

FARMOUT AGREEMENT

State: Colorado

County: Weld

Farmor's Name and Address: Noble Energy, Inc., 1625 Broadway, Ste 2200, Denver, CO 80202

Farmee's Name and Address: Synergy Resources Corporation, 20203 Highway 60, Platteville, CO 80651

Farmout Lands: Township 6 North, Range 67 West, Section 15: N/2SW/4, 6th P.M. Wells to be drilled directionally from the S/2SW/4 of Section 15.

This Farmout Agreement ("Agreement") is between Farmor and Farmee, shall be effective on the date it is signed by Farmee as provided in Section 6 below.

1. EXHIBITS.

The following exhibits, if checked, are attached and shall be considered part of this Agreement:

☒ Exhibit A - General Terms and Conditions, which shall apply to this Agreement except to the extent they are in conflict with the body of this Agreement.

☒ Exhibit B - Geological Requirements.

2. INITIAL EARNING WELLS.

2.1 Well Specifications. Farmee shall drill three wells, (the "Initial Earning Wells"), strictly in compliance with the following specifications:

- (a) Location(s): NW/4SW/4, Sec 15, T6N-R67W, 6th P.M., BHL
NE/4SW/4, Sec 15, T6N-R67W, 6th P.M., BHL
C/SW/4, Sec 15, T6N-R67W, 6th P.M., BHL
- (b) Spudding Deadline: January 31, 2011 (Midnight)
- (c) Required Depth: A depth sufficient to test the Codell formation for the two (2) quarter / quarter well(s) (NWSW/4 and NESW/4) and to the J-sand for the C/SW/4 one (1) well.
- (d) Completion/Plugging Deadline: April 30, 2011

2.2 Earned Assignment. As soon as practicable after the completion of the Initial Earning Wells as a producer of oil and/or gas in paying quantities, including the foregoing specifications, Farmor shall deliver to Farmee the following (check one or both assignments):

☒ A wellbore assignment as described in Section 2.3 below.

☐ An additional acreage assignment as described in Section 2.4 below.

- 2.3 Three (3) Wellbore Assignments. If a wellbore assignment is earned under Section 2.2 above, the assignment shall cover all of Farmor's right, title and interest in the Farmout Lands, subject to area and/or depth limitations as they relate to the wellbore for the Initial Earning Well.

In addition to the foregoing, Farmor shall assign all right title and interest in and to the wellbore of the Initial Earning Well with Farmor reserving an Overriding Royalty Interest (ORRI), equal to the difference between the total leasehold burdens of record as of the date of this agreement and a total leasehold burden of twenty-five percent (25%), but in no case shall the reserved ORRI be more than ten percent (10%) of 8/8^{ths}. In no event, however, shall the proportionate net revenue interest assigned and delivered to Farmee as provided in this Section 2.3 be less than seventy-five percent (75%). Therefore, the reserved ORRI shall not exceed ten percent (10%) of 8/8^{ths} as provided above in this Section 2.3 and shall be reduced below 10% of 8/8^{ths}, on a lease basis, to the extent necessary to deliver to Farmee a proportionate seventy-five percent (75%) net revenue interest in each wellbore [or in each lease]. Said assignment of ORRI shall be free of all costs and apply to production from the wellbore of the Initial Earning Well and reduced proportionately to the extent that the interest assigned covers less than the full and entire mineral and leasehold estates and further proportionately reduced to the extent the leasehold assigned covers less than the full and entire leasehold estate covered by and committed to any drilling and spacing unit as established by the Colorado Oil and Gas Conservation Commission or otherwise agreed to voluntarily by all of the affected parties for the wellbore limited to the interval between the surface of the ground and 100 feet below the stratigraphic equivalent of the total depth drilled in the Initial Earning Well. It is the Farmee's intent via this Agreement to drill no less than one (1) J-sand well that sufficiently test said formation. The bottom hole location to be drilled to the J-sand will be mutually agreed upon by Farmor and Farmee.

2.4 Additional Acreage Assignment: None

3. Earned Assignments. As soon as practicable after Farmor is satisfied Farmee has complied with all of its obligations under this Agreement with regard to completion of an Additional Earning Well as a producer of oil and/or gas in paying quantities, including the foregoing well specifications, Farmor shall deliver to Farmee the following (check one or both assignments):

☒ A wellbore assignment as described in Section 3.1 below.

☐ An additional acreage assignment as described in Section 3.5 below.

3.1 Wellbore Assignment. If a wellbore assignment is earned under Section 3 above, the assignment shall cover all of Farmor's right, title and interest in the Farmout Lands, and subject to area and/or depth limitations as they relate to the wellbore for the Additional Earning Well as defined in paragraph 3.2 of Exhibit A;

In addition to the foregoing, Farmor shall assign all right title and interest in and to the wellbore of the Additional Earning Well(s) with Farmor reserving an Overriding Royalty Interest (ORRI), equal to the difference between the total leasehold burdens of record as of the date of this agreement and a total leasehold burden of twenty-five percent (25%), but in no case shall the reserved ORRI be more than ten percent (10%) of 8/8^{ths}. Said assignment of ORRI shall be free of all costs and apply to production from the wellbore of the Additional Earning Well and reduced proportionately to the extent that the interest assigned covers less than the full and entire mineral and leasehold estates and further proportionately reduced to the extent the leasehold assigned covers less than the full and entire leasehold estate covered by and committed to any drilling and spacing unit as established by the Colorado Oil and Gas Conservation Commission or otherwise agreed to voluntarily by all of the effected parties for the wellbore limited to the interval between the surface of the ground and 100 feet below the stratigraphic equivalent of the total depth drilled in the Additional Earning Well.

3.2 Additional Acreage Assignment. None

4. NOTICES AND WELL INFORMATION.

4.1 In General. All well data, information and notices to be given to Farmor as provided in this Agreement shall be given as follows:

FARMOR

Noble Energy, Inc.
1625 Broadway, Suite 2200
Denver, Colorado 80202

Tel # 303-228-4000
Fax # 303-228-4285

FARMEE

Synergy Resources Corporation
20203 Highway 60
Platteville, CO 80651

Tel # 970-737-1073
Fax# 970-737-1045

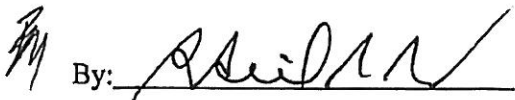
Farmor or Farmee may change their address at any time by furnishing a written notice of change of address to the other party.

5. AGREEMENTS AFFECTING FARMOUT LANDS.

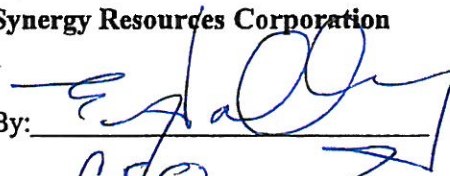
5.1 Farmee Bound. Except as may be otherwise provided in this Agreement, Farmee shall be bound by any agreement which affects the Farmout Lands at the time of assignment to Farmee. Farmor shall not be liable for its good faith failure to disclose the existence or effect of any such agreement to Farmee, either in this Agreement or otherwise.

6. EXECUTION. Duplicate originals of this Agreement may be signed and counterparts of this Agreement bearing facsimile or e-mail signatures shall be treated the same as originals of this Agreement.

FARMOR
Noble Energy, Inc.

By: 
Title: P. David Padgett
Attorney-in-Fact
Date: 9/29/2010 RGL

FARMEE
Synergy Resources Corporation

By: 
Title: CEO
Date: 9-29/2010

**EXHIBIT A
TO FARMOUT AGREEMENT
GENERAL TERMS AND CONDITIONS**

1. Titles and Access to Farmout Lands.

1.1 Title Information. On written request by Farmee, Farmor shall make available to Farmee copies of all lease files, title opinions, abstracts of title and other title information in Farmor's possession with respect to the Farmout Lands. Provided, however, such items shall not be construed as a warranty or representation by Farmor of title or ownership. Any curative work or additional title examination required by Farmee shall be conducted by Farmee at its sole cost and risk. On written request by Farmor with a copy of all curative work and title information resulting from any additional title examinations conducted by Farmee.

1.2 Access by Farmee and Farmor. Unless prohibited by law, Farmor hereby grants to Farmee and its contractors and subcontractors all of Farmor's rights of ingress and egress pertaining to the Farmout Lands for the purpose of conducting operations. Farmor shall advise Farmee of any unusual limitations or restrictions on ingress or egress, known to Farmor, and Farmee and its contractors and subcontractors shall use its best efforts to comply with such limitations or restrictions. During Farmee's operations Farmor and Farmor's representatives shall have access at all times to the well-site, including the derrick floor, for the purpose of observation. All information requested by Farmor concerning operations shall be promptly furnished by Farmee. Wells for said acreage will be drilled from the S/2SW/4 of Section 15. No surface rights will be required from the N/2SW/4 of said Section.

2. Conduct of Operations.

2.1 Cost and Risk. All operations conducted by Farmee shall be at Farmee's sole cost and risk and expense, and subject to the indemnity provisions of paragraph 5.2 below.

2.2 Performance Standards. All of Farmee's operations shall be conducted in a diligent and workmanlike manner, and in accordance with all applicable federal, state and local laws, regulations and orders. Farmee shall use its best efforts, in accordance with good oil and gas practice, to complete the well as a producer of oil and/or gas in paying quantities. Farmee shall conduct such coring, logging, testing, fracing and acidizing operations as a reasonable and prudent operator would conduct under the same or similar circumstances. If the well cannot reