



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 7th Day of January, 2010, by and between **M&T Farms LLC**, a Colorado Limited Liability Company, whose address is 907 Belvedere Ct., Fort Collins, Colorado, 80525, 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, with rights of way and easements for laying pipe lines, and erection of structures thereon to produce, save and take care of said products, all pertaining to that certain tract of land situated in the County of Weld, State of Colorado, described as follows, to-wit:

TOWNSHIP 6 NORTH, RANGE 65 WEST, of the 6th P.M.

Section 10; SE/4, better known as Lot C, 2nd Amended Recorded Exemption RE-2044

and containing **151.01** acres, more or less.

1. It is agreed that this lease shall remain in force for a term of **one (1) year and six (6) months** 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. Royalties on oil, gas and other substances produced and saved hereunder shall be paid by Lessee to Lessor as follows: (a) For oil and other liquid hydrocarbon separated at Lessee's separator facilities, the royalty shall be 19% of such production, to be delivered at the wellhead provided that Lessee shall have the continuing right to sell such production to itself or an affiliate at the wellhead market price then prevailing in the same field (or if there is no such price, then prevailing in the same field, then in the nearest field in which there is such a prevailing price) for production of similar grade and gravity; (b) for gas (including casinghead gas) and all other substances covered hereby, the royalty shall be 19% of the net proceeds realized by Lessee (after deducting the taxes and costs set forth in subsection 3(c) hereof) from the sale thereof, provided that Lessee shall have the continuing right to sell such production to itself or an affiliate at the prevailing wellhead market price paid for production of

similar quality in the same field (or if there is no such price then prevailing in the same field, then in the nearest field in which there is such a prevailing price) pursuant to comparable purchase arrangements entered into on the same or nearest preceding date as the date on which lessee or its affiliate commences its purchases hereunder; and (c) in calculating royalties on production hereunder, lessee may deduct Lessor's proportionate part of any ad valorem, production and excise taxes.

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 One Dollar 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.

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. Lessee shall bury all pipeline a minimum of thirty-six (36") below depth.

8. No well shall be drilled nearer than 200 feet to the house or barn now on said premises without the written consent of Lessor.

9. Lessee shall pay for damages caused by Lessee's operations to growing crops on said land.

10. Lessee shall have the right at any time to remove all machinery and fixtures placed on said premises, including the right to draw and remove casing.

11. 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. Notwithstanding the above, if Lessee desires to assign all or part of this lease prior to the completion of drilling operations to any party, Lessee must have Lessor's prior written consent to such assignment.

12. 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 or unitize 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. 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,

13. 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.

14. 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.

15. 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.

16. 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.

17. Lessee's operations will be conducted pursuant to the terms of this Lease, the rules and regulations of the Colorado Oil & Gas Conservation Commission (COGCC), and applicable Colorado statutes and case law.

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

By: *Thomas L. Goding*
Thomas L. Goding, Member
M&T Farms LLC

STATE OF COLORADO)
) ss.
COUNTY OF Weld)

ACKNOWLEDGMENT

The foregoing instrument was acknowledged before me this 7th day of January, 2010, by Thomas L. Goding, Manager of M&T Farms LLC, to me known to be the identical person described herein, and who executed the within and foregoing instrument of writing and acknowledgment to me that he duly executed the same as his free and voluntary act and deed for the uses and purposes therein set forth.

Witness my hand and official seal.

My commission expires:
11-08-2010



Craig D. Rasmussen
Notary Public