

OIL AND GAS LEASE

THIS LEASE is made and entered into to be effective **July 20, 2009**, deemed the Effective Date, between **Joe Mauch, Jr., et ux, Peggy F. Mauch**, referred to as Lessor, whose address is **658 C.R. 326, Kenedy, Texas 78119**, and **Boyd & McWilliams Energy Group, Inc.**, referred to as Lessee, whose address is **550 W. Texas, Suite 310, Midland, Texas 79701**.

1. Lessor, in consideration of Ten Dollars and other valuable consideration (\$10.00 & OVC), the receipt and sufficiency of which is acknowledged, and for the royalties reserved in this Lease, GRANTS, LEASES, and LETS the lands described below, exclusively to Lessee, for the purpose of exploring, drilling, producing and owning, oil, gas, and all other minerals produced with them, and conducting all activities necessary or reasonably incident to the exploration for, operations in search of, and production of oil, gas, and other minerals. The lands subject to this Lease (referred to as the "land" or the "leased premises") are located in **Karnes County, Texas**, and are described as follows:

74.03 ACRE TRACT DESCRIPTION

DESCRIBED IN CORRECTED FIELD NOTES TO A 74.03 ACRE TRACT OR PARCEL OF LAND SITUATED WITHIN THE CARLOS MARTINEZ 15 LEAGUE GRANT, A-6, KARNES COUNTY, TEXAS; BEING A PORTION OF THAT CERTAIN 75 ACRE TRACT OR PARCEL OF LAND AS DESCRIBED IN A DEED DATED FEBRUARY 2, 1938 FROM MRS. IRA COATS LEE, AND G.A. LEE TO THE RUHMANN MERCANTILE COMPANY, RECORDED IN VOLUME 115, PAGES 36-37, DEED RECORDS OF KARNES COUNTY, TEXAS, AND BEING ALSO THAT CERTAIN 74.03 ACRE TRACT OR PARCEL OF LAND AS DESCRIBED IN A DEED DATED JUNE 9, 1981 FROM A.M. GREEN TO ABB MARTIN GREEN, JR., RECORDED IN VOLUME 516, PAGES 809-813, DEED RECORDS OF KARNES COUNTY, TEXAS.

299.265 ACRE TRACT DESCRIPTION

BEING THE SAME LAND CONVEYED BY W.G. AND ADELIN BUTLER TO T.G. BUTLER BY DEED DATED FEBRUARY 18, 1899 AND RECORDED IN VOLUME W, PAGE 522 OF THE DEED RECORDS OF KARNES COUNTY, TEXAS CONTAINING 302 ACRES, BEING A PORTION OF THE CARLOS MARTINEZ GRANT, ABSTRACT 6, SAVE & EXCEPT ALL THAT CERTAIN TRACT OR PARCEL OF LAND OUT OF THE CARLOS MARTINEZ SURVEY, A-6, CONTAINING 2.735 ACRES OF LAND, AND BEING A PART OF 302 ACRES OF LAND CONVEYED BY T.G. BUTLER, SR. TO T.G. BUTLER, JR., BY DEED DATED APRIL 15, 1946 AND RECORDED IN VOLUME 156, PAGE 398 OF THE DEED RECORDS OF KARNES COUNTY, TEXAS.

NOTICE OF CONFIDENTIALITY RIGHTS: IF YOU ARE A NATURAL PERSON, YOU MAY REMOVE OR STRIKE ANY OF THE FOLLOWING INFORMATION FROM THIS INSTRUMENT BEFORE IT IS FILED FOR RECORD IN THE PUBLIC RECORDS: YOUR SOCIAL SECURITY NUMBER OR YOUR DRIVER'S LICENSE NUMBER.

This Lease also covers and includes land owned or claimed by Lessor adjacent or contiguous to the land described above, whether in the same or adjacent surveys, although not included within the boundaries of the land described above, and (a) owned or claimed by Lessor by limitation, prescription, possession, reversion, or unrecorded instrument, or (b) as to which Lessor has a preferential right of acquisition. Lessor agrees to execute any supplemental instrument requested by Lessee for a more complete or accurate description of the land. For the purpose of determining the amount of any payments provided for in this Lease, the land shall be deemed to contain 373.295 acres, whether actually containing more or less, and the recital of acreage in any tract shall be deemed to be the true acreage in each tract. Lessor accepts the bonus as consideration for this Lease and all rights under it.

2. This is a Paid Up Lease. No payments are due Lessor during the primary term except the payment of royalty as provided for in paragraph 3. Subject to its other provisions, this Lease shall be for a term of **3 YEARS** from the Effective Date (the "primary term") and as long thereafter as operations are being conducted on the leased premises or lands pooled with it, or oil, gas or other minerals are produced from the land or land with which the land is pooled under the terms of this Lease, or this Lease is maintained by any of its other provisions. If, at the end of the primary term Lessee has drilled and abandoned a well on the leased premises, or lands pooled with it, this Lease shall not terminate at the end of the primary term, if Lessee, within 180 days of the end of the primary term, commences additional operations on the leased premises, or lands pooled with it, which operations shall be deemed operations during the primary term of this Lease and serve to maintain it in full force and effect. When used in this Lease, the term "operations" means: placing equipment on location, surface location preparation or maintenance; drilling; testing; completing; reworking; recompleting; deepening; plugging back or repair of a well in search of or in an endeavor to obtain production of oil, gas, or other minerals; or, production of oil, gas, or other minerals, whether or not in paying quantities.

