

**CALENDAR ITEM
C96**

A	37	10/14/14 PRC 735.1 PRC 3314.1 RA #06414 N. Saito
S	19	

CONSIDER:

- 1) AN ASSIGNMENT OF 100 PERCENT OF
VENOCO, INC'S INTEREST IN OIL AND GAS LEASE NOS.
PRC 735.1 AND PRC 3314.1 TO VINTAGE PETROLEUM, LLC;
- 2) CONSENT TO THE ACCEPTANCE OF THE CHANGE IN THE PARENTAL
GUARANTY TO THE NEWLY FORMED
CALIFORNIA RESOURCES CORPORATION,
MONTALVO OIL FIELD,
VENTURA COUNTY

ASSIGNOR:

Venoco, Inc.
Attn.: Mr. Ian Livett, Vice President
370 17th St., Suite 3900
Denver, CO 80202

ASSIGNEE:

Vintage Petroleum, LLC
Attn.: Mr. Timothy Mahaffey, Attorney-In-Fact
9600 Ming Avenue, Suite 300
Bakersfield, CA 93311

AREA, LAND TYPE, AND LOCATION:

Oil and Gas Lease No. PRC 735.1 was originally issued by competitive bid to Standard Oil Company of California (Chevron) on June 30, 1952, and contains approximately 220 acres offshore Ventura County; Oil and Gas Lease No. PRC 3314.1 was originally issued by competitive bid to Shell Oil Company (Shell) on July 2, 1965, and contains approximately 5,430 acres offshore Ventura County. Lease No. PRC 3314.1 completely surrounds Lease No. PRC 735.1 (Exhibit A, attached hereto). Through a series of assignments, the present lessee and operator of the two leases (Leases) is Venoco, Inc. (Venoco).

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BACKGROUND:

The onshore portion of the Colonia reservoir was discovered in 1948 with the drilling of the McGrath 4 well. Development of the offshore reservoir began in 1953 on Lease No. PRC 735.1 and all but two of the 10 development wells were drilled by 1966. The first well on Oil and Gas Lease No. PRC 3314.1 was drilled in 1985 by Chevron, pursuant to a "farmout" agreement with Shell. Both Leases are developed from onshore locations (see Exhibit A, attached hereto). The lease locations contain surface production facilities, and access to onshore pipelines.

Berry Petroleum Company (Berry) was assigned the leases from Shell and Chevron in 1992, and presented a development plan that consisted of drilling two additional wells. That plan was approved by the California State Lands Commission (Commission) in 2005. Berry then assigned the leases to Venoco in 2007, and Venoco drilled two wells in July 2007 and December 2008.

In April 2011, the Commission approved Venoco's application to re-enter seven (7) existing idle or low production wellbores on lease PRC 735.1 to new bottom hole locations on adjoining lease PRC 3314.1. This resulted in an increase in production and Venoco was able to further delineate the reservoir. As part of this approval, the lease was amended to include a combined bond in the amount of \$2,000,000 for the two Leases.

Commission staff received a letter dated August 26, 2014, containing an application for Commission approval of the assignment of Venoco's 100 percent interest in the Leases to Vintage Petroleum, LLC (Vintage), a Delaware limited liability corporation, and subsidiary of the newly formed California Resources Corporation (CRC). As part of the assignment review process, staff performed a financial review of Vintage's assets to ensure its performance under the terms of the Leases.

CRC, a California corporation, also submitted its preliminary unaudited corporate and financial data, which were also presented to the SEC, and reviewed by Commission staff. CRC's most recent pro forma balance sheet confirms assets valued in excess of 15 Billion Dollars (US) and reflects the net worth (total assets less total liabilities) of CRC to be in excess of One Billion Dollars (US). Based on the results of the reviews, Commission staff has determined that CRC possesses the financial resources to meet the requirements and obligations under the Leases and is therefore an appropriate entity to hold the parental guaranty (in a form substantially similar to that set forth in Exhibit B) and take financial responsibility for the Lease(s) obligations.

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Vintage Petroleum, LLC will be required to maintain the bonding and insurance required by the Leases and will be the party responsible for the payment of all rental and royalties due under the Leases. New bonds covering the Leases issued under the assignee will be required within 30 days of the proposed assignment.

STATUTORY AND OTHER REFERENCES:

- A. Section 4 of Lease PRC 735.1 and PRC 3314.1.
- B. Public Resources Code sections 6801 and 6804.

OTHER PERTINENT INFORMATION

- 1. Assignment forms have been provided and prerequisite filing fees have been paid by Venoco.
- 2. The staff recommends that the Commission find that the subject approval of the lease assignments and parental guaranty do not have a potential for resulting in either a direct or a reasonably foreseeable indirect physical change in the environment and are, therefore, not projects in accordance with the California Environmental Quality Act (CEQA).

