



November 6, 2014

VIA EMAIL

Barbara Thompson
County Counsel
COUNTY OF SAN BENITO
BThompson@cosb.us

Re: Claim For Damages

Dear Ms. Thompson,

Citadel Exploration, Inc. (“Citadel”), by this letter, presents a claim for damages derived from the diminished value of its property in San Benito County (“County”) due to the newly-created regulation that bans the use of common oil and gas production techniques. Citadel’s Indian Oil Field, a shallow heavy oil reservoir, requires the use of steam injection (now banned by the County) to produce the oil in place but the regulation prohibits that from occurring and constitutes a regulatory taking.

Utilizing currently available geologic information and common thermal stimulation engineering models, it has been determined that the property would yield between 20-40MMBOE (twenty to forty million barrels of oil) over the life of the project.

The County has attempted to avoid liability created by the aforementioned regulation by adopting an ordinance which addresses the taking issue. However, that ordinance does not provide the County with that coverage and it will in fact be a Court of law that determines the issue of a “regulatory taking” on a case by case basis.

Accordingly, Citadel does hereby offer the county the opportunity to remedy the damage created by the regulatory taking by paying Citadel the amount of \$1.2B (one billion, two hundred million dollars).

Your attention to this urgent matter is greatly appreciated.

Sincerely,

Armen Nahabedian