3. Lessor reserves as royalty, and Lessee agrees to pay Lessor as royalty on oil, other liquid hydrocarbons, and non-gaseous minerals produced and saved from the leased premises (the "oil"), 1/5 part of the net amount received by Lessee for the sale of the oil at the time it is run from the storage tanks, or into the pipeline to which the well or wells on the leased premises are connected. In either case, Lessor's interest shall bear the stated part of all taxes, and costs of treating the oil to render it marketable. Lessee shall pay Lessor as royalty on gas and casinghead gas produced from the leased premises 1/5 of the net amount received by Lessee for the gas if sold at the wellhead, at a location on the leased premises, or on lands with which the leased premises are pooled, with Lessor's share of those proceeds to bear its proportionate share of all taxes, and costs incurred by Lessee in delivering, processing, compressing, or otherwise making the gas merchantable or enhancing its marketability. On all other gas and casinghead gas, Lessee shall pay Lessor as royalty 1/5 of the net amount received by Lessee for the gas so sold, less its proportionate share of all taxes, costs of transportation, compression, processing, treating, and all other costs of marketing. For all gas sold, Lessor shall bear its proportionate share of all adjustments for heating content, shrinkage, and deductions for impurities. At the expiration of the primary term or at any later time or times, if there is a well or wells on the land or on lands with which the land or any portion of it has been pooled, capable of producing oil or gas, and all wells are shut-in, this Lease shall, nevertheless, continue in force as though operations were being conducted on the land for so long as the wells are shut-in, and Lessee pays the shut-in royalty provided below, and then this Lease may be continued in force as if no shut-in had occurred. Lessee covenants and agrees to use reasonable diligence to produce, utilize, or market the minerals capable of being produced from the wells, but in the exercise of diligence, Lessee shall not be obligated to install or furnish facilities other than well facilities and ordinary lease facilities of flow lines, separator, and lease tank, and shall not be required to settle labor trouble, or to market oil or gas on terms unacceptable to Lessee. If, at any time after the expiration of the primary term of this Lease, all the wells, oil or gas, on the leased premises, or lands pooled with it, are shut in and this Lease is not otherwise maintained in effect, Lessee may pay or tender, by its check or draft, as shut in royalty, an amount equal to One Dollar (\$1.00) for each acre of land then covered by this Lease (the "shut-in royalty"), on or before the end of each 12 month period during which all wells on the leased premises, or lands pooled with it, are shut in and oil and gas is not being produced, sold, or used, and this Lease is not otherwise being maintained. Each payment or tender shall be made to the parties who at the time of payment would be entitled to receive the royalties which would be paid under this Lease if the wells were producing, or may be deposited in the (payable directly to Lessor) or its successors, which shall continue as the depository bank for the parties, regardless of changes in the ownership of shut-in royalty. If at any time that Lessee pays or tenders shut-in royalty, two or more parties are, or claim to be, entitled to receive payments, Lessee, at its election, may, in lieu of any other method of payment provided for in this Lease, pay or tender shut-in royalty, in the manner specified above, either jointly to the parties or separately to each in accordance with their respective ownership. Any payment may be made by Lessee's check or draft, deposited in the mail or delivered to the party entitled to receive payment, or to the depository bank provided for above, on or before the last date for payment. Lessee's failure to pay, or to properly pay or tender any sum due as shut in royalty shall render Lessee liable for the amount due, but shall not operate to terminate this Lease. Nothing in

Lessor's Initials



this Lease shall impair Lessee's right to release this Lease, in whole or in part, as provided in paragraph 8, below. The Lessor, its heirs, successors, assigns, or any other person, shall have no obligation for royalties payable on production after an assignment to a subsequent or successor Lessee or assignee.

4. At its option, Lessee is granted the right and authority to pool, unitize, or combine the land covered by this Lease or any portion of it as to oil and/or gas, with any other land covered by this Lease, and/or with any other land, lease, or leases in the immediate vicinity of the leased premises, when in Lessee's judgment it is necessary or advisable to do so in order to explore, develop, and operate the leased premises in compliance with the spacing rules of the Railroad Commission of Texas, or other lawful authority, or when to do so would, in the judgment of Lessee, promote the conservation of oil and/or gas in and under and that may be produced from the leased premises. Units pooled for oil shall not substantially exceed 80 acres each in area, and units pooled for gas shall not substantially exceed 640 acres each in area, plus, in both instances, a tolerance of ten percent (10%); provided, should a governmental authority having jurisdiction prescribe, allow, or permit the creation of units larger than those specified, for the drilling or operation of a well, drilled either vertically or horizontally, to comply with existing or subsequently established field rules, or for obtaining a greater allowable from any well to be drilled, drilling, or already drilled, units created may conform substantially in size with those permitted, allowed, or prescribed by applicable governmental regulations, now in existence, or later enacted.

