MINUTE ITEM
This Calendar Item No. C59 was approved as Minute Item No. 59 by the California State Lands Commission by a vote of 3 to 0 at its 06-28-07 meeting.

# CALENDAR ITEM
# C59

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06/28/07
PRC 8674.1
J. L. Smith

## CONSENT TO THE POOLING OF ALL OR PART OF THE LEASED LANDS UNDER NEGOTIATED SUBSURFACE (NO SURFACE USE) LEASE NO. PRC 8674.1 SOUTH MOKELUMNE RIVER AND BEAVER SLOUGH, SAN JOAQUIN COUNTY

**LESSEE/OPERATOR:**

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

**AREA, LAND TYPE, AND LOCATION:**

Negotiated subsurface (no surface use) Oil and Gas Lease No. PRC 8674.1 contains approximately 13.74 acres of tide and submerged lands in the bed of the South Fork of the Mokelumne River and Beaver Slough in San Joaquin County, California.

**BACKGROUND:**

Negotiated subsurface (no surface use) Oil and Gas Lease No. PRC 8674.1 (Lease) was entered into on April 17, 2006, between the California State Lands Commission (Commission) and Towne Exploration Company (Towne). On May 10, 2007, the Commission approved an assignment of an undivided 40 percent (40%) interest from Towne (Assignor) to Capitol Oil Corporation (Assignee), effective June 1, 2007. Towne continues to be the operator of this lease.

Paragraph 22(b) of the lease allows Towne, as the Lessee, with the consent of the State and under terms and conditions approved by the State, to pool or unitize all or part of the leased lands with lands held by Towne or others. Towne is forming an operating unit that, based on current geologic interpretation, contains a total of 70.71 acres of State and private leased lands (described in Exhibit A, attached hereto). Towne's unit is called the "Gamble 13-2 Unit" and is being created for the development and production of natural gas. Towne has



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requested the Commission's consent to the pooling of 6.60 acres of leased lands under Oil and Gas Lease No. PRC 8674.1 by approving Towne's Declaration of Pooling for the "Gamble 13-2 Unit" dated June 6, 2007. The Commission staff has made a thorough review of the supporting materials used by Towne to form its unit and agrees with Towne's geologic interpretation, subject to review after the well is drilled. Staff has determined that there is no geologic or engineering reason not to pool the leased land and that it will be economically advantageous to the State to share in any production from the unit.

**BASIS FOR CONSIDERATION:**

A. Public Resources Code, sections 6829.2 and 6832 and Oil and Gas Lease No. PRC 8674.1, paragraph 22(b).

**OTHER PERTINENT INFORMATION:**

1. Towne has proposed to drill the "Gamble 13-2 Unit" well from a surface location adjacent to the State lands. The well would be drilled directionally through the leased lands to a completion location outside of the State lands. The proposed drillsite is on land where the "surface estate" and "mineral estate" are not owned by the same parties (i.e., a "split" estate). A dispute exists between Towne, as the mineral estate owner, and the surface owner of the proposed drillsite location as to Towne's right to burden the surface owner's land for the drilling of this well. The pending litigation may affect the timing and location of the proposed well, but is unlikely to affect whether the well is actually drilled.

2. 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. Location Map of negotiated subsurface Oil and Gas Lease No. PRC 8674.1

B. Declaration of Pooling dated June 6, 2007

**PERMIT STREAMLINING ACT DEADLINE:**

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

**RECOMMENDED ACTION:**

IT IS RECOMMENDED THAT THE COMMISSION:

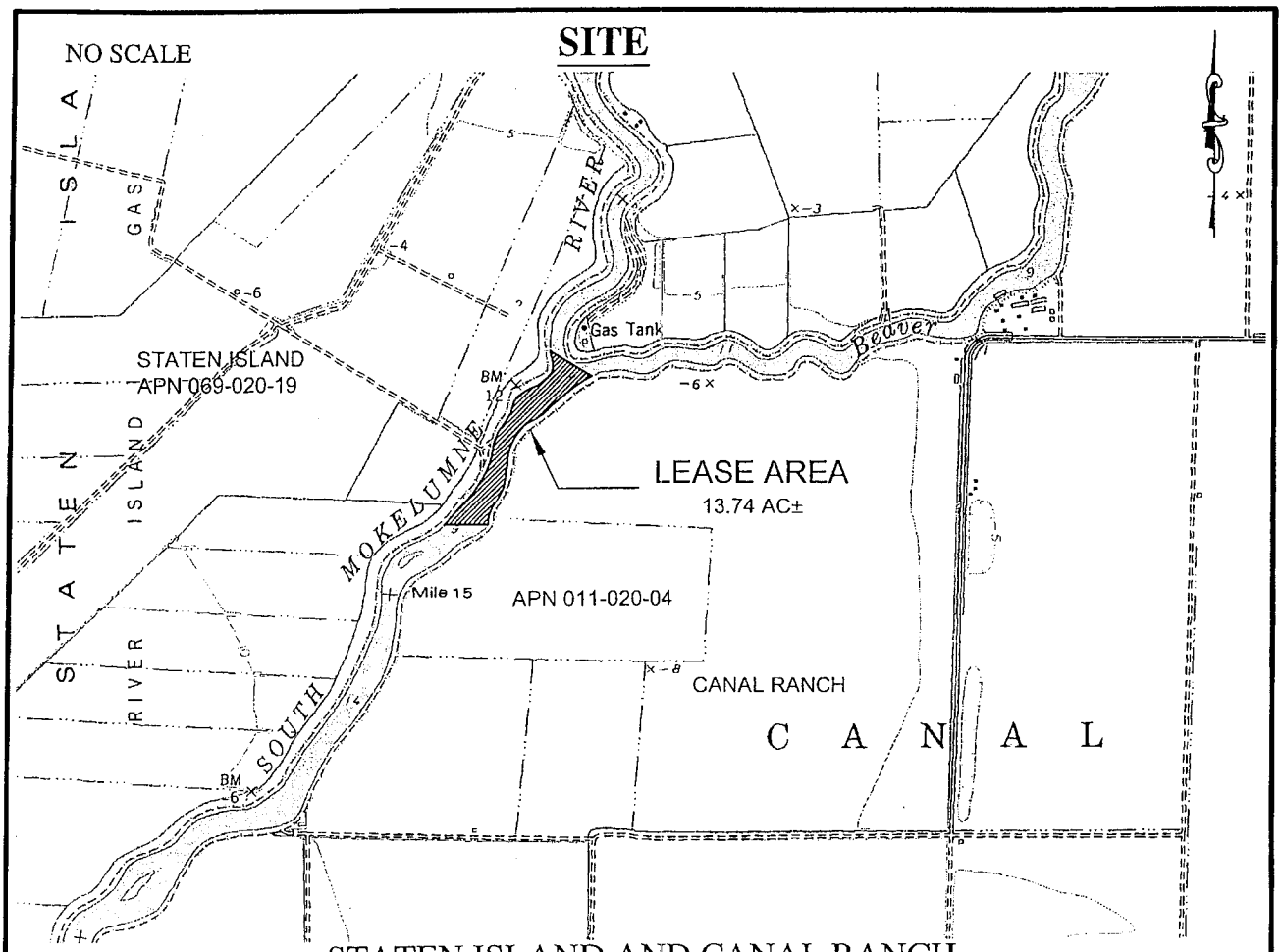
**CEQA FINDINGS:**

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.

