

**CALENDAR ITEM
C31**

A 15

05/05/08
PRC 8674.1
J. L. Smith

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**CONSIDER APPROVAL OF AN ASSIGNMENT TO
ABA ENERGY CORPORATION OF ALL OF
CAPITOL OIL CORPORATION'S 40% INTEREST
IN OIL AND GAS LEASE NO. PRC 8674.1,
SAN JOAQUIN COUNTY**

ASSIGNOR:

Capitol Oil Corporation
Attn.: Mr. Stephen D. Brooks
3840 Watt Ave., Bldg. B
Sacramento, CA 95821

ASSIGNEE:

ABA Energy Corporation
Attn.: Mr. Alan B. Adler
P. O. Box 80476
Bakersfield, CA 93380-0476

AREA, LAND TYPE, AND LOCATION:

Negotiated subsurface (no surface use) Oil and Gas Lease No. PRC 8674.1 is located within the River Island Gas Field area and comprises about 13.74 acres in the bed of the South Fork of the Mokelumne River, San Joaquin County.

BACKGROUND:

The California State Lands Commission (Commission) issued the lease to Towne Exploration Company (Towne) on April 17, 2006, (see Location Map attached as Exhibit A to this Calendar Item). The lease is a negotiated subsurface lease that is currently non-productive and prohibits any surface use.

This State lease contains a provision requiring the consent of the Commission to any assignment, transfer or sublease of the lessee's interest. In addition, Public Resources Code section 6804 provides that unless approved by the

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Commission, no assignment, transfer or sublease of an oil and gas lease shall be of any effect.

Towne and its financial partner, Capitol Oil Corporation (Capitol Oil), entered into an area of mutual interest agreement (AMI) in which Capitol Oil is a 40 percent (40%) participant. Pursuant to this agreement, Towne requested and received approval from the Commission on May 10, 2007, for the assignment of an undivided 40 percent (40%) interest in the lease to Capitol Oil. Towne retains an undivided 60 percent (60%) ownership in the lease and is the current operator of the lease.

Capitol, as assignor, has requested Commission approval for the transfer of its undivided 40 percent (40%) interest in the lease to ABA Energy Corporation (ABA), as assignee, and tendered an executed State assignment form (Exhibit B, attached hereto). Staff has determined that no default exists on the lease, that Capitol has complied with all applicable lease provisions, and that Capitol has paid all rentals pursuant to the lease terms. ABA possesses the statutory qualifications to hold a State oil and gas lease and is a current lessee of other State oil and gas leases.

STATUTORY AND OTHER REFERENCES:

- A. Section 4 of the Lease.
- B. Public Resources Code section 6804

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 Capitol Oil Corporation.

EXHIBITS:

- A. Location Map.
- B. Assignment 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:

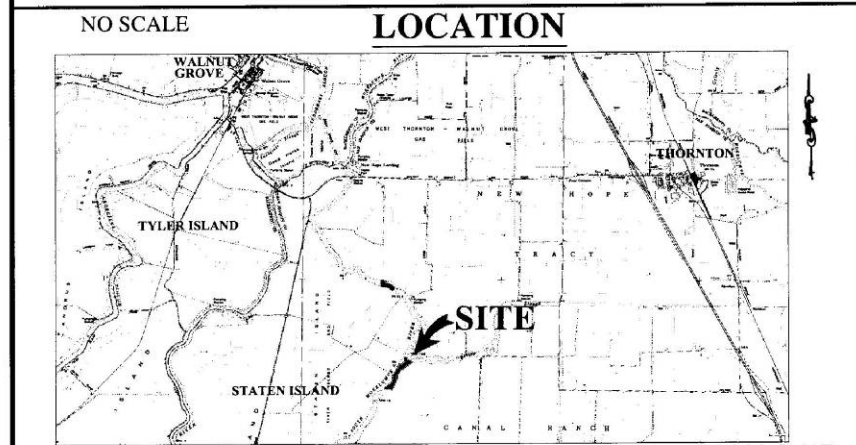
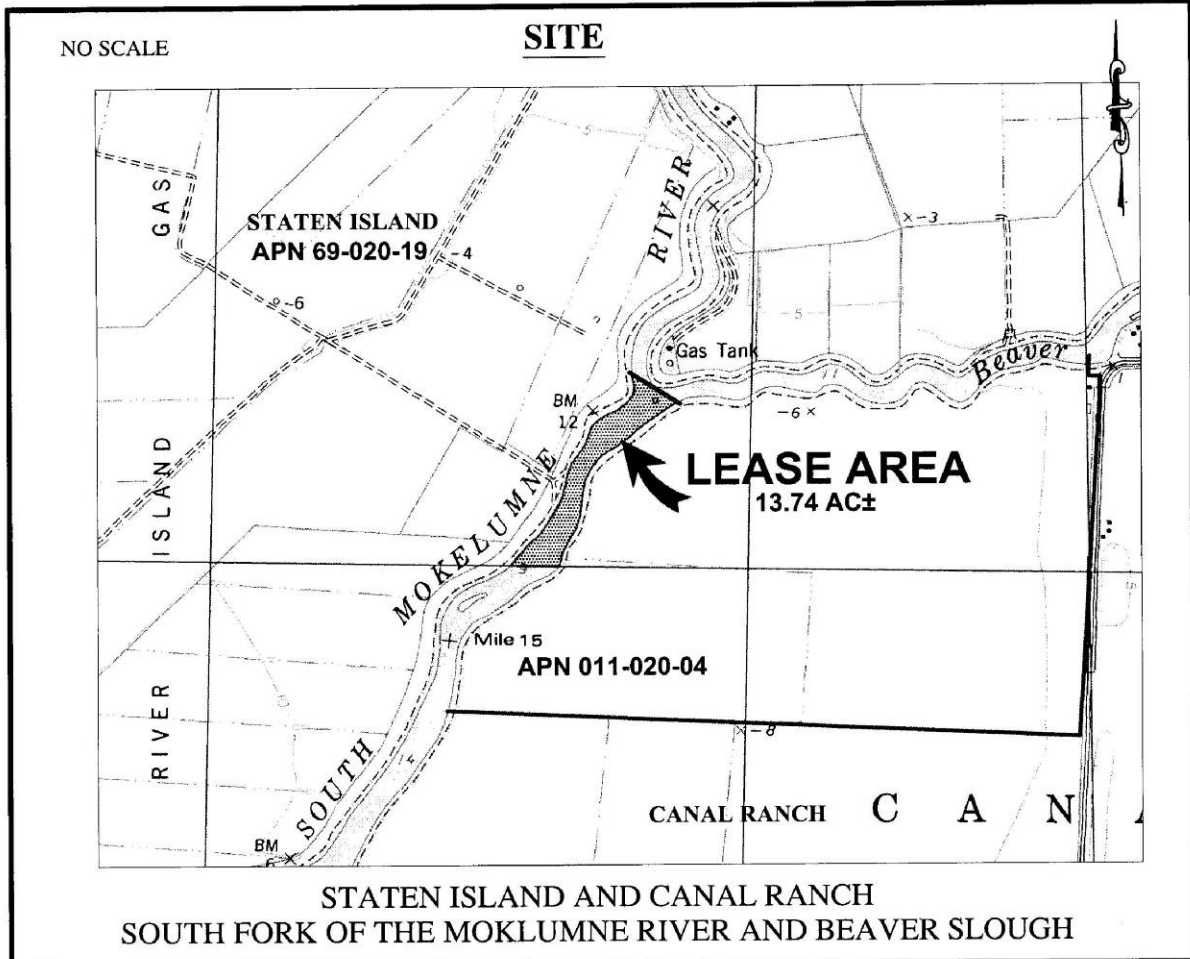
FIND THAT THE ACTIVITY IS NOT SUBJECT TO THE REQUIREMENTS OF THE CEQA PURSUANT TO TITLE 14, CALIFORNIA CODE OF REGULATIONS, SECTION 15060(c)(3) BECAUSE THE ACTIVITY IS NOT A PROJECT AS DEFINED BY PUBLIC RESOURCES CODE SECTION 21065 AND TITLE 14, CALIFORNIA CODE OF REGULATIONS, SECTION 15378.