Lessee may pool or combine acreage covered by this Lease or any portion of it as to oil and/or gas in any one or more strata. The units formed by pooling as to any stratum or strata need not conform in size or area with the unit or units into which the Lease is pooled or combined as to any other stratum or strata, and oil units need not conform to the area within gas units. Pooling in one or more instances shall not exhaust the rights of the Lessee to pool this Lease or portions of it into other units. On execution by Lessee of an instrument describing and designating the pooled acreage as a pooled unit, the unit shall be effective as to all parties, their heirs, successors, and assigns, irrespective of whether or not the unit is likewise effective as to all other owners of surface, mineral, royalty, or other rights in land included in the unit. Within a reasonable time following the execution of the instrument designating the pooled unit, Lessee shall file the instrument for record in the appropriate records of the county in which the leased premises are located. Any unit formed may be revised, re-formed, increased, or decreased in size, or changed in configuration, at the election of Lessee, at any time either before or after commencement of operations or production from the unit well. Lessee may at any time, at its election, dissolve or terminate any unit formed, by written instrument filed for record in the county where the land is located, which instrument shall specify the date of termination of the unit.

Lessee may exercise its right to pool at any time and from time to time, while this Lease is in force and effect, whether before or after commencing operations, completing an oil or gas well, or establishing production on the leased premises, or on any land pooled or unitized with the leased premises. Any operations for drilling on or production of oil or gas from a pooled unit which includes all or a part of the leased premises, regardless of whether the operations for drilling were commenced, or the production was secured, before or after the execution of this Lease or the instrument designating the pooled unit, shall be considered operations for drilling on or production of oil and/or gas from land covered by this Lease, whether or not the well or wells is located on the leased premises. In that event, operations for drilling shall be deemed to have been commenced on the leased premises within the meaning of this Lease; and, the entire acreage constituting the unit or units, as to oil and/or gas, shall be treated for all purposes, except the payment of royalties on production from the pooled unit, as if it were included in this Lease.

For the purpose of computing the royalties to which owners of royalties and payments out of production shall be entitled on production of oil and/or gas from a pooled unit, there shall be allocated to the land covered by this Lease and included in a unit (or to each separate tract within the unit if this Lease covers separate tracts within the unit) a pro rata portion of the oil and/or gas, produced from the pooled unit after deducting that used for operations on the lease or pooled unit. The allocation shall be on an acreage basis; i.e., there shall be allocated to the acreage covered by this Lease and included in the pooled unit (or to each separate tract within the unit if this Lease covers separate tracts within the unit) that pro rata portion of the oil and/or gas, produced from the pooled unit which the number of surface acres covered by this Lease (or in each separate tract) and included in the pooled unit bears to the total number of surface acres included in the pooled unit. Royalties shall be computed on the portion of the production, whether it be oil or gas, allocated to the land covered by this Lease and included in the unit just as though the production were from the land. The production from an oil well will be considered as production from the Lease or oil pooled unit from which it is producing and not as production from a gas pooled unit; and, production from a gas well will be considered as production from the Lease or gas pooled unit from which it is producing and not from an oil pooled unit.

The formation of any unit shall not have the effect of changing the ownership of any shut-in royalty which may become payable under this Lease. If this Lease now or later covers separate tracts, no pooling or unitization of royalty interest as between any separate tracts is intended or shall be implied or result merely from the inclusion of the separate tracts within this Lease, but Lessee shall nevertheless have the right to pool, as provided above, with the consequent allocation of production as provided above. As used in this paragraph, the words "separate tract" mean any tract with royalty ownership differing, now or later, either as to parties or amounts, from that as to any other part of the leased premises.

5. If at the expiration of the primary term, oil, gas, or other minerals are not being produced on or from the land, or on or from the land with which it is pooled, but Lessee is then engaged in any operations, or shall have completed a dry hole prior to the end of the primary term, this Lease shall remain in force, as provided in paragraph 2, so long as operations on the well or for drilling or reworking of any additional well are prosecuted with no cessation of more than ninety (90) consecutive days, and if they result in the production of oil, gas, or other minerals, so long as oil, gas, or other minerals are produced from the land, or from land pooled with it. If, after the expiration of the primary term of this Lease and after oil, gas, or other minerals are produced from the land, or from land pooled with it, the production should cease from any cause, this Lease shall not terminate if Lessee commences operations for drilling or reworking within ninety (90) days after the cessation of production, but shall remain in force and effect so long as operations are prosecuted with no cessation of more than ninety (90) consecutive days, and if they result in the production of oil, gas, or other minerals, so long thereafter as oil, gas, or other minerals are produced from the land, or from land pooled with it. Lessee may at any time execute and deliver to Lessor or place of record a release or releases covering any portion or portions of the leased premises as to any depths, and surrender this Lease as to that portion, portions, or depths, and be relieved of all obligations as to the acreage or depths surrendered.