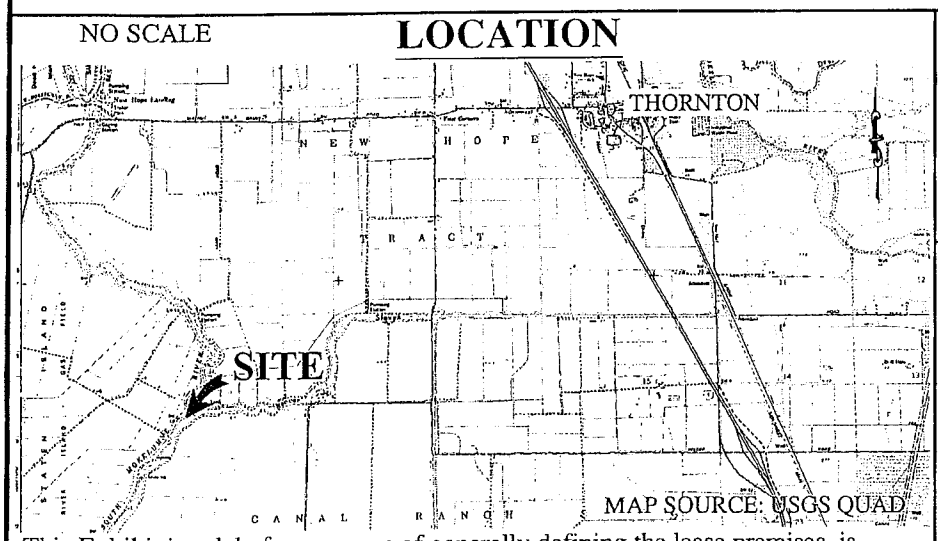
**AUTHORIZATION:**

CONSENT TO THE POOLING OF ALL OR PART OF THE LEASED LANDS (UNDER OIL AND GAS LEASE NO. PRC 8674.1) WITH PRIVATE LANDS HELD BY TOWNE EXPLORATION COMPANY. CONSENT IS GIVEN BY APPROVING TOWNE'S PROPOSED DECLARATION OF POOLING DATED JUNE 6, 2007, WHICH CREATES THE "GAMBLE 13-2 UNIT" DESCRIBED IN EXHIBIT B, ATTACHED HERETO, (APPROXIMATELY 70.71 ACRES, WHICH INCLUDES 6.60 ACRES OF LEASED LANDS UNDER OIL AND GAS LEASE NO. PRC 8674.1). IF THE WELL IS PRODUCTIVE, STAFF SHALL REVIEW THE DRILLING RECORD OF THE WELL AND RE-EXAMINE THE STATE'S EQUITABLE INTEREST FOR CONSISTENCY WITH THE PROPOSED UNIT. THE UNITIZED LEASED LANDS SHALL BE SUBJECT TO THE PROVISIONS OF OIL AND GAS LEASE NO. PRC 8674.1, ANY CONDITIONS IN THE DECLARATION OF POOLING TO THE CONTRARY NOTWITHSTANDING.

# EXHIBIT A




STATEN ISLAND AND CANAL RANCH
SOUTH FORK OF THE MOKELUMNE RIVER AND BEAVER SLOUGH




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.

## Exhibit A

PRC 8674.1
OIL AND GAS LEASE
MOKELUMNE RIVER &
BEAVER SLOUGH
SAN JOAQUIN CO.

JAK 06/07

RECORDING REQUESTED BY AND
WHEN RECORDED MAIL TO:

PRC 8674.1

Towne Exploration Company
P.O. Box 520
San Francisco, CA 94104-0520

**EXHIBIT B**

DECLARATION OF POOLING

This DECLARATION OF POOLING is made this 6th day of June, 2007, by Towne Exploration Company ("Lessee"), whose address is Post Office Box 520, San Francisco, CA 94104-0520.

Lessee owns and holds of record leasehold estates created by certain oil and gas leases and fee mineral interests, the short forms or memoranda of which are described on Exhibit "A" attached hereto and incorporated by reference herein (collectively the "Leases"). Lessee, in order to facilitate the orderly development of the Leases and to promote the conservation of oil, gas, and associated substances, desires to combine, unitize, and pool the Leases, as herein expressed.