Authority: Public Resources Code section 21065 and California Code of Regulations, Title 14, sections 15060, subdivision (c)(3), and 15378.

EXHIBITS:

- A. Location Map
- B. Proposed "Parental Guaranty of California Resources Corporation"

RECOMMENDED ACTION:

It is recommended that the Commission:

CEQA FINDING:

Find that the subject approval of the lease assignments and parental guaranty are not subject to the requirements of CEQA pursuant to California Code of Regulations, Title 14, section 15060, subdivision (c)(3), because the subject activities are not projects as defined by Public Resources Code section 21065 and California Code of Regulations, Title 14, section 15378.

CALENDAR ITEM NO. **C96** (CONT'D)

AUTHORIZATION:

1. Approve assignment to Vintage Petroleum, LLC of 100 percent of Venoco, Inc.'s interest in Oil and Gas Lease Nos. PRC 735.1 and PRC 3314.1.
2. Approve the Parental Guaranty of California Resources Corporation, in a form substantially similar to that set forth in Exhibit B.
3. Authorize the Executive Officer or her designee to execute any documents necessary to implement this assignment.

EXHIBIT A

PRC 735.1
PRC 3314.1

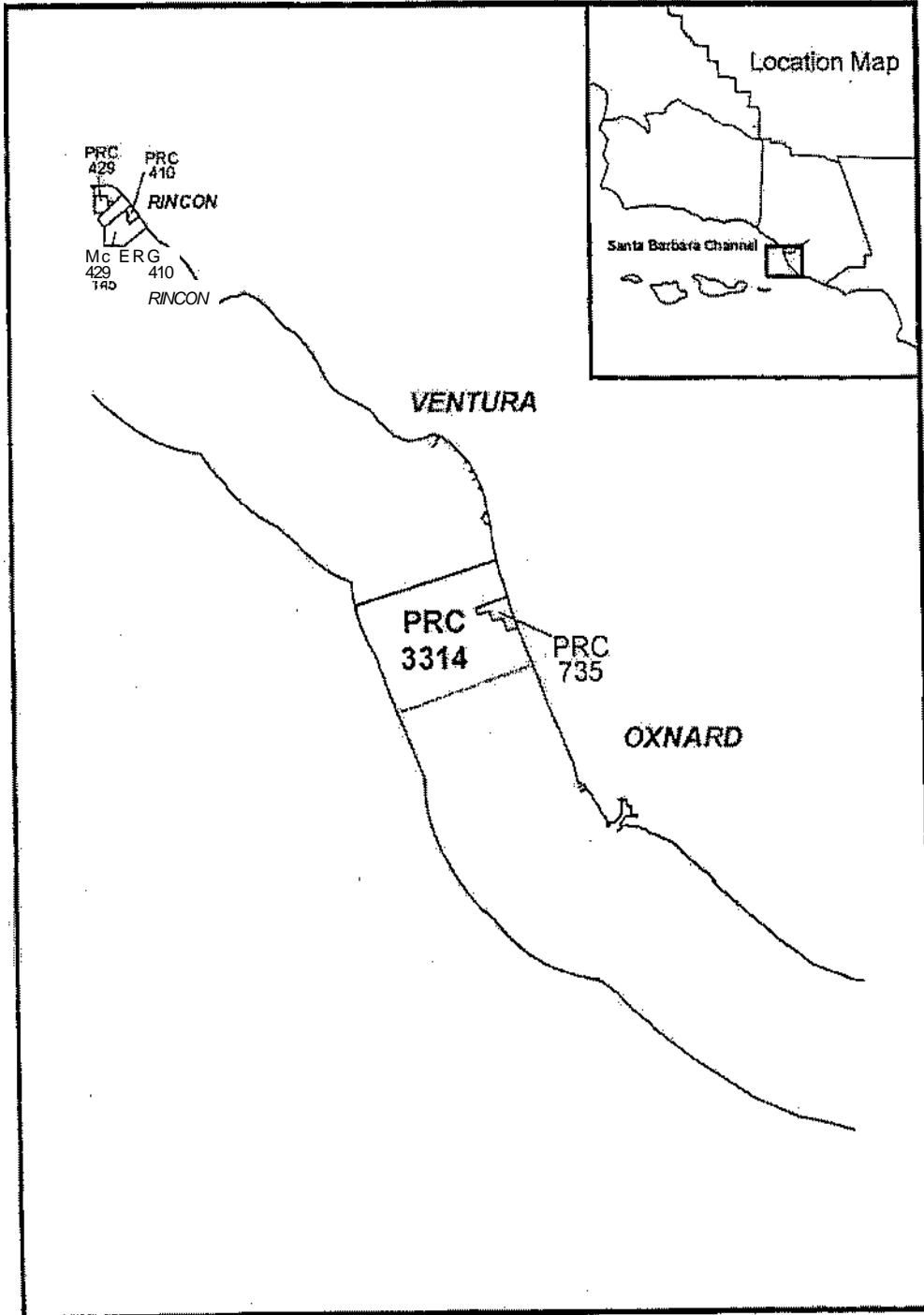


EXHIBIT B

PRC 735.1
PRC 3314.1

GUARANTY

1. **California Resources Corporation a Delaware corporation, (“Guarantor”)** owns **Vintage Petroleum, LLC, a Delaware corporation.** Vintage Petroleum LLC is the lessee of 100% interest in Oil and Gas Lease designated as PRC 735.1, and the lessee of 100% interest in Oil and Gas Lease designated as PRC 3314.1, granted by the State of California acting by and through the State Lands Commission (“Lessor”). For valuable consideration, the receipt and sufficiency of which are hereby acknowledged by the undersigned, Guarantor hereby unconditionally guarantees to Lessor the performance by Vintage Petroleum, LLC of all the terms, covenants, conditions, agreements, and obligations of the State Leases in the same manner and to the same extent as though Guarantor were the lessee thereunder (the “Obligation”).
2. This is a continuing and absolute Guaranty relating to the Obligation, irrespective of any release of, or granting of time or any other forbearance or indulgence to Vintage Petroleum, LLC, except as specifically authorized by the Lessor. Modifications of or alterations or changes which may be made in the State Leases, or in the terms, duties and obligations imposed thereunder shall not in any way release the Guarantor, either in whole or in part, from any liability arising under this Guaranty. Notice to the Guarantor of any such modifications, alterations, changes, extensions or forbearance is hereby waived. If, during the term this Guaranty is in effect, Vintage Petroleum, LLC fails to timely perform any obligation arising under the State Leases, including without

limitation, the obligation to make any monetary payment provided for thereunder, and fails to cure any such failure in the manner and within the period of time provided within the State Leases, Guarantor will tender performance of such obligation directly for Lessor's benefit promptly upon Lessor's demand therefore, and without Lessor having to make prior demand upon Vintage Petroleum, LLC. Notwithstanding the preceding sentence, the obligations of the Guarantor hereunder are independent of the obligations of Vintage Petroleum, LLC, and a separate action or actions may be brought and prosecuted against the Guarantor whether an action is brought against Vintage Petroleum, LLC or whether Vintage Petroleum, LLC is joined in any such action or actions.

