

**CALENDAR ITEM  
C82**

A 4

03/25/08  
PRC 5995.1  
J. L. Smith

S 2

**CONSIDER REQUEST FOR AN ASSIGNMENT OF  
100 PERCENT INTEREST IN, AND AMENDMENT OF,  
OIL AND GAS LEASE NO. PRC 5995.1,  
LINDSEY SLOUGH, SOLANO COUNTY**

**ASSIGNOR:**

LOTO Energy II, LLC  
Attn.: Mr. James F. Sanders  
8235 Forsyth Blvd., Suite 400  
Clayton, MO 63105

**ASSIGNEE:**

Western Metals Corporation  
Attn.: Mr. Jim Sanders  
8235 Forsyth Blvd., Suite 400  
Clayton, MO 63105

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

Oil and Gas Lease No. PRC 5995.1 (Parcel 1) consists of 86 acres of tide and submerged lands lying in the bed of Lindsey Slough in Solano County.

**BACKGROUND;**

Oil and Gas Lease No. PRC 5995.1 was issued to Casex-Seahawk on April 29, 1981. Through a series of corporate mergers and name changes, the lessee became Casex Company. On April 26, 2005, the California State Lands Commission (Commission) approved Casex Company's assignment of all of its right, title and interest in the lease to LOTO Energy II, LLC. LOTO Energy II, LLC is the operator for the lease.

Oil and Gas Lease No. PRC 5995.1 currently has two producing natural gas wells, the Sea Hawk 1-1 and the Sea Hawk 1-2 producing a combined 9,353

CALENDAR ITEM NO. **C82** (CONT'D)

MCF/Month (monthly average for 2007). The State's royalty share is sixteen and two-thirds percent (16 2/3%) of all gas produced, and in January 2008 royalty from these two wells totaled \$13,935.03. In addition, Oil and Gas Lease PRC 5995.1 has an annual rental of \$1,720.00 per year. The lessee is required to maintain a performance bond of \$100,000 on this lease.

LOTO Energy II, LLC is requesting that the California State Lands Commission approve assignment of 100 percent interest in this lease to Western Metals Corporation. The transaction is pursuant to an asset purchase agreement between the parties, with the property to transfer effective March 1, 2008, subject to California State Lands Commission approval.

Western Metals Corporation is a California corporation in good standing established in 1980 (formerly known as Coastcast Corporation). Upon closing of the asset purchase transaction, Western Metals Corporation will be controlled by LOTO Energy II, LLC by virtue of ownership of a controlling block of Western Metals common stock. LOTO Energy II, LLC is owned and controlled by the Novelly Dynasty Trust, a family trust established by Paul A. Novelly, and Beachstone Joint Venture L.P., a California limited partnership controlled by family trusts of G. Louis Graziadio III. Each has a fifty percent (50%) interest. Mr. Novelly is the chief executive officer of Apex Oil Company, Inc., a Missouri corporation engaged in oil trading, petroleum storage and wholesale distribution of petroleum products throughout the United States. Mr. Graziadio is the president of Second Southern Corp., a California corporation that holds or controls equity investments in a number of private and public corporations. The current executive officers of LOTO Energy II, LLC (including Mr. Novelly and Mr. Graziadio) will become the executive officers of Western Metals Corporation.

The owners of LOTO Energy II, LLC have invested in other oil and gas exploration and production assets through a similar joint venture named LOTO Energy, LLC, which owns and operates numerous oil and gas leases and producing wells in Oklahoma and New Mexico in a joint venture with Rosetta Resources, Inc.

**STATUTORY AND OTHER REFERENCES:**

- A. Section 4 of the Lease.
- B. Public Resources Code sections 6801 and 6804.

CALENDAR ITEM NO. **C82** (CONT'D)

**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 forms and prerequisite filing fees have been paid by LOTO Energy II, LLC.
3. The assignee has filed a \$100,000 performance bond for replacement of LOTO Energy II, LLC's bond for PRC 5995.1 with the California State Lands Commission's Long Beach office.
4. Upon approval of the transfer, Lease PRC 5995.1 shall be amended to incorporate the language attached as Exhibit B. The proposed amendment provides that lessee agrees to enter into a State Standard Reimbursable Agreement to reimburse the State for the reasonable and necessary costs incurred for the administration and implementation of the terms and conditions of this lease (including but not limited to engineering review, royalty verification and/or audit, reservoir and geologic review, annual lease reviews, and for staff time or expenses expended to ensure lease operations conform to the terms of the Lease and to the State's rules and regulations). This management fee shall commence on April 1, 2008, and shall not exceed two thousand dollars (\$2,000) for the first year. The "not to exceed" amount will increase by three percent (3%) per year, with the increase taking effect annually on April 1st of each successive year of the Lease.
5. Assignor has agreed to enter into a standard agreement to guaranty Western's performance under the lease terms (general form, (Exhibit C).

**EXHIBITS:**

- A. Location Map.
- B. Proposed amendment to Oil & Gas Lease No. PRC 5995.1
- C. General Guaranty Form.

CALENDAR ITEM NO. **C82** (CONT'D)

**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:**

1. APPROVE THE AMENDMENTS TO OIL AND GAS LEASE NO. PRC 5995.1, AS SET FORTH IN EXHIBIT B.
2. CONSENT TO THE ASSIGNMENT OF 100 PERCENT INTEREST IN OIL AND GAS LEASE NO. PRC 5995.1 FROM LOTO ENERGY II, LLC TO WESTERN METALS CORPORATION, WITH THE ASSIGNEE TO BE BOUND BY ALL THE TERMS AND CONDITIONS OF THE LEASE, INCLUDING THE AMENDMENTS.
3. AUTHORIZE THE EXECUTIVE OFFICER OR HIS DESIGNEE TO EXECUTE ANY DOCUMENTS NECESSARY TO IMPLEMENT THE COMMISSION'S ACTION.