

**CALENDAR ITEM
C82**

A 4
S 2

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

**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

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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.

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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.

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PERMIT STREAMLINING ACT DEADLINE:

N/A (not a “development project” subject to the Act).

RECOMMENDED ACTION:

IT IS RECOMMENDED THAT THE COMMISSION:

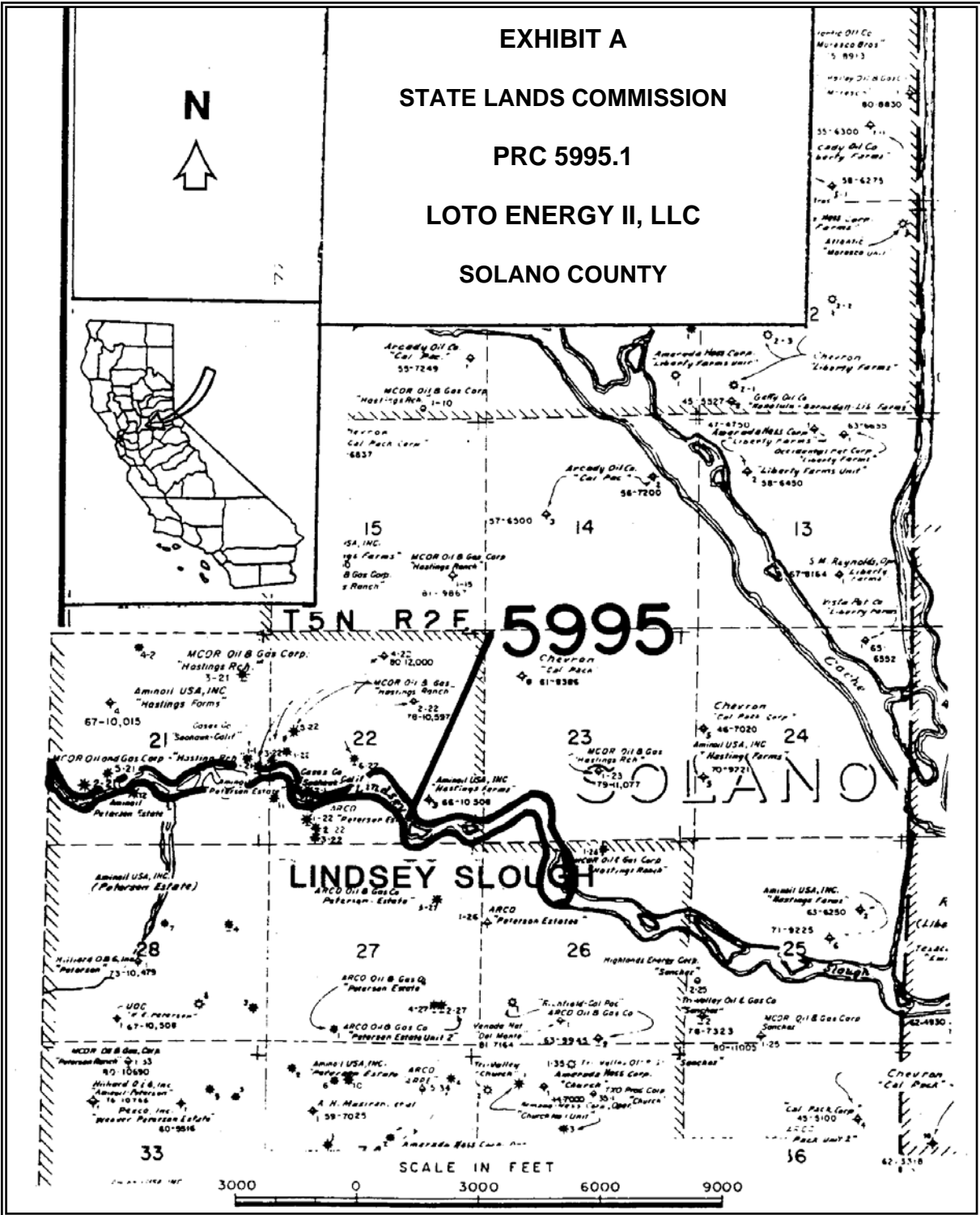
CEQA FINDING:

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.

EXHIBIT A
STATE LANDS COMMISSION
PRC 5995.1
LOTO ENERGY II, LLC
SOLANO COUNTY



T5N R2E 5995

LINDSEY SLOUGH

5995

SOLANO

SCALE IN FEET
 0 3000 6000 9000

EXHIBIT B

PRC 5995.1

STATE OF CALIFORNIA
STATE LANDS COMMISSION

AMENDMENT

THIS AMENDMENT is entered into by the State of California, acting by and through the State Lands Commission, herein referred to as "State", and Western Metals Corporation, herein referred to as "Western".

The California State Lands Commission issued Oil and Gas Lease No. PRC 5995.1 to Casex Company and Seahawk Oil International, Inc. on April 29, 1981. Through a series of corporate mergers, name changes and assignments, the current lessee is LOTO Energy II, LLC. LOTO Energy II, LLC has requested that the State Lands Commission approve the assignment of lease PRC 5995.1 to Western.

The State Lands Commission has determined that it is in the State's best interest to make certain modifications to the terms of each of the leases in connection with its approval of the assignment.

The State and Western do hereby agree that Paragraph 35 of State Oil and Gas Lease PRC 5995.1 is hereby added to the existing terms and conditions of said leases:

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, that shall not exceed two thousand dollars (\$2,000) for the first year, and 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.

It is further agreed that all other terms and conditions of said Lease are to remain unchanged and in full force and effect.

This Amendment to the Lease will become binding only when duly executed on behalf of the State of California by and through the State Lands Commission of the State of California.

IN WITNESS WHEREOF, the parties hereto have executed this Amendment as of the date hereafter affixed.

Western Metals Corporation

**State of California
State Lands Commission**

By: _____
(Signature)

By: _____
(Signature)

(Name of Officer)

Paul B. Mount II, P.E.

(Name of Officer)

(Title)

Chief, Mineral Resources Management

(Title)

Date: _____

Date: _____

ATTEST

ATTEST

EXHIBIT C

PRC 5995.1

GUARANTY

1. **LOTO ENERGY II, LLC**, a Delaware limited liability company (“Guarantor”) is the lessee under that certain Oil and Gas Lease designated as PRC 5995.1 (referred to as the "State Lease") granted by the State of California acting by and through the State Lands Commission (“Lessor”). Guarantor has requested Lessor’s consent to the assignment of all of its interest in the State Lease to **WESTERN METALS CORPORATION**, a California corporation (referred to as the “Assignee”) Lessor has agreed to consent to the assignment, provided Guarantor guarantees the performance of the lessee’s obligations under the Lease. Accordingly, for valuable consideration, the receipt and sufficiency of which are hereby acknowledged by the undersigned, Guarantor hereby unconditionally guarantees performance 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 Assignee. Modifications of or alterations or changes which may be made in the State Lease, 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.

3. If, during the term this Guaranty is in effect, Assignee fails to timely perform any obligation arising under the State Lease, 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 Lease, 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 Assignor. Notwithstanding the preceding sentence, the obligations of the Guarantor hereunder are independent of the obligations of Assignee, and a separate action or actions may be brought and prosecuted against the Guarantor whether an action is brought against Assignee or whether Assignee is joined in any such action or actions.
4. The Guarantor waives: (a) any right to require the Lessor to (i) proceed against Assignor; (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
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 Assignor 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 14th day of March, 2008.

LOTO ENERGY II, LLC

By: _____
James F. Sanders, Secretary