4. The Guarantor waives: (a) any right to require the Lessor to (i) proceed against Vintage Petroleum, LLC; (ii) proceed against or exhaust any security or other guarantor; or (iii) pursue any other remedy in Lessor's power whatsoever; and (b) notice of acceptance of this Guaranty. Nothing in this Guaranty shall constitute a waiver by Guarantor of, or shall prevent Guarantor from asserting, (i) any defense based on Lessor's default under, or Lessor's failure to have performed its obligations arising under, the State Leases, and (ii) any defense which Vintage Petroleum, LLC or the Guarantor may have or assert under the express terms of the State Leases or this Guaranty.

5. The Guarantor represents and warrants to Lessor that (a) all authorizations, approvals, notices, filings and other action required by the internal documents governing the Guarantor and the regulatory authorities having jurisdiction over the Guarantor in connection with the due authorization, execution and delivery of this Guaranty has

been duly obtained or made and are in full force and effect; and (b) this Guaranty has been duly executed and delivered by the Guarantor and constitutes the legal, valid and binding obligation of the Guarantor enforceable against the Guarantor in accordance with its terms.

6. THIS GUARANTY SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAW OF THE STATE OF CALIFORNIA WITHOUT REGARD TO PRINCIPLES OF CONFLICTS OF LAWS. The Guarantor, by its execution of this Guaranty, hereby submits to the non-exclusive jurisdiction of the courts of the State of California and of the United States of America in connection with any action or proceeding relating to this Guaranty and hereby consents to service of process or other summons in any such action or proceeding brought by Lessor against it in any such court by means of registered mail to the last known address of the Guarantor. Nothing herein, however, shall prevent service of process by any other means permitted by law or the bringing of any such action or proceeding in any other jurisdiction.
7. None of the terms or provisions hereof may be waived, altered, modified or amended except by a writing duly signed by the Lessor and by the undersigned. If any term hereof shall be held to be invalid, illegal or unenforceable in any jurisdiction, the validity of all other terms shall in no way be affected thereby in that jurisdiction, and the unenforceability in that jurisdiction shall in no way affect the validity or enforceability of that or any other terms hereof in any other jurisdiction.

8. This Guaranty shall be binding on the Guarantor and its successors and assigns and shall inure to the benefit of the Lessor. This Guaranty shall not be deemed to benefit any person except Vintage Petroleum, LLC and Lessor.

In witness whereof, the Guarantor has caused this Guaranty to be executed on its behalf by its duly authorized representatives, as of this _day of _201_.

California Resources Corporation.

By: _____

Name: _____

Title: _____

All Signatures must be acknowledged