6. Lessee shall have the right at any time during or after the expiration of this Lease to remove all property and fixtures placed on the land, including the right to draw and remove all casing. When reasonably necessary to accommodate an immediate impending use of the surface estate by Lessor, or anyone claiming by, through, or under Lessor, Lessee will bury all pipelines below ordinary plow depth. No well shall be drilled within two hundred (200) feet of any building or structure now on the land without Lessor's consent.

7. The rights of either party may be assigned in whole or in part, and the provisions of this Lease shall extend to their heirs, successors, and assigns; but, no change or division in ownership of the land, or royalties, however accomplished, shall operate to enlarge the obligations or diminish the rights of Lessee; and, no change or division in ownership shall be binding on Lessee until sixty (60) days after Lessee is furnished by registered U.S. mail at Lessee's principal place of business with a certified copy of the recorded instrument or instruments evidencing the changes or division of ownership. In the event of an assignment of this Lease, in whole or in part, liability for a breach of any obligation shall rest exclusively on the owner of this Lease or of a portion of it who commits the breach.

8. The breach by Lessee of any obligation arising under this Lease shall not work a forfeiture or termination of this Lease or cause a termination or reversion of the estate created by it, or be grounds for cancellation in whole or in part. No obligation to develop the leased premises shall arise during the primary term. Should oil, gas, or other minerals be discovered on the leased premises, then after the expiration of the primary term, Lessee shall develop the acreage retained as a reasonably prudent operator. If after the expiration of the primary term, Lessor considers that operations are not at any time being conducted in compliance with this Lease, Lessor shall notify Lessee in writing of the facts relied on as constituting a claimed breach of this Lease, and Lessee, if in default, shall have sixty (60) days after receipt of the notice in which to commence compliance with the obligations imposed by virtue of this Lease.

9. Lessor hereby warrants and agrees to defend the title to the land and agrees that Lessee, at its option, may discharge any tax, mortgage, or other lien on the land, either in whole or in part. In the event Lessee does so, it shall be subrogated to the lien discharged, with the right to enforce it and apply royalties and any other payments accruing under this Lease toward satisfying the lien. Without impairing Lessee's rights under the warranty in event of failure of title, it is agreed that if this Lease covers a less interest in the oil, gas, or other minerals in all or any part of the land than the entire and undivided fee simple estate (whether Lessor's interest is specified or not), or no interest, then the royalties, and other monies accruing from any part where this Lease covers less than the full interest, shall be paid only in the proportion which the Lessee's interest, if any, covered by this Lease, bears to the whole and undivided fee simple estate. All royalty interest covered by this Lease (whether or not owned by Lessor) shall be paid out of the royalty provided for above. Should any one or more of the parties named above as Lessor fail to execute this Lease, it shall nevertheless be binding on the party or parties executing this Lease.

10. Should Lessee be prevented from complying with any express or implied covenant of this Lease, from conducting drilling or reworking operations, or from producing any oil, gas, or other minerals by reason of scarcity of or inability to obtain or to use equipment or material, or by operation of force majeure, or federal or state law or any order, rule, or regulation of governmental authority, then while so prevented, Lessee's obligation to comply with any covenant shall be suspended, and Lessee shall not be liable in damages for failure to comply with the provisions of this Lease; and, this Lease shall be extended while and so long as Lessee is prevented by any cause from conducting drilling or reworking operations on or from producing oil or gas from the leased premises, and the time while Lessee is so prevented shall not be counted against Lessee, notwithstanding anything in this Lease to the contrary.

Lessor's Initials

This Lease is executed as of the date of the acknowledgment of the undersigned's signature, but shall be deemed effective for all purposes as of the Effective Date stated above.

Joe Mauch, Jr.
Joe Mauch, Jr.

Peggy F. Mauch
Peggy F. Mauch

STATE OF TEXAS

COUNTY OF Koehn

This instrument was acknowledged before me on this date, July 22, 2009,
by Joe Mauch, Jr. and Peggy F. Mauch.



Mary Lockwood
Notary Public, State of TEXAS
Printed Name: MARY LOCKWOOD
Commission Expires: 10/26/12

