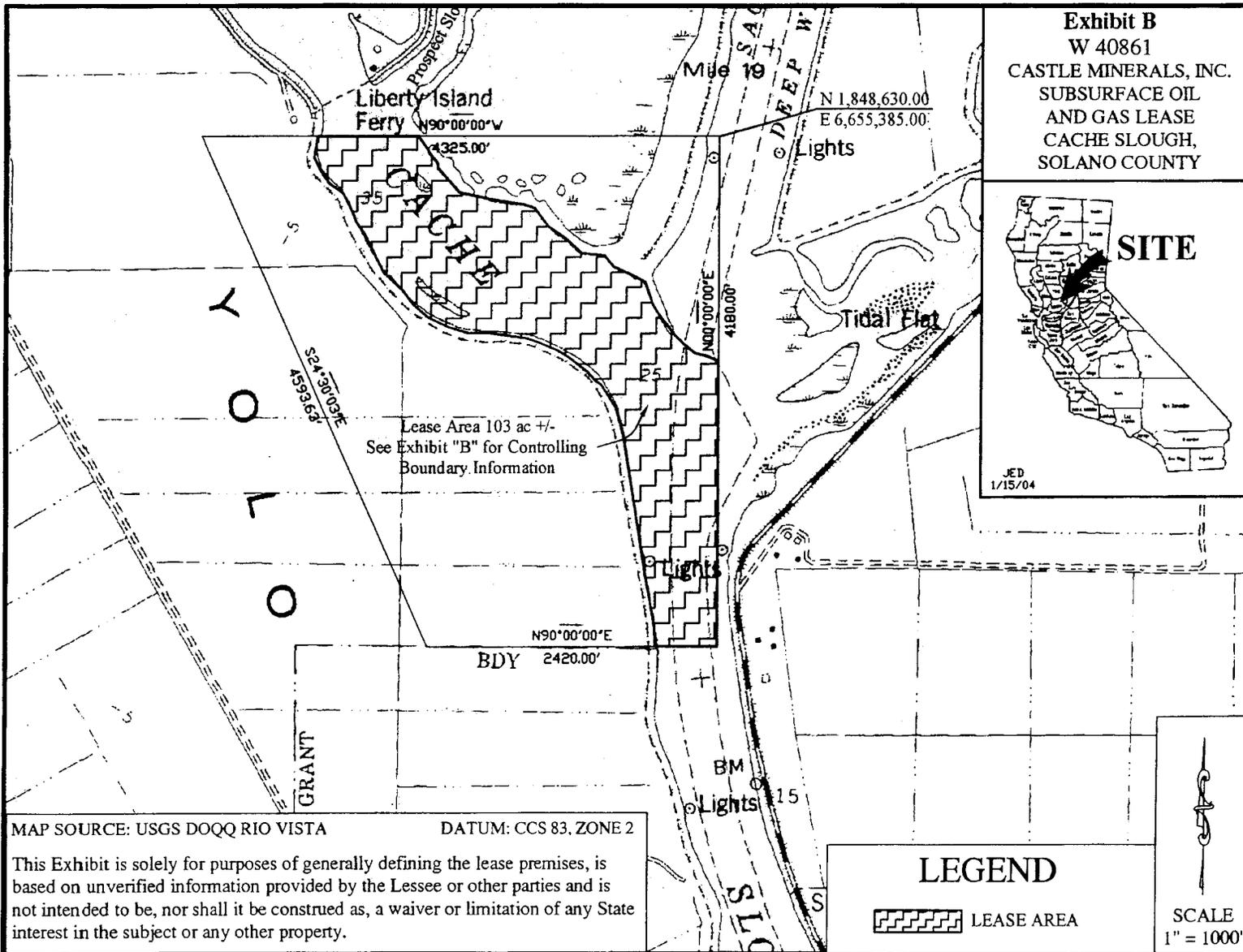


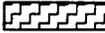
Exhibit B
W 40861
CASTLE MINERALS, INC.
SUBSURFACE OIL
AND GAS LEASE
CACHE SLOUGH,
SOLANO COUNTY



MAP SOURCE: USGS DOQQ RIO VISTA DATUM: CCS 83, ZONE 2

This Exhibit is solely for purposes of generally defining the lease premises, is based on unverified information provided by the Lessee or other parties and is not intended to be, nor shall it be construed as, a waiver or limitation of any State interest in the subject or any other property.

LEGEND

 LEASE AREA



SCALE
1" = 1000'

EXHIBIT C

PRC 8525.1

RESOURCES AGENCY OF CALIFORNIA
DEPARTMENT OF CONSERVATION
DIVISION OF OIL, GAS, AND GEOTHERMAL RESOURCES

REPORT OF WELL PLUGGING AND ABANDONMENT

Sacramento, California

March 8, 2005

Jeff Stiles, Agent

CASTLE MINERALS

45 Main Street

Rio Vista, CA 94571

Your report of the plugging and abandonment of well "Blue Heron" #1, A.P.I. No. 095-21199, Section 31, T. 5N, R. 3E, M.D. B. & M, N/A field, Solano County, dated 7/23/04, received 7/27/04, has been examined in conjunction with records filed in this office. We have determined that all of the requirements of this Division have been fulfilled relative to plugging and abandonment of the well, removal of well equipment and junk, and filing of well records.

- NOTES: 1. Surface plugging completed on 7/22/04.
2. Site inspection made and approved 7/29/04.

BOND: BLANKET

STATUS: CONFIDENTIAL

Hal Bopp,
State Oil and Gas Supervisor

By Robert S. Habel

Robert S. Habel
District Deputy

RSH/syh