

**PAID-UP
OIL, GAS AND MINERAL LEASE**

THIS AGREEMENT made and entered into this ____ day of _____ 2009, between Hidalgo County hereinafter called "Lessor" (whether one or more), whose address is 2802 S. Business, Hwy 281, New Administration Building, Edinburg, Texas 78539 and Esenjay Oil & Gas, Ltd. hereinafter called "Lessee" whose address is 500 North Water Street, Suite 1100 South, Corpus Christi, Texas 78471.

1. Lessor, in consideration of ten and no/100's and other valuable consideration Dollars (\$10.00) in hand paid, receipt of which is hereby acknowledged, of the royalties herein provided and of the agreements of the Lessee herein contained, hereby grants, leases and lets, exclusively unto Lessee for the purpose of investigating, exploring, prospecting, drilling, mining and operating for and producing oil, gas, and other minerals, injecting gas, waters, other fluids, air and other gaseous substances into subsurface strata, laying pipe lines, storing oil, building tanks, power stations, electric transmission lines, telephone lines, and other structures and things thereon to produce, save, take care of, treat, process, store and transport said minerals and other products manufactured therefrom, and housing and otherwise caring for its employees, the following described land in HIDALGO County, Texas to wit:

"0.68 Acres, more or less, a part of Farm Tract 522, West Tract Subdivision, Hidalgo County, Texas; said of 0.68 acres, more or less being the same lands described in a Warranty Deed dated September 1, 1959, from Santos Vargas, Concepcion Vargas and Julia Vargas to Hidalgo County, Texas, Trustee, recorded in Volume 958, at Page 6 of the Deed Records, Hidalgo County Texas;

Notwithstanding any particular description, it is nevertheless the intention of Lessor to include this lease, and Lessor does hereby lease, not only the land so described but also any and all other land owned or claimed by Lessor in the herein named survey or surveys, or in adjoining surveys, the herein described land up to the boundaries of the abutting landowners, the lease lands being hereinafter referred to as "said land." For the purpose of determining the amount of any bonus or other payment hereunder, said land shall be deemed to contain 0.68 acres, whether actually containing more or less. Lessor agrees to execute any supplemental instrument(s) requested by Lessee for a more complete or accurate description of said land or instrument(s) to perfect title deficiencies.

2. Subject to the other provisions herein contained, this lease shall remain in force for a term of one (1) years from this date (called "primary term"), and as long as thereafter as oil, gas or other mineral is produced from said physical land or land with which said land or any part thereof is pooled, or this lease is maintained by virtue of some other provision hereof.

3. This is a PAID-UP LEASE. In consideration of the down cash payment, Lessor agrees that Lessee shall not be obligated, except as otherwise provided herein, to commence or continue any operations during the primary term.

4. The royalties to be paid by Lessee are: (a) deliver in kind to lessor, at the well, or to the credit of lessor into the pipeline or storage tank to which the well may be connected, the one-fourth (1/4th) part of all oil (including condensate) produced and saved from the leased premises. In lieu thereof, lessee shall have the option, at any time, to sell lessor's oil, in which case lessor's royalty shall be based on lessee's net proceeds at the lease, or to purchase lessor's oil for the value of such oil at the lease, In any event, lessor's interest shall be free of all costs of production, but shall bear its proportionate part of production and similar taxes, and shall share proportionately with lessee in any costs to market, transport, or condition the oil, (b) to pay lessor for gas, (including casing head gas, all gaseous substances, and all other constituents thereof) produced and sold from the leased premises, one-fourth (1/4th) part of the net proceeds at the lease from the sale of such gas, after deducting lessor's proportionate part of production, and other similar taxes; lessor's interest to be free of all costs of production, but to bear proportionately with lessee any costs incurred by lessee to market the gas, deliver the gas to a market off the leased premises, or to dehydrate, compress, process, treat, or otherwise place such gas marketable condition; (c) on gas, including casing head gas and all gaseous substances, produced from said land and used of said land by Lessee and not benefiting Lessor, the market at the mouth of the well of one-fourth (1/4th) of the gas so used off said land; (d) on all minerals mined and marketed, one-fourth (1/4th) either in kind or value at the well or mine, at Lessee's election, except that on sulphur the royalty shall be One Dollar (\$1.00) per long ton; and (e) if at any time while there is a gas well or wells on the said land or land pooled therewith (for the purposes of this clause (f)