Texas Royalty Brokers

Texas Royalty Brokers

1. **OIL AND GAS ONLY:** This lease covers and includes only Oil and/or Gas, which for all purposes of this lease are defined as, and are limited to, oil, gas, casinghead gas and other Liquid or liquefiable or gaseous substances, distillate, condensate and associated hydrocarbon substances and all by-products of the foregoing and such sulphur and other elements or minerals as are produced through the well bore, necessarily with and incidental to the production of any of the foregoing. Wherever there appears in this lease the phrases oil, gas and all other minerals, 'oil, gas or other mineral' or words of like import, such phrases are hereby deleted from this lease and there is substituted therefor the hereinabove defined phrase "Oil and/or Gas." All other minerals and substances of every kind or character not included in the above definition of Oil and/or Gas, together with all rights pertaining thereto are expressly excepted from this lease.
2. Notwithstanding the general terms of grant contained in this lease, it is not intended to and does not grant to Lessee the right and privilege to erect and maintain refining facilities, or any other extraction or treating facilities not directly related to the production, treatment and recovery of oil, gas, sulphur and other associated substances expressly enumerated in Paragraph 1 hereof, and all such facilities shall be only those reasonably necessary for production, treatment, recovery, transportation and storage of such leased substances from the lands covered by this lease or from a unit which includes said land or a portion thereof.
3. All royalties as provided for shall be delivered free of all costs of transportation, compressing, separating, gathering, treating, dehydrating or other operations necessary for the producing, processing, or marketing of oil gas and/or other hydrocarbons, save and except Lessor's proportionate part of taxes that may be due. Provided, it is expressly agreed that Lessor shall pay its proportionate share of processing costs, including by accepting its proportionate share of plant products and residue gas allocable to Lessee under a percentage of proceeds agreement whereby the plant is entitled to retain a share of the plant products and/or residue gas as payment for processing.
4. Notwithstanding anything herein contained to the contrary, it is understood and agreed that in the event Lessee, its successors or assigns, establishes production of a mineral covered by this lease, then Lessee shall, after the primary term under the provisions of Paragraph 6 hereof, release to Lessor, their heirs, executors, administrators or assigns, all of its right in and to all minerals covered hereby which shall lie 100 feet below the producing depth.
5. It is expressly agreed and understood that after production of oil or gas in paying quantities is obtained from the leased premises, the minimum annual income to Lessor from payments of rentals, shut-in royalty and royalty on production, shall be a sum of not less than \$25.00 per acre on the total acreage retained and then covered by this lease, but this provision shall not impair the right and privilege of lessee, its successors, and assigns, to release and surrender any part of the leased premises as herein provided. Lessee shall determine any deficiency within thirty (30) days from the expiration of any lease year during which royalties have been paid on actual production, and, shall within (30) days, pay such deficiency to Lessor or deposit same to Lessor's credit at the depository herein designated.
6. The Lessee herein shall not permit any firearms to be carried onto the premises herein leased nor shall it permit any one of its employees, agents or anyone connected with the Lessee to hunt for any character of wild fowl or animal on any portion of said property, nor shall Lessee permit any one of its employees, agents or anyone connected with the Lessee to fish on said property.
7. Lessee shall not have the right to use fresh water for secondary recovery operations.
8. Lessee shall furnish Lessor with a copy of all logs, upon request of Lessor, only if and after logs have been generally made available to the industry.
9. Without regard to negligence or fault on the part of any party, Lessee shall indemnify and hold Lessor harmless from and against any and all third party claims, actions, liability, loss, damage or expense of every kind and nature, including, but not limited to, attorney's fees and costs, for damage to property of any third party firm or corporation or for injury to or death of any third party, including, but not limited to, the employees of Lessee, Lessee's successors, assigns, contractors or subcontractors, which may, in whole or in part, be caused by or arise



out of operations conducted hereunder or the enjoyment of this lease or the exercise of any right granted hereunder or any obligation imposed hereby.

10. Royalties not timely paid shall bear an interest at the statutory rate plus 2%.
11. Lessee shall not use water from Lessor's existing water wells and/or stock ponds on said land. Should Lessee require water in connection with its drilling operation, Lessee will either truck water from outside the leased premises or drill its own water well and when no longer needed by Lessee, any well drilled by Lessee shall at Lessor's option either be (1) left open (2) plugged at the surface and otherwise left in usable condition, or (3) properly plugged and abandoned, provided such can be done in accordance with applicable laws, rules and regulations and, with regard to any well not plugged and abandoned by Lessee, Lessor assumes all future liability relative to the well, effects a novation as to future responsibility therefore with all regulatory agencies having jurisdiction and shall, in such event, fully indemnify and hold harmless Lessee from all liability (including liability arising out of Lessee's negligence) arising, directly or indirectly, out of the existence or use of said well.
12. Lessee agrees not to store any salt water in pits on said lands and to not dispose of any waste, toxic, hazardous or other material including, without limitation, drilling mud on lands without the written consent of Lessor, except as may be allowed by the rules and regulations of the Texas Railroad Commission in connection with the use of temporary pits.
13. If at the end of the primary term, a part, but not all, of the leased premises is included within a unit, or units, this lease shall terminate as to such part, or parts, of the leased premises lying outside of such unit, or units, unless this lease is otherwise perpetuated as to such land outside of such unit, or units, in accordance with the provisions hereof. The term "unit" as used herein shall refer to pooled units created under the pooling authority granted herein or otherwise with the consent of the Lessor.
14. Omitted
15. It is agreed that drill operations are defined as follows:
 - (a) When a rig capable of drilling to the permitted depth is on location and the bit is turning to the right.
16. Lessee must install meters and other devices necessary to account and measure gas after production is established. Lessor at his own expense has the right to install his own metering and measuring equipment.
17. **POOLING (MINIMUM ACREAGE):** Should Lessee exercise its option to pool, as provided in paragraph 4 above, and the unit well is located on the herein leased premises, said option to pool is hereby limited so that not less than all of the total acreage then covered hereby shall be included in any such pooled unit, unless the pooled portion of the herein leased premises constitutes at least one-half (1/2) of the total acreage in any such pooled unit. Should Lessee pool said leased lands with an off-premise well, said option to pool is hereby limited so that not less than one-half (1/2) of the total acreage then covered hereby shall be included in any such pooled unit. If lessee has previously pooled a portion or portions of the leased premises in one or more pooled units and there yet remains additional unpooled acreage insufficient in size to qualify herein, then Lessee may pool any of such additional unpooled acreage in another unit. Provided, however, that any such pooled unit meeting these requirements can be formed in compliance with the rules and regulations of the Railroad Commission of the State of Texas or other governing authority having jurisdiction.
18. **SIZE OF UNITS:** It is expressly agreed and provided that units pooled for gas and/or condensate shall not exceed 160 acres plus a tolerance of ten percent (10%) for a depth of 7,000 feet or less below the surface of the earth, and shall not exceed 320 acres plus a tolerance of ten percent (10%) for a depth of more than 7000 feet down to 10,000 feet below the surface of the earth, and shall not exceed 640 acres plus a tolerance of ten percent (10%) for a depth of more than 10,000 feet below the surface of the earth. An oil well shall be allotted forty (40) acres plus a tolerance of ten percent (10%). The provisions of this paragraph shall control unless governmental authority having jurisdiction should permit or prescribe the creation of larger units, in which event, all units created