NOW, THEREFORE, pursuant to and in exercise of the rights granted the Lessee in each of the Leases and effective as of the effective date set forth below, Lessee hereby combines and pools the Leases, insofar as they cover the lands within the operating unit designated the Gamble 13-2 Unit, more particularly described in Exhibit B attached hereto and by reference incorporated herein, containing 70.71 acres, more or less, located in San Joaquin County, California for the development and production of oil, gas and associated substances. A plat depicting the pooled unit is attached as Exhibit "C" and by reference incorporated herein. Oil, gas, other hydrocarbons and any other mineral substance produced in association therewith as a constituent part of the production stream shall be allocated among the parcels included within the Gamble 13-2 Unit in the same proportionate shares as the surface area for any given parcel shall bear to the sum of all the surface area for all the leased parcels within the Gamble 13-2 Unit.

IN WITNESS WHEREOF, the Lessee has executed this document, the effective date of which is June 6, 2007.

IN WITNESS WHEREOF, the Lessee has executed this document and makes the same effective as of June 6th, 2007.

TOWNE EXPLORATION COMPANY,
a California limited partnership

By: _____
Edward B. Towne, General Partner

STATE OF CALIFORNIA )
) ss.
COUNTY OF SAN FRANCISCO )

On _____, 2007, before me, _____, Notary Public in and for said County and State, personally appeared EDWARD B. TOWNE, personally known to me (or proved to me on the basis of satisfactory evidence) to be the person whose name is subscribed to the within instrument and who acknowledged to me that he executed the same in his authorized capacity, and that by his signature on the instrument the entity upon behalf of which he acted, executed the instrument.

WITNESS my hand and official seal.

_____
Notary Public in and for said County and State

# EXHIBIT "A"

| Lessor | Date of Lease | Date of Recording in San Joaquin County | Recorded Instrument No. or Book and Page in San Joaquin County |
|---|---|---|---|
| Nestle USA, Inc. | June 10, 2005 | July 19, 2005 | 2005-174719 |
| State of California PRC8674.1 | April 17, 2006 | June 1, 2006 | 2006-118599 |
| Pacific Realty Associates | April 8, 2005 | July 19, 2005 | 2005-174721 |

| Grantor/Grantee | Date of Conveyance | Date of Recording in San Joaquin County | Recorded Instrument No. or Book and Page in San Joaquin County |
|---|---|---|---|
| Canal Ranch Minerals, LLC/Towne Exploration Company | August 25, 2005 | September 15, 2005 | Document Number 2005-231890 |
| Canal Ranch Minerals, LLC/Towne Exploration Company | August 25, 2005 | September 15, 2005 | Document Number 2005-231891 |
| Darsie Enterprises, L.P./Towne Exploration Company | August 25, 2005 | September 15, 2005 | Document Number 2005-231892 |
| Darsie Enterprises, L.P./Towne Exploration Company | August 25, 2005 | September 15, 2005 | Document Number 2005-231893 |
| Susan Neufeldt/Towne Exploration Company | September 8, 2005 | September 15, 2005 | Document Number 2005-231894 |
| Susan Neufeldt/Towne Exploration Company | September 8, 2005 | September 15, 2005 | Document Number 2005-231895 |

## EXHIBIT "B"

Attached to and made a part of that certain Declaration of Pooling for the Gamble 13-2 Unit

Those lands covered by the following Oil and Gas Lease and Oil, Gas and Mineral Lease and Fee Mineral Rights insofar as and only insofar as said Leases and Fee Mineral Rights cover the lands described below:

**Tract A:**

Oil and Gas Lease dated April 8, 2005, a memorandum of which was recorded on July 19, 2005, Document # 2005-174721, Official Records of San Joaquin County, California , between Pacific Realty Associates, a Delaware limited partnership and Towne Exploration Company, a California limited partnership, insofar and only insofar as the same covers the following described lands:

A portion of Section 13, Township 4 North, Range 4 East, MDB&M, also being portions of Swamp and Overflowed Land Surveys numbered 945 and 1029 of the former County of Sacramento and State of California and now within the County of San Joaquin and State of California, more particularly described as follows:

Beginning at a point on the Westerly bank of the South fork of the Mokelumne River distant, on a bearing of North 13° 32'39" West, 1904.25 feet, more or less, from the Southeast corner of said Section 13, said point also being described as having a CCS 27, Zone 2 coordinates of North=192900 feet, East 2149900 feet; thence from said point of beginning, North 58°23'33" West 422.40 feet; thence North 65°39'02" West 992.48 feet; thence North 49°52'26" West 1208.43 feet; thence South 51°42'35" West 319.54 feet; thence South 5°42'38" West 530.63 feet; thence South 18°58'14" East 223.3 feet; thence South 33°15'16" East 481.44 feet; thence South 46°19'56" East 401.46 feet; thence South 66°48'05" East 502.6 feet; thence South 86°49'13" East 594.92 feet; thence South 78°41'24" East 269.33 feet; thence South 55°00'29" East 144.61 feet to the Westerly line of said South fork of the Mokelumne River; thence along said Westerly line, North 4°23'52" West 115.98 feet, North 59°32'22" East 554.21 feet, and North 13°32'39" West 182.81 feet to the Point of beginning, containing 54.51 acres, more or less.

**Tract B:**

Oil, Gas and Mineral Lease dated June 10, 2005, a memorandum of which was recorded June 10, 2005, at Document # 2005-174719, Official Records of San Joaquin County, California, between Nestle USA Inc., a Delaware Corporation, and Towne Exploration Company, a California limited partnership, as to an undivided fif ty percent interest, and by Towne Exploration Company, a California limited partnership, as owner in fee of the remaining undivided fity percent interest, insofar and only insofar as said interests covers the following described lands:

That portion of Section 13, Township 4 North, Range 4 East, MDB&M and Section 18, Township 4 North, Range 5 East, MDB&M, also being a portion of Swamp and Overflowed Land Survey No. 1224, in the County of San Joaquin and State of California, more particularly described as follows:

Beginning at a point on the Easterly bank of the South fork of the Mokelumne River, distant, on a bearing of North 28°38'50" West, 1274.51 feet, more or less, from the Southeast corner of said Section 13; thence from said point of beginning, South 63°26'06" East 314.23 feet; thence East 462 feet; thence North 61°30'16" East 262.84 feet; thence North 53°22'43" East 353.22 feet; thence North 68°10'47" West 638.22 feet to CCS 27, Zone 2 coordinates of North=192600, East=2150400; thence North 59°02'10" West 55.15 feet to the Easterly bank of said South fork of the Mokelumne River; thence along said bank, South 52°48'54" West 134.36 feet, South 48°55'06" West 339.5 feet, and South 58°22'58" West 299.23 feet to the point of beginning, containing 9.60 acres, more or less.

**Tract C:**

State Oil and Gas Lease PRC 8674.1 dated April 17, 2006, between the State of California acting through the State Lands Commission and Towne Exploration Company, a California limited partnership, a memorandum of which was recorded on June 1, 2006, Document # 2006-118599, Official Records of San Joaquin County, California, insofar and only insofar as said interests covers the following described lands:

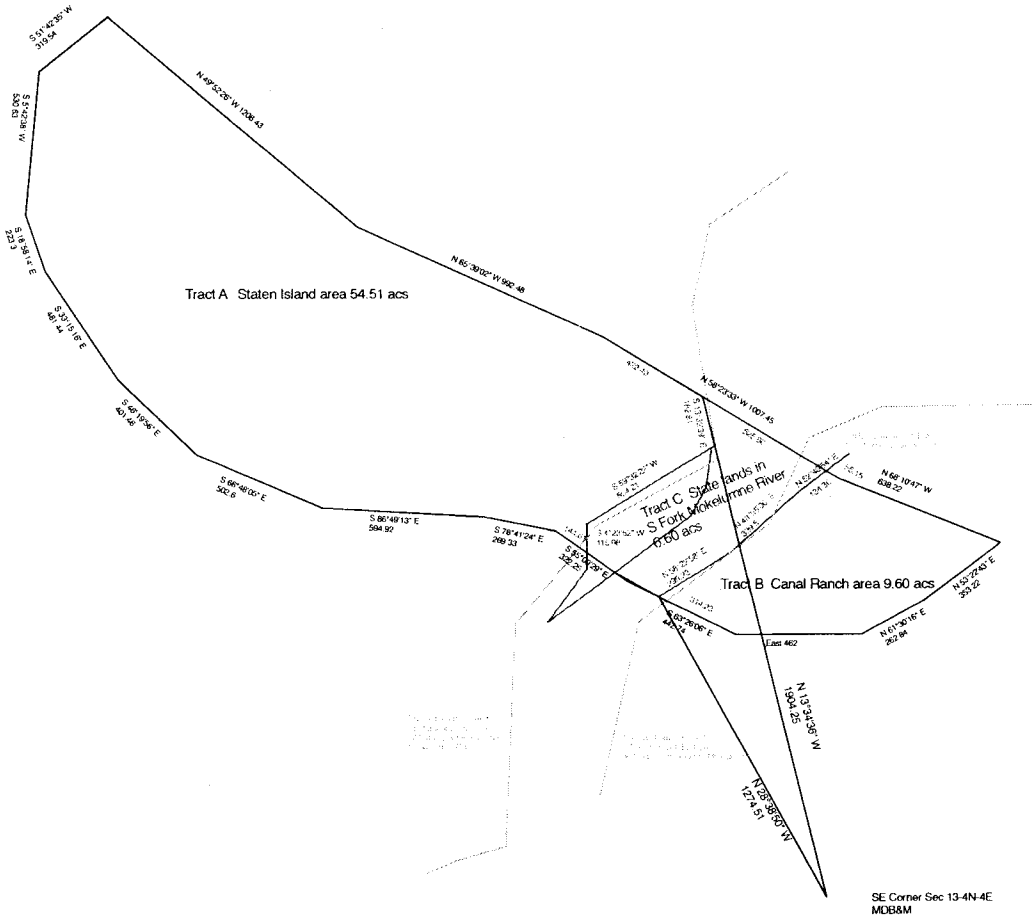
A Parcel of tide and submerged land in the bed of the South Fork of the Mokelumne River and Beaver Slough situated in San Joaquin County, California, adjacent to those parcels of land as described in Oil, Gas and Mineral Lease of Staten Island recorded in Book 2232 Page 115 Official Records, San Joaquin County Records and Oil, Gas and Mineral Lease recorded in Book 3173 Page 546 Official Records, San Joaquin County Records, and more particular described as follows:

Bounded to the northeast by a line beginning at a point on Staten Island having a CCS 27, Zone 2 coordinates of North = 192900 feet, East = 2149900 feet and a ending point having coordinated of North = 192600 feet, East = 2150400 feet; bounded on the southwest by a line parallel to said line between the coordinate points and a distance 722' southwesterly therefrom; bounded on the northwest by the ordinary high water mark on the right bank of said Mokelumne River; bounded on the southeast by the ordinary high water mark on the left bank of said Mokelumne River and left bank of said Beaver Slough, said to contain 6.60 acres, more or less.

END OF EXHIBIT "B"

EXHIBIT "C"

Attached to and made a part of that certain Declaration of Pooling for the Gamble 13-2 Unit




Gamble 13-2 Unit 70.71 acres
in SE quarter of Section 13-4N-4E
in SW quarter Sec 18-4N-5E

| | |
|---|---|
| Tract A Staten Island area | 54.51 acs |
| Tract B Canal Ranch area | 9.60 acs |
| Tract C State lands in S Fork Mokelumne River | 6.60 acs |

San Joaquin County, CA