

10-322-01

PRODUCERS 88-PAID UP **OIL AND GAS LEASE**
RevSECB042612 9pt.-Amended (Paid-Up)

THIS AGREEMENT is made and entered into the 27 day of July, 2012, by and between Ginger L. Cannon whose address is 2905 E. State Highway 56, Berthoud, CO 80513 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 4 North, Range 68 West of the 6th P. M.
lots A & B of Recorded Exemption RE 3725 AM, being part of Section 16, Township 4 North, Range 68 West of the 6th P. M., Weld County, Colorado, EXCEPTING THEREFROM All of the North (10) feet of the South Thirty (30) Feet of the E2SE.

Containing 79.697 acres +/-.

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 re-working 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, lime 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 mineral owners **One Dollar per year per net mineral 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. Lessee's failure to pay or tender, or properly pay or tender, any such sum shall render Lessee liable for the amount due but it shall not operate to terminate the lease.

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, nothing herein contained shall authorize or effect any transfer of any title to any leasehold, royalty or other interest pursuant hereto. The commencement of a well, the conduct of other drilling operations, the completion of a well or of a dry hole, or the operation of a producing well on the pooled area, shall be considered for all purposes (except for royalty purposes) the same as if said well were located on, or such drilling operations were conducted upon, the lands covered by this lease whether or not such well is located upon, or such drilling operations are conducted upon, said lands. Lessee shall also have the right, but not the obligation, from time to time, while this lease is in force, to modify or terminate any prior declaration of pooling by either increasing or decreasing the size of the pooled unit, such right to be exercised by the recording of an instrument evidencing such modification or termination; provided, however, that this right may be exercised only to the extent that such modification or termination will result in pooled units of a size equal to any spacing pattern established by governmental regulation or order for the lands involved. Notwithstanding the limitations on termination of pooled units contained in the preceding sentence, lessee may also terminate any pooling effected pursuant hereto at any time the pooled unit is not producing and no drilling operations are being conducted thereon by executing and filing of record in the county and counties in which the pooled area is located a written declaration of the termination of such pooling, provided that the pooling of all interests not covered by this lease which comprise a part of such pooled unit be also terminated in some effective manner.

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 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. **OPTION TO EXTEND PRIMARY TERM FOR PAID-UP LEASE (3 + 2):** Lessee is hereby given the option, but not the obligation, to extend the primary term of all or any part of this lease for an additional two (2) years from the expiration of the original primary term hereof. This option may be exercised by Lessee at any time during the last year of the original primary term by paying a bonus consideration of 100% of the bonus consideration originally paid for the lease and shall be paid directly to Lessor at the above address. This payment shall be based upon the number of non-producing net mineral acres then covered by this lease. This payment may be made by check mailed or delivered to Lessor at any time during the last year of the original primary term hereof. If, at the time this payment is made, various parties are entitled to specific amounts according to Lessee's records, this payment may be divided between said parties and paid in the same proportion. Should this option be exercised as herein provided, it shall be considered for all purposes as though this lease originally provided for a primary term of five (5) years. In the event this lease is being maintained by any other lease provisions at the expiration of the primary term, Lessee shall have a period of thirty (30) days from the date this lease ceases to be so maintained within which to exercise this option. If Lessee exercises its option to extend this lease, Lessee shall file notice thereof in the public records where the land is situated and provide to Lessor a copy thereof.

16. In the event lessor considers that lessee has not complied with all its obligations hereunder, either express or implied, lessor shall notify lessee in writing, setting out specifically in what respects lessee has breached this lease. Lessee shall then have sixty (60) days after receipt of said notice within which to meet or commence to meet all or any part of the breaches alleged by lessor. The service of said notice shall be precedent to the bringing of any action by lessor on said lease for any cause, and no such action shall be brought until the lapse of sixty (60) days after service of such notice on lessee. Neither the service of said notice nor the doing of any acts by lessee