created hereunder may conform substantially in size with those permitted or prescribed by such governmental authority.

19. NEGLIGENT LOSS

It is expressly provided that the Lessee shall be liable to Lessor for the royalty on any oil or gas which may be lost or wasted due to leakage, fire or other reasons which are as a result of the Lessee's negligence or negligence of any parties operating this lease under the direction of or at the request of the Lessee, the royalty in this case to be as described with regard to production under Paragraph 3 hereof.

20. 3-D SEISMIC OPERATIONS:

No authority is herein granted to Lessee to conduct seismic operations using 3D method unless Lessee pays the surface owner prior to beginning of such operations, Ten Dollars (\$10.00) per acre for the entire land above described then being held by the lease. After completion of such operations, Lessee must restore the land to its original condition just prior to such operations, insofar as is reasonable and practicable, and must pay the surface owner and any tenants the actual amount of damages arising from such operations to the extent they exceed the \$10/acre previously paid.

21. LAND USE:

(a). Lessee agrees to pay Lessor or Tenants of Lessor for all damages to cattle, crops, fences, terraces, water wells, tanks, roads, culverts, bridges, irrigation wells and other improvements on Lessor's land resulting from Lessee's operations under the terms of this lease. Lessee will pay for such damages within sixty (60) days after its receipt of notice and proof that the same are accrued and payable, and any of the same not paid within sixty (60) days shall bear interest at the rate of ten percent (10%) per annum until paid.

22. Notwithstanding anything herein contained to the contrary, if and to the extent pipelines unreasonably interfere with existing or immediately impending surface usage, Lessee shall bury all pipe lines to a depth of thirty-six (36) inches from the surface of the ground to the top of any such pipeline or flow line, or so deep as is reasonable should rock be found at a lesser depth. Lessor shall be consulted as to all lines. Payment due for pipeline shall be \$3.00 per lineal foot based on a maximum of 40 foot width and be reseeded/re-sprigged with grass. Lessor shall be furnished easement with plat attached.

23. Lessor must be given one (1) week notice prior to drilling operations and shall be consulted as to the routes of roads and placement of well and facility locations. Upon the abandonment of said lease or surrender thereof, Lessee, its successors or assigns, shall level all levees around slush pits and/or other excavations and generally restore the surface of the land covered hereby as nearly to its present condition as reasonably possible. In the event of the drilling on said land, Lessee, its successors or assigns, shall, if so directed by Lessor, install separate cattle guards or gates at all fence crossings used by him or them in connection with said operations, even though Lessor maintains gates or cattle guards that could be used. At such time as production may be established, Lessee agrees that all pits and excavations constructed by Lessee which are to remain open in connection with Lessee's operations and also any pumping jacks, or any other machinery or equipment, installed by Lessee will be enclosed by substantial fencing capable of turning livestock, If Lessee cuts any of Lessor's fences it shall double brace the posts on each side of such cut so as to prevent loosening of the wire when the cut is made. Lessee shall install a good and usable gate at any entrance or at any inside fence crossed during drilling operations and shall keep same closed when not passing through same. For any location site placed upon the hereinabove described premises, Lessor shall be entitled to payment of the sum of FIVE THOUSAND DOLLARS AND NO/100 (\$5,000) per acre for land use plus TEN THOUSAND DOLLARS AND NO/100 (\$10,000) for each oak tree damaged in excess of 12 inches in diameter. All payments under this paragraph shall be made to Lessor in Karnes County, Texas within thirty (30) days after the request by Lessor.