the term "gas well" shall include wells capable of producing natural gas, condensate, distillate or any gaseous substance and wells classified as gas wells by any governmental authority) and such well or wells are shut-in, and this lease is not being maintained otherwise as provided herein, this lease shall nevertheless remain in force and effect following the shutting-in of the well(s), whether it be during or after the primary term (unless released by Lessee), and it shall be considered that gas is being produced from the land covered by this lease. When the lease is continued in force in this manner and the well or wells are shut-in for a period of at least ninety (90) consecutive days, Lessee shall pay or tender as advanced annual royalty to the parties who at the time of such payment would be entitled to receive royalty hereinunder if the well were producing, or deposit to their credit in the SEND DIRECTLY TO LESSOR'S ADDRESS Bank (Account No. _____), _____ Dollars \$.00 per net acre for the acreage then held under this lease by the party making such payment or tender. The first payment of sum shall be made on or before either, (1) ninety (90) days from the date such well or wells are shut-in; (2) ninety (90) days from the effective date for inclusion of said land or portion thereof within a unit on which is located a shut-in gas well; or (3) ninety (90) days from the date this lease ceases to be otherwise maintained as provided herein, whichever is the later date, and it shall be considered that gas is being produced from said land in paying quantities within the meaning of Paragraph 2 hereof for one (1) year from the date of such payment, and in like manner subsequent advance annual royalty payments may be made or tendered and it will be considered that gas is being produced from said land in paying quantities within the meaning of said Paragraph 2 during any annual period for which such royalty is so paid or tendered; such advanced annual royalty payment shall be credited against any royalty accruing to the owners thereof any production from said land during any annual period for which such advanced annual payment has been made, Lessee's failure to pay or tender or to pay or tender properly or timely any such sum as royalty shall render Lessee liable for the amount due but it shall not operate to terminate this lease. All royalty interest, whether or not owned by undersigned, shall be paid out of the royalty as provided for in said lease.

5. Lessee shall have the right but not the obligation to pool all or any part of the leased premises or interest therein with any other lands or interest, as to any or all depths or zones, and as to any or all substances covered by this lease, either before or after the commencement of production, whenever Lessee at its sole discretion deems it necessary or proper to do in order to develop or operate prudently the lease premises, whether or not similar pooling authority exists with respect to such other lands or interests. The unit formed by such pooling for an oil well which is not a horizontal completion shall not exceed 80 acres plus a maximum acreage tolerance of 10% and for a gas well or a horizontal completion shall not exceed 640 acres plus a maximum acreage tolerance of 10%; provided that a larger unit may be formed for an oil well or gas well or horizontal completion to conform to any well spacing or density pattern that may be prescribed or permitted by any governmental authority having jurisdiction to do so. For the purpose of the foregoing, the term "horizontal completion" means a well in which the horizontal component of the gross completion interval in the reservoir is at least one hundred (100) feet. In exercising its pooling rights hereunder, Lessee shall file of record a written declaration describing the unit and stating the effective date of pooling. Production, drilling, completion, or reworking operations anywhere on a unit which includes all or any part of the leased premises shall be treated as if it were production, drilling completion, or reworking operations on the leased premises, except that the production on which Lessor's royalty is calculated shall be that proportion of the total unit production which the net acreage covered by this lease and included in the unit bears to the total gross acreage in the unit. Pooling in one or more instances shall not exhaust Lessee's pooling rights hereunder, and Lessee shall have the recurring right but not the obligation to revise any unit formed hereunder by expansion or contraction or both, either before or after commencement of production, so long as the total acreage therein or produced therefrom may from time to time be enlarged and extended by Lessee to include additionally any other formation or formations and any other mineral or minerals therein of produced therefrom. In making such a revision, Lessee shall file or record a written declaration describing the revised unit and stating effective date of revision. To the extent any portion of the leased premises is included in or excluded from the unit by virtue of such revision, the proportion of unit production on which royalties are payable hereunder shall thereafter be adjusted accordingly. Lessee may place and use on each unit created hereunder common measuring and reworking tanks for production from such unit. In the absence of production in paying quantities from a unit, or upon permanent cessation thereof, Lessee may terminate the unit by filing of record a written declaration describing the unit and stating the date of termination. Pooling hereunder shall not constitute a cross-conveyance of interests.

