

EXHIBIT C

STATE OF CALIFORNIA

ARNOLD SCHWARZENEGGER, *Governor*

CALIFORNIA STATE LANDS COMMISSION
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September 30, 2008

File Ref: PRC 7911
PRC 4000
W 40813

Mr. Steve Coombs
Carone Petroleum, Inc.
1145 Eugenia Place, Suite 200
Carpinteria, CA 93013

RE: Project Application for PRC 7911/4000 Development from OCS Platform Hogan

Dear Mr. Coombs:

Almost twelve years ago, on October 28, 1996, the California State Lands Commission approved the assignments to Carone Petroleum, Inc. of State Oil and Gas Lease PRC 4000 and a portion of State Oil and Gas Lease PRC 3150. The Commission renumbered the portion of Lease PRC 3150 assigned to Carone as PRC 7911. As a result of the Commission's action, the Commission and Carone entered into an agreement documenting the Commission's approval of the assignments and setting forth the conditions to the assignments to which Carone agreed. In paragraph 8 of that agreement, Carone agreed to submit to the Commission within two years of the effective date of the assignments a plan for the development of both leases and to begin drilling operations on both leases within three years of the effective date of the assignments. None of this happened. Twelve years have passed and little has transpired that would give the Commission's staff confidence that any of it ever will.

The leases must be produced commercially if they are to be retained by Carone. They cannot be continued in effect indefinitely with no commercial production or with no diligent action by Carone to attempt to achieve commercial production. The staff, therefore, is setting a deadline for Carone's performance of certain actions that are essential steps in the completion of the necessary prerequisites to achieving commercial production. These prerequisites are completion of the environmental review of the development project under CEQA, structural requalification by the Minerals Management Service of Platform Hogan and approval by the MMS of a plan for drilling into the State leases from Platform Hogan.

First, Carone shall execute and fully fund in the amount of \$650,000 no later than December 15, 2008, a new reimbursable agreement in order to resume and complete the CEQA process. This is asking for no more than what Carone committed to do in

2004, but then failed to do. Due to the passage of time, the CEQA work previously done is stale and the contract for the consultant that will prepare the EIR may have to be rebid.

Second, Carone shall begin immediately and proceed diligently with the process for obtaining the structural requalification of Platform Hogan. Carone shall provide to the staff on or before December 15, 2008, a fully executed contract with a staff-approved structural integrity contractor. The contract shall include a date certain that is no later than April 1, 2009, for the commencement of the work to be undertaken by the contractor and a schedule for completion of that work with a target date for completion.

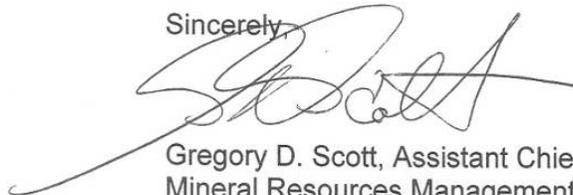
Third, Carone shall provide the MMS no later than December 15, 2008, with a detailed written proposal for expeditiously proceeding with and concluding the process for obtaining the approval of the MMS of a plan for drilling from Platform Hogan into Carone's State leases. The proposal shall include a time schedule and a commitment by Carone to keep the staff fully and timely informed of all aspects of this federal approval process.

If Carone is unable or unwilling to comply with any of the three demands (the reimbursable agreement for CEQA, the contract with the structural integrity contractor or the letter to the MMS initiating the approval process) by their December 15, 2008 due dates, then Carone shall submit to the Commission a quitclaim of both Lease PRC 4000 and Lease PRC 7911. If Carone fails to supply any of materials by their due dates and then fails to quitclaim both leases, the staff will bring before the Commission its recommendation that the Commission find that Carone is in default under both leases, including the conditions of their assignment to Carone, and take all appropriate action to terminate both leases.

In addition, the staff is seeking Carone's assent to enter into discussions about Carone providing the State with compensation for past and present drainage of State hydrocarbon resources by wells drilled by Carone into federal lands near the federal/state boundary. The drainage from these wells on federal lands continues to occur, and has been prolonged as a result of Carone's dilatory approach in pursuing the development of the State.

Please contact me by October 15, 2008, to let me know your decision on the appropriate path for Carone. Please also contact me if you have any questions, or wish to discuss the contents of this letter.

Sincerely,



Gregory D. Scott, Assistant Chief
Mineral Resources Management Division

Cc: Paul D. Thayer, Executive Officer