AUTHORIZATION:

CONSENT TO THE ASSIGNMENT OF ALL OF CAPITOL OIL CORPORATION'S 40 PERCENT INTEREST IN OIL AND GAS LEASE NO. PRC 8674.1 TO ABA ENERGY CORPORATION, WITH THE ASSIGNEE TO BE BOUND BY ALL THE TERMS AND CONDITIONS OF THE LEASE.

AUTHORIZE THE EXECUTIVE OFFICER OR HIS DESIGNEE TO EXECUTE ANY DOCUMENT NECESSARY TO IMPLEMENT THIS ASSIGNMENT.

Exhibit A



PRC 8674.1
OIL AND GAS LEASE
TOWNE EXPLORATION
MOKELUMNE RIVER &
BEAVER SLOUGH
SAN JOAQUIN CO.



This Exhibit is solely for purposes of generally defining the lease premises, is based on unverified information provided by the Lessee or other parties and is not intended to be, nor shall it be construed as, a waiver or limitation of any State interest in the subject or any other property.

EXHIBIT B

PRC 8674.1

STATE LANDS COMMISSION

STATE OIL AND GAS LEASE

- ASSIGNMENT FORM -

Capitol Oil Corporation, a California corporation (Assignor), as holder of an undivided forty percent (40%) interest in State Oil and Gas Leases PRC 8674.1, assigns all of its undivided right, title and interest under said lease to **ABA Energy Corporation**, a California corporation (Assignee).

Assignee accepts the assignment of this lease and agrees to perform in the manner provided in the lease conditions, covenants and agreements to be kept and performed by the Assignor, and to be bound by the terms of the lease, including any modifications and collateral agreements, to the same extent as the Assignor.

ASSIGNOR:

Capitol Oil Corporation
3840 Watt Ave, Bldg. B,
Sacramento, California 95821

ASSIGNEE:

ABA Energy Corporation
P. O. Box 80476
Bakersfield, CA 93380-0476

By: _____
Stephen D. Brooks
President

By: _____
Alan B. Adler
President

Date: _____

Date: _____

- ACCEPTANCE FORM -

At its meeting on _____, the State Lands Commission approved the Assignment from **Capitol Oil Corporation** (Assignor) to **ABA Energy Corporation** (Assignee) of State Oil and Gas Lease PRC 8674.1.

This approval was given upon the following conditions:

1. This assignment shall not release the Assignor from any obligation to the State Lands Commission under the lease, any conditions in the assignment agreement to the contrary notwithstanding.
2. The Assignee shall be bound by the terms of the lease, including any modifications and collateral agreements, to the same extent as the Assignor, any conditions in the assignment agreement to the contrary notwithstanding.
3. This assignment is made pursuant to Public Resources Code section 6804; this assignment shall take effect on _____.

STATE LANDS COMMISSION

By: _____
Paul B. Mount II
Chief, Mineral Resources Management Division

Date

All signatures must be acknowledged