6. If, at the expiration of the primary term oil, gas or other mineral is not being produced from said land or land pooled therewith but Lessee is then engaged in operations for drilling, mining or reworking of any well or mine thereon or shall have completed a dry hole thereon within ninety (90) days prior to the end of the primary term this lease shall remain in

force so long as operations on said well or for the drilling or reworking of an additional well are commenced and prosecuted (whether on the same or successive wells) with no cessation of more than ninety (90) consecutive days, and, if the result in production, so long thereafter as oil, gas or other mineral is produced from said land or land pooled therewith. If, after the expiration of the primary term of this lease and after oil, gas or other mineral as produced from said land or land pooled therewith, production thereof 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 such production, but shall remain in force and effect so long as such operations are prosecuted with no cessation of more than ninety (90) consecutive days, and if the result in production or oil, gas or other mineral so long thereafter as oil, gas or other mineral is produced from said land or land pooled therewith. In the event a well or wells producing oil or gas in paying quantities should be brought in or adjacent land and within two hundred (200) feet of and draining said land, Lessee agrees to drill such offset wells as a reasonably prudent operator would drill under the same or similar circumstances. The judgment of the Lessee, when not fraudulently exercised, in carrying out the purpose of this lease shall be conclusive.

7. Lessee shall have free use of oil, gas and water from said land, except water from Lessor's wells and tanks, for all operations hereunder including re-pressuring, pressure maintenance, cycling and secondary recovery operations, and the royalty shall be computed after deducting any so used. Any structures and facilities placed on said land by Lessee for operations hereunder and any well or wells on said land drilled or used for the injection of salt water or other fluids may also be used for Lessee's operations on other lands in the same area. Lessee shall have the right at any time during this lease to remove all property and fixtures placed by Lessee on said land, including the right to draw and remove all casing. When required by Lessor, Lessee will bury all pipelines below ordinary plow depth, and no well shall be drilled within two hundred (200) feet of any residence or barn now on said land without Lessor's consent.

8. The rights of either party hereunder may be assigned in whole or in part and the provisions hereof shall extend to the heirs, representatives, 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. No such change or division in the ownership of the land or royalties shall be binding upon Lessee for any purpose until such person acquiring any interest has furnished Lessee with the instrument or instruments, or certified copies thereof, constituting the chain of title from the original Lessor. An assignment of this lease, in whole or in part, shall, to the extent of such assignment, relive and discharge Lessee of any obligations thereunder, and, if Lessee or assignee of part of parts hereof shall fail to comply with any provision of this lease, such default shall not affect this lease insofar as it covers a part of said land upon which Lessee or any assignee thereof shall not be in default. Should more than six parties become entitled to royalties hereunder, Lessee may require the appointment of a single agent to receive payment for all and may withhold payment until such appointment has been made.

9. When drilling or other operations are delayed or interrupted by storm, flood or other act of God, fire ware, rebellion, insurrection, riot strikes, differences with workmen, unavailability of material or equipment, failure of carriers to transportation, some order, requisition or necessity of the government or as a result of any cause whatsoever beyond the control of the Lessee, the time of such delay or interruption shall not be counted against Lessee, anything in this lease to the contrary notwithstanding. All express or implied covenants of this lease shall be subject to all Federal and State Laws. Executive order, rules or regulations and this lease shall not be terminated, in whole or in part, nor Lessee held liable in damages for failure to comply therewith if compliance is prevented by, or is such failure is the result of, any such law, order, rule or regulation. If from such causes Lessee is prevented from conduction drilling or reworking operations on, or producing oil or gas from said land or land pooled therewith, the time while Lessee is so prevented shall not be counted against Lessee, and this lease shall be extended for a period of time equal to that during which such Lessee is so prevented from conduction drilling or reworking operations on, or producing oil or gas from said land or land pooled therewith, not withstanding any other provision hereof.

10. The breach by Lessee of any obligation arising hereunder shall not work a forfeiture or termination of this lease nor cause a termination or reversion of the state created hereby nor be grounds for cancellation hereof in whole or in part. In the event 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 upon as constituting a breach hereof, and Lessee, if in default, shall have (60) days after receipt of notice in which to commence the compliance with the obligations imposed by virtue of this instrument. After the discovery of oil, gas or other mineral in paying quantities on said land, Lessee shall reasonably

develop the acreage retained hereunder, but in discharging this obligation it shall in no event be required to drill more than one (1) well per forty (40) acres, plus an acreage tolerance not to exceed ten percent (10%) of forty (40) acres of the area retained hereunder and capable of producing oil in paying quantities and one (1) well per six hundred forty (640) acres, plus an acreage tolerance not to exceed ten percent (10%) of six hundred forty (640) acres of the area retained hereunder and capable of producing gas or other mineral in paying quantities.

11. Lessor hereby warrants and agrees to defend the title to said land, and agrees that Lessee, at its option, may discharge any tax, mortgage or other lien upon said land in the event of default of payment by Lessor, and in the event lessee does so, it shall be subrogated to such lien with the right to enforce same and apply royalties accruing hereunder toward satisfying same. Without impairment of Lessee's rights under the warranty in the event of failure of title, it is agreed that, if Lessor owns an interest in said land less than the entire fee simple estate, whether stated herein above as a whole or partial interest, the royalties to be paid Lessor shall be reduced proportionately. All royalty interest covered by this lease (whether or not owned by lessor) shall be paid out of the royalty herein provided. Should anyone or more of the parties name herein above as Lessors fail to execute this lease, it shall nevertheless be binding upon the party or parties executing the same.

12. Lessee, its successors and assigns, shall have the right at any time to surrender this lease, in whole or in part, to Lessor or Lessor's heirs, representatives, successors and assigns by delivering or mailing a release thereof to the Lessor, or by placing a release thereof of record in the county in which said land is situated; thereupon Lessee shall be relieved from all obligations, express or implied, of this agreement as to the acreage so surrendered, and thereafter the advance annual royalties payable hereunder shall be reduced in the portion that the acreage covered hereby is reduced by said release or releases.

13. Notwithstanding anything contained herein to the contrary, if, at the expiration of the primary term of this lease or any portion thereof, is not being maintained in effect in any manner provided herein, including but not limited to operations upon or production from the leased premises or on land pooled therewith, or through the payment of shut-in gas royalties, Lessee shall have the exclusive right and option to renew and extend this lease as to the lands then covered thereby or any portion chosen by Lessee for an additional one (1) year primary term, commencing _____, by payment of tender to Lessor or to the credit of Lessor in the above named depository bank, on or before said date, a sum of money equal to **Five-Hundred Fifteen and no/100 Dollars (\$515.00)** per net mineral acre, provided that such sum, shall be reduced under the applicable lease provisions, including but no limited to proportionate reduction based on ownership of Lessor.

IN WITNESS WHEREOF, this instrument is executed as of the date above written.

HIDALGO COUNTY

Tax I.D. Number

CORPORATE ACKNOWLEDGMENT

THE STATE OF TEXAS

COUNTY OF HIDALGO

The instrument was acknowledged before me on _____ by _____ in the capacity therein stated purposes and consideration therein expressed and on behalf of the said Hidalgo County.

Notary Public Signature