24. Notwithstanding anything herein contained in Paragraph 3 to the contrary, the royalty to be delivered or paid or cause to be paid by Lessee on oil and other liquid hydrocarbons and on gas are as follows, to wit:



- (a) ON OIL AND OTHER LIQUID HYDROCARBONS, 1/5 of that produced and saved from the land, the same to be delivered at the wells or the credit of Lessor, free of all costs of production or delivery, into the pipeline to which the wells may be connected.
- (b) ON GAS, including casinghead gas or other gaseous substances, produced from said land and sold, or used off the premises, the market value at the well of 1/5 of the gas so sold or used, but in no event shall the royalty be based on an amount less than the gross proceeds.

25. ENVIRONMENTAL PROVISIONS:

- (a) Lessee agrees that all operations conducted by Lessee, its regents, servants, employees, contractors, permittees, successors or assigns on the leased premises or on Lessors adjoining property shall be conducted in compliance with all applicable laws, statutes, rules and regulations of any governmental authority having jurisdiction including, without limitation, all safety regulations and requirements of the Railroad Commission of Texas and all environmental laws, statutes, rules and regulations of any federal state or local authority at any time applicable to the Lessee's operations on the leased premises.
- (b) Lessee agrees that (i) no toxic or hazardous substances shall be disposed of or otherwise deposited or released in or on the leased premises or on Lessor's adjoining property in violation of existing laws, rules and regulations; (ii) Lessee will not engage in and will not permit any other party to engage in any activity with respect to property of Lessor which would cause (a) the leased premises or adjoining property of Lessor to become a hazardous waste treatment, storage or disposal facility within the meaning of the Resources Conservation and Recovery Act of 1986 ("RCRA") 42 U.S.C. Section 1251 et seq. as now or hereafter amended or any similar federal, state or local law or ordinance or any other environmental law, (b) a release or a threatened release of a hazardous substance from or to the leased premises or adjoining property of Lessor within the meaning of the Comprehensive Environmental Response, Compensation, and Liability Act of 1980 ("CERCLA") 42 U.S.C. Section 9601 et seq., as now or hereafter amended or any similar federal state or local law or ordinance or any other environmental law, or (c) the discharge of pollutants or effluents into any water source or system or the discharge into the air of any emissions, which would require a permit under the Federal Water Pollution Act of the Clean Air Act or any similar federal, state, or local law or ordinance or other environmental law, (iii) Lessee shall not permit any substance or conditions in or on the leased premises or the adjoining land of Lessor which might support a claim or cause of action under RCRA, CERCLA or other federal, state or local environmental statutes, regulations, ordinances or other environmental regulatory requirements. As used in the preceding provision, the terms "hazardous substance" and "release" shall have the meanings specified in CERCLA and the terms "solid waste" and "disposal" or "disposed" shall have the meanings specified in RCRA; provided that in the event either CERCLA or RCRA is amended so as to broaden the meaning of any term defined hereby, such amendments shall apply to Lessee's covenants herein, and provided further to the extent that the laws of the State of Texas establish a meaning for such terms which are broader than that specified in either CERCLA or RCRA, the broader meanings or definitions shall apply. Upon the release of any acreage covered by this lease as contemplated by other terms hereof, the covenants and obligations of Lessee respecting surface restoration specifically shall include, without limitation, the environmental and contamination provisions of this Section 34.
- (c) Lessee agrees (1) to remove from the leased premises and Lessor's adjoining property, if, as, and when required by law, any hazardous materials placed or released thereon by Lessee, its employees, contractors, agents or permittees, (2) to perform all legally required remedial work where the need therefore arises in connection with Lessee's operations or activities on the leased premises, and (3) to comply in all respects with all federal, state and local governmental laws and regulations governing operations by and remedial work on or associated with the leased premises. All costs and expenses of remedial work made necessary by Lessee's operations shall be paid by Lessee, including, without limitation, the charges of such contractors and/or the consulting engineer, and Lessor's reasonable



attorneys' fees and costs incurred in connection with the monitoring or review of remedial work if and to the extent Lessee fails to reasonably honor its obligations hereunder. Lessee shall notify Lessor of any claim or other action by any governmental agency or other third party involving the actual or alleged existence of hazardous material on the leased premises, or on Lessor's adjoining lands, and shall provide Lessor with copies of (1) any notice of any release of hazardous materials given to Lessee pursuant to any law or regulation, and (2) any report of and response to any such incident. Lessee agrees to provide such notices, reports or responses to lessor within ten (10) days after receipt or preparation of same by Lessee.

