

MINUTE ITEM

This Calendar Item No. ~~C86~~ was approved as
Minute Item No. 86 by the California State Lands
Commission by a vote of 3 to 0 at its
05/10/07 meeting.

**CALENDAR ITEM
C86**

A 15
S 5

05/10/07
PRC 8694.1
J. L. Smith

**CONSIDER APPROVAL OF ASSIGNMENT
FROM TOWNE EXPLORATION COMPANY
TO CAPITOL OIL CORPORATION
OF A PARTIAL INTEREST IN
OIL AND GAS LEASE NO. PRC 8694.1,
SACRAMENTO COUNTY**

ASSIGNOR:

Towne Exploration Company
Attn.: Mr. Edward B. Towne
P.O. Box 520
San Francisco, CA 94104-0520

ASSIGNEE:

Capitol Oil Corporation
Attn.: Mr. Stephen D. Brooks
3840 Watt Ave., Bldg. B
Sacramento, CA 95821-2640

AREA, LAND TYPE, AND LOCATION:

Negotiated subsurface (no surface use) Oil and Gas Lease No. PRC 8694.1 is located within the River Island Gas Field area. The lease includes approximately 13.86 acres in the bed of Georgiana Slough, Sacramento County and is currently pooled into the natural gas productive North Isleton 30-1 Unit.

BACKGROUND:

The California State Lands Commission (Commission) issued negotiated subsurface (no surface use) Oil and Gas Lease No. PRC 8694.1 to Towne Exploration Company (Towne) on June 26, 2006 (see Location Map attached as Exhibit A to this Calendar Item). The lease is a negotiated subsurface lease that prohibits any surface use. The lease is currently producing from a pooled unit (North Isleton 30-1 Unit) from which natural gas is produced from a well bore located on private land adjacent to and draining State property.

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This State lease contains a provision requiring the consent of the Commission to any assignment, transfer or sublease of the lessee's interest. In addition, Public Resources Code section 6804 provides that unless approved by the Commission, no assignment, transfer or sublease of an oil and gas lease shall be of any effect.

Towne is the operator and owner of Oil and Gas Lease No. PRC 8694.1. Towne and its financial partner, Capitol Oil Corporation (Capitol Oil), entered into an area of mutual interest agreement (AMI) wherein Capitol Oil is a 40 percent (40%) participant. Capitol Oil is a privately owned exploration and production company organized under the laws of California in 1964. Pursuant to their agreement, Towne wishes to assign an undivided 40 percent (40%) interest in the lease to Capitol Oil. Towne will retain undivided 60 percent (60%) ownership in the lease and will continue to be the operator of the lease.

Towne, as assignor, has requested Commission approval of the transfer of an undivided 40 percent (40%) interest in the lease to Capitol Oil, as assignee, and tendered an executed State assignment form (Exhibit B, attached hereto). Staff has determined that no default exists on the lease and that Towne has complied with all applicable lease provisions and has paid all rentals pursuant to the lease terms and that Capitol Oil possesses the statutory qualifications to hold a State oil and gas lease.

STATUTORY AND OTHER REFERENCES:

- A. Paragraph 28(a) of Lease No. PRC 8694.1.
- B. Public Resources Code section 6804

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.

2. Assignment form has been provided and filing fees paid.

CALENDAR ITEM NO. C86 (CONT'D)

EXHIBITS:

- A. Location Map
- B. Assignment Form

PERMIT STREAMLINING ACT DEADLINE:

N/A (not a "development project" subject to the act)

RECOMMENDED ACTION:

IT IS RECOMMENDED THAT THE COMMISSION:

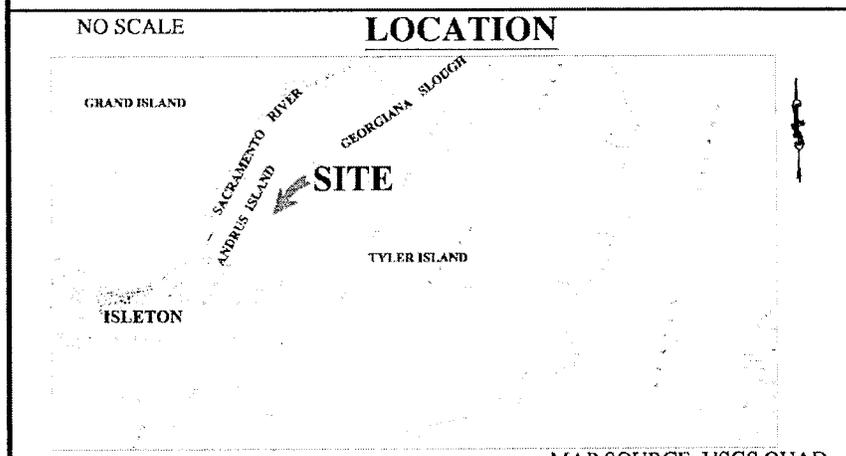
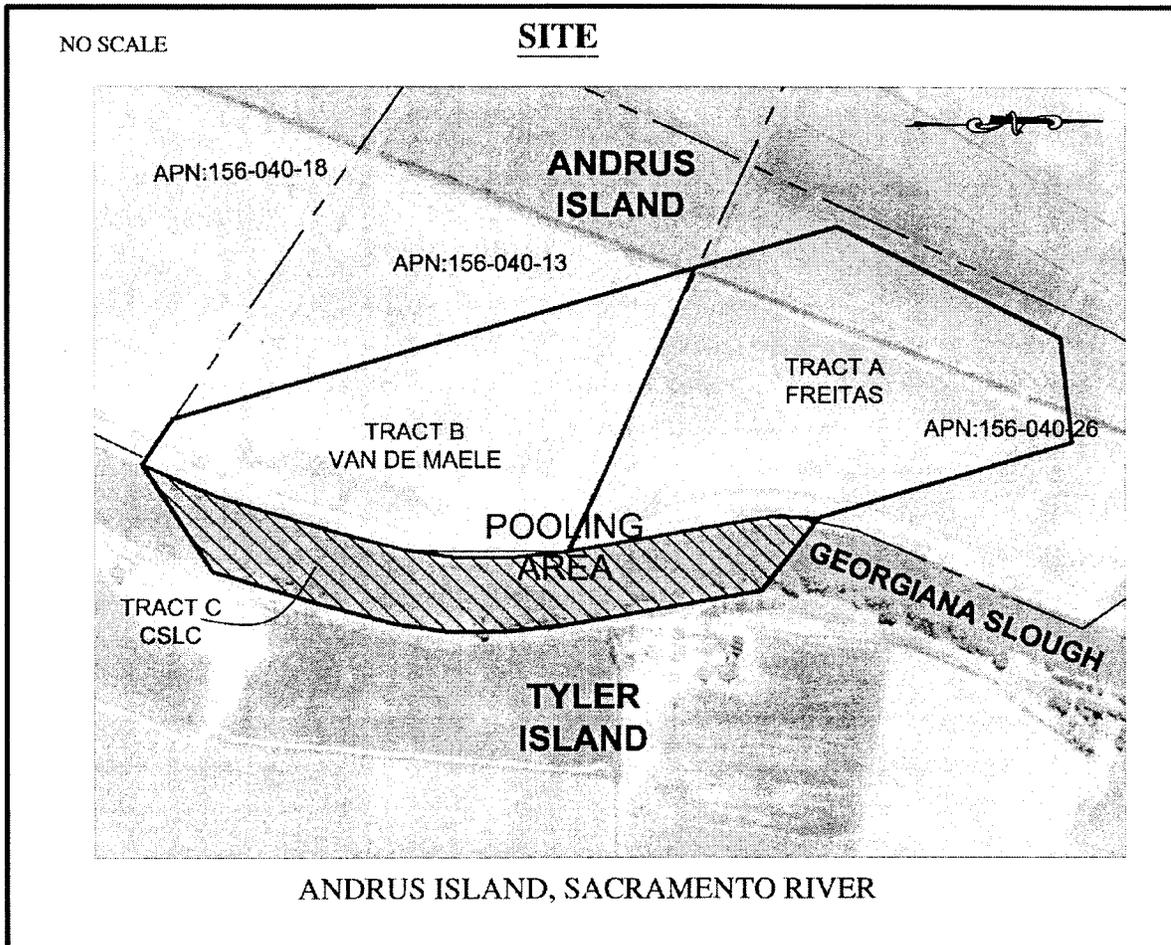
CEQA FINDING:

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:

CONSENT TO THE ASSIGNMENT OF AN UNDIVIDED FORTY PERCENT (40%) INTEREST OF THE ONE HUNDRED PERCENT (100%) INTEREST OF TOWNE EXPLORATION COMPANY IN OIL AND GAS LEASE NO. PRC 8694.1 TO CAPITOL OIL CORPORATION WITH THE ASSIGNEE TO BE BOUND BY ALL THE TERMS AND CONDITIONS OF THE LEASE.

AUTHORIZE THE EXECUTIVE OFFICER OR HIS DESIGNEE TO EXECUTE ANY DOCUMENT NECESSARY TO IMPLEMENT THIS ASSIGNMENT.



PRC 8694.1
OIL AND GAS LEASE
TOWNE EXPLORATION
SACRAMENTO RIVER
SACRAMENTO COUNTY



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.

NJF 6/02/06

Exhibit B

STATE LANDS COMMISSION

STATE OIL AND GAS LEASE

- ASSIGNMENT FORM -

- ACCEPTANCE FORM -

Towne Exploration Company, a California limited partnership (Assignor), as holder of a one hundred percent interest in State Oil and Gas Leases PRC 8587.1, assigns forty percent of its undivided right, title and interest under said leases to Capitol Oil Corporation, a California corporation (Assignee).

Assignee accepts the assignment of this lease and agrees to perform in the manner provided in the lease conditions, covenants and agreements to be kept and performed by the Assignor, and to be bound by the terms of the lease, including any modifications and collateral agreements, to the same extent as the Assignor.

ASSIGNOR:

ASSIGNEE:

Name: Towne Exploration Company

Name: Capitol Oil Corporation

Address: Post Office Box 520, San Francisco, California 94104-0520

Address: 3840 Watt Avenue, Bldg. B, Sacramento, California 95821-2640

By: _____
Name: Edward B. Towne

By: _____
Name: Stephen D. Brooks

Title: General Partner

Title: President

Date: _____

Date: _____

At its meeting on May 10, 2007, the State Lands Commission approved the Assignment from Towne Exploration Company (Assignor) to Capitol Oil Corporation (Assignee) of State Oil and Gas Lease PRC 8587.1.

This approval was given upon the following conditions:

1. This assignment shall not release the Assignor from any obligation to the State Lands Commission under the lease, any conditions in the assignment agreement to the contrary notwithstanding.
2. The Assignee shall be bound by the terms of the lease, including any modifications and collateral agreements, to the same extent as the Assignor, any conditions in the assignment agreement to the contrary notwithstanding.
3. This assignment is made pursuant to Public Resources Code section 6804; this assignment shall take effect on June 1, 2007.

STATE LANDS COMMISSION

By: _____
Chief, Mineral Resources Management Division

All signatures must be acknowledged

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