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3812960 12/19/2011 03:43P Weld County, CO
1 of 4 R 26.00 D 0.00 Steve Moreno Clerk & Recorder

PRODUCERS 88-PAID UP
Rev. 5-60, No.-2 - 10pt.-Amended

OIL AND GAS LEASE

(Paid-Up)

THIS AGREEMENT is made and entered into the 15 day of December, 2011, by and between Sakata Farms, Inc. a Colorado Corporation whose mailing address is P. O. Box 508, Brighton, CO 80601 hereinafter called Lessor (whether one or more); and Synergy Resources Corporation, a Colorado corporation, 20203 Highway 60, Platteville, CO 80651, hereinafter called Lessee.

WITNESSETH, That the Lessor, for and in consideration of **Ten and more (\$10.00+)** DOLLARS cash in hand paid, the receipt of which is hereby acknowledged, and the covenants and agreements hereinafter contained, has granted, demised, leased and let, and by these presents does grant, demise, lease and let exclusively unto the said Lessee, the land hereinafter described, with the exclusive right for the purpose of mining, exploring by geophysical and other methods, and operating for and producing therefrom oil and all gas of whatsoever nature or kind, save and take care of said products, all that certain tract of land situated in the County of Weld, State of Colorado, described as follows, to-wit:

Township 1 North, Range 66 West of the 6th P. M.
Section 32: a part of the SW4 described as: Beginning at the Southwest corner of said SW4; thence N00°16'51"W on an assumed bearing along the West line of the SW4SW4, of said Section 32, a distance of 30.00 feet to the TRUE POINT OF BEGINNING; thence continuing N00°16'51"W along said West line a distance of 1290.06 feet to the Northwest corner of the SW4SW4 of said Section 32; thence N89°34'57"E along the North line of the S2SW4 of Section 32, a distance of 1419.12 feet; thence N00°17'30"W along a line parallel with the East line of said SW4, a distance of 1320.06 feet to a point on the North line of said SW4; thence N89°35'14" along said North line, a distance of 1221.01 feet to the Northeast corner of said SW4; thence S00°17'30"E along the East line of said SW4, a distance of 2609.91 feet to the a point 30 feet North of the Southwest corner of said SW4; thence S89°34'48"W along a line 30.00 feet North and parallel with the South line of said SW1/4, a distance of 2640.38 feet to the TRUE POINT OF BEGINNING.

THIS IS A NON-SURFACE USE LEASE
Containing 115.19 acres, more or less.

1. It is agreed that this lease shall remain in force for a term of **three (3) years** from this date and as long thereafter as oil or gas of whatsoever nature or kind is produced from said leased premises or on acreage pooled therewith, or drilling operations are continued as hereinafter provided. If, at the expiration of the primary term of this lease, oil or gas is not being produced on the leased premises or on acreage pooled therewith but Lessee is then engaged in drilling or reworking operations thereon, then this lease shall continue in force so long as operations are being continuously prosecuted on the leased premises or on acreage pooled therewith; and operations shall be considered to be continuously prosecuted if not more than ninety (90) days shall elapse between the completion or abandonment of one well and the beginning of operations for the drilling of a subsequent well. If after discovery of oil or gas on said land or on acreage pooled therewith, the production thereof should cease from any cause after the primary term, this lease shall not terminate if Lessee commences additional drilling or reworking operations within ninety (90) days from date of cessation of production or from date of completion of dry hole. If oil or gas shall be discovered and produced as a result of such operations at or after the expiration of the primary term of this lease, this lease shall continue in force so long as oil or gas is produced from the leased premises or on acreage pooled therewith.

2. **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. Lessee may at any time or times during or after the primary term surrender this lease as to all or any portion of said land and as to any strata or stratum by delivering to Lessor or by filing for record a release or releases, and be relieved of all obligation thereafter accruing as to the acreage surrendered.

3. For all oil and gas that are physically produced from the leased premises, or lands pooled, unitized or communitized therewith, and sold, lessor shall receive as its royalty **twenty (20%) percent** of the sales proceeds actually received by lessee or, if applicable, its affiliate, as a result of the first sale of the affected production to an unaffiliated party, free and clear of, and without deduction for any Post Production Costs. As used in this provision, Post Production Costs shall mean all costs and all losses of produced volumes whether by use as fuel, line loss, flaring, venting or otherwise from and after the wellhead to the point of sale, and all costs of gathering, marketing, compression, dehydration, transportation, removal of liquid or gaseous substances or impurities from the affected production, and any other treatment or processing.

4. Where gas from a well capable of producing gas is not sold or used, Lessee may pay or tender as royalty to the royalty owners Ten Dollars per year per net royalty acre retained hereunder, such payment or tender to be made on or before the anniversary date of this lease next ensuing after the expiration of 90 days from the date such well is shut in and thereafter on or before the anniversary date of this lease during the period such well is shut in. If such payment or tender is made, it will be considered that gas is being produced within the meaning of this lease. Shut in payment shall not maintain this Lease in force for more than two years following the expiration of the primary term.

5. If said Lessor owns a less interest in the above described land than the entire and undivided fee simple estate therein, then the royalties (including any shut-in gas royalty) herein provided for shall be paid the Lessor only in the proportion which Lessor's interest bears to the whole and undivided fee.