(d) Lessee agrees to indemnify, pay and protect, defend and save Lessor harmless from all claims, liabilities (including strict liability), fees and expenses of any kind that arise from the actual or alleged presence or release of any hazardous material in connection with Lessee's operations on Lessor's property. This indemnification shall include costs in connection with any remedial work when performed by Lessor or any third party in response to any federal, state or local governmental authority mandate, due and payable upon demand therefore by Lessor. As used in this paragraph "remedial work" is defined as any site investigation or monitoring, any cleanup, containment, remedial, removal, or restoration work mandated by any federal, state or local government authority or pursuant to any federal, state or local statute, rule, regulation or other laws.

(e) The provisions of this Environmental Section (25), shall survive the termination or expiration of this lease in perpetuity.

26. PLUGGING PROVISION:

Upon termination of this lease, Lessee agrees, binds and obligates itself to plug any well drilled or reworked by it in accordance with the Rules and Regulations of the Railroad Commission of Texas. In the event Lessee shall fail to plug such well in accordance with the foregoing provisions, and the Railroad Commission of Texas shall require Lessor to do so, then Lessor shall have the right to do so at Lessee's expense and shall be entitled to recover from Lessee all expenses incurred in the plugging of any such well, together with a reasonable attorney's fees and venue for such action shall be in Karnes County, Texas.

27. Lessee shall furnish to Lessor all copies of recorded releases, assignments and current addresses of assignees.

28. The foregoing agreements and provisions shall supersede and govern the provisions in the printed text of this lease to the contrary and shall inure to the benefit of, and be binding upon the parties hereto and their respective heirs, representatives, successors and assigns.

Texas Royalty Brokers



MEMORANDUM OF OIL AND GAS LEASE

State: TEXAS
County: KARNES
Lessor: Joe Mauch, Jr., et ux, Peggy F. Mauch
658 C.R. 326
Kennedy, Texas 78119
Lessee: BOYD & MCWILLIAMS ENERGY GROUP, INC.
550 W. Texas, Suite 310
Midland, Texas 79701
Effective Date : July 20, 2009

As of the Effective Date stated above, Lessor, named above, executed and delivered to Lessee, named above, an Oil and Gas Lease (the "Lease") in which Lessor granted, leased, and let to Lessee all of Lessor's mineral interest in the lands (the "Lands") located in the county and state named above, described as follows:

74.03 ACRE TRACT DESCRIPTION

Described in Corrected Field Notes to a 74.03 acre tract or parcel of land situated within the Carlos Martinez 15 League Grant, A-6, Karnes County, Texas; being a portion of that certain 75 acre tract or parcel of land as described in a Deed dated February 2, 1938 from Mrs. Ira Coats Lee, and G. A. Lee to the Ruhmann Mercantile Company, recorded in Volume 115, Pages 36-37, Deed Records of Karnes County, Texas, and being also that certain 74.03 acre tract or parcel of land as described in a Deed dated June 9, 1981 from A. M. Green to Abb Martin Green, Jr., recorded in Volume 516, Pages 809-813, Deed Records of Karnes County, Texas.

299.265 ACRE TRACT DESCRIPTION

Being the same land conveyed by W. G. and Adeline Butler to T. G. Butler by Deed dated February 18, 1899 and recorded in Volume W, Page 522 of the Deed Records of Karnes County, Texas containing 302 acres, being a portion of the Carlos Martinez Grant, Abstract 6, save & except all that certain tract or parcel of land out of the Carlos Martinez Survey, A-6, containing 2.735 acre of land, and being a part of 302 acres of land conveyed by T. G. Butler, Sr. to T. G. Butler, Jr., by Deed dated April 15, 1946 and recorded in Volume 156, Page 398 of the Deed Records of Karnes County, Texas.

The Lease grants Lessee the exclusive rights to: explore for, drill for, produce and market oil, gas, and other hydrocarbons from the Lands during the term of the Lease; construct and maintain such facilities as are provided for in the Lease; and, the right of ingress and egress through, on and over the Lands.

This Memorandum of Oil and Gas Lease is executed by Lessor and Lessee and placed of record in the county in which the Lands are located for the purpose of placing all persons on notice of the existence of the Lease, which is not, at the request of both parties, being placed of record.

This Memorandum is signed by Lessor and Lessee as of the date of the acknowledgment of their signatures below, but is effective for all purposes as of the Effective Date stated above.

LESSOR:

Joe Mauch Jr.
JOE MAUCH, JR.

Peggy F. Mauch
PEGGY F. MAUCH

LESSEE:

BOYD & MCWILLIAMS ENERGY
GROUP, INC.

BY: Frank McCabe
FRANK MCCABE

ACKNOWLEDGEMENTS

STATE OF TEXAS
COUNTY OF KARNES

This instrument was acknowledged before me on the 22nd day of July, 2009 by Joe Mauch, Jr. and Peggy F. Mauch, Husband & Wife.



Mary Lockwood
Notary Public in and for the State of Texas

STATE OF TEXAS
COUNTY OF MIDLAND

This instrument was acknowledged before me on July 28th, 09 by Frank McCabe, Vice President of Boyd & McWilliams Energy Group, Inc., a Texas Corporation, on behalf of said corporation.



Ashley Williams
Notary Public in and for the State of Texas