6. Lessee shall have the right to use, free of cost, gas, oil and water produced on said land for Lessee's operation thereon, except water from the wells of Lessor.

7. No well shall be drilled nearer than 200 feet to the house or barn now on said premises without the written consent of Lessor. All Drilling and Associated Production equipment will be located in a mutually agreed upon surface location and drilling will be done with Directional technology.

8. The rights of Lessor and Lessee hereunder may be assigned in whole or in part. No change in ownership of Lessor's interest (by assignment or otherwise) shall be binding on Lessee until Lessee has been furnished with notice, consisting of certified copies of all recorded instruments or documents and other information necessary to establish a complete chain of record title from Lessor, and then only with respect to payments thereafter made. No other kind of notice, whether actual or constructive, shall be binding on Lessee. No present or future division of Lessor's ownership as to different portions or parcels of said land shall operate to enlarge the obligations or diminish the rights of Lessee, and all Lessee's operations may be conducted without regard to any such division. If all or any part of this lease is assigned, no leasehold owner shall be liable for any act or omission of any other leasehold owner.

9. Lessee, at its option, is hereby given the right and power at any time and from time to time as a recurring right, either before or after production, as to all or any part of the land described herein, and as to any one or more of the formations hereunder, to pool the leasehold estate and the mineral estate covered by this lease with other land, lease or leases in the immediate vicinity for the production of oil and gas, or separately for the production of either, when in Lessee's judgment it is necessary or advisable to do so, and irrespective of whether authority similar to this exists with respect to such other land, lease or leases. It is provided, however, that a unit for an oil well (other than a horizontal completion) shall not exceed 40 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. Likewise, units previously formed to include formations not producing oil or gas, may be reformed to exclude such non-producing formations. The forming or reforming of any unit shall be accomplished by Lessee executing and filing of record a declaration of such unitization or reformation, which declaration shall describe the unit. Any unit may include land upon which a well has theretofore been completed or upon which operations for drilling have theretofore been commenced. Production, drilling or reworking operations or a well shut in for want of a market anywhere on a unit which includes all or a part of this lease shall be treated as if it were production, drilling or reworking



operations or a well shut in for want of a market under this lease. In lieu of the royalties elsewhere herein specified, including shut-in gas royalties, Lessor shall receive on production from the unit so pooled royalties only on the portion of such production allocated to this lease; such allocation shall be that proportion of the unit production that the total number of surface acres covered by this lease and included in the unit bears to the total number of surface acres in such unit. In addition to the foregoing,

10. All express or implied covenants of this lease shall be subject to all Federal and State Laws, Executive Orders, 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 if such failure is the result of, any such Law, Order, Rule or Regulation.

11. Lessor makes no warranty of title with respect to the leased premises. Lessor agrees that the Lessee shall have the right at any time to redeem for Lessor, by payment, any mortgages, taxes or other liens on the above described lands, in the event of default of payment by Lessor and be subrogated to the rights of the holder thereof, and the undersigned Lessors, for themselves and their heirs, successors and assigns, hereby surrender and release all right of dower and homestead in the premises described herein, insofar as said right of dower and homestead may in any way affect the purposes for which this lease is made, as recited herein. Lessor agrees to execute such further assurances as may be requisite for the full and complete enjoyment of the rights herein granted.

12. The word "Lessor," as used in this lease, shall mean any one or more or all of the parties who execute this lease as Lessor. All the provisions of this lease shall be binding on the heirs, successors and assigns of Lessor and Lessee.

13. Anything to the contrary herein notwithstanding, if Lessor owns a greater interest in the lands described than is purported to be leased hereby or hereafter acquires any additional interest or title in the lands described, then this lease shall cover such greater or additional after-acquired interest or title, and Lessor agrees to give Lessee written notice of any such acquisition as soon as the same is made, in which event the royalties payable to Lessor shall be increased proportionately.

14. All Oil and Gas Exploration will adhere to the rules and regulations of the Colorado Oil and Gas Conservation Commission.

15. **THIS IS A NON-SURFACE USE LEASE.** All Drilling and associated production equipment will be located in a surface location other than on the property which is the subject of this lease, and drilling will be done with directional drilling technology. No roads, gas lines, tank batteries, power lines or any other drilling related equipment or activity of any kind will be permitted on the surface of the lands described herein.

16. Lessee shall protect, defend, hold harmless and indemnify Lessor and Lessor's employees, agents, successors and assigns, against and from any and all liability, loss, damage, claim, demand, suit, action, proceeding, penalty, fine, cost, and expense of whatsoever nature, including, without limitation, court costs, attorneys' fees and consultants fees, incurred by Lessor for any personal injury to or death of persons whomsoever, liens against the Property or destruction of or damage to property whatsoever, including but not limited to environmental and reclamation liabilities under existing and future laws and regulations, where such personal injury, death, loss, destruction, lien or damage is caused by, or arises out of any activity conducted by Lessee and/or its contractors or agents, their officers, employees, servants, and/or licensees hereunder. This indemnity provision shall survive the termination of the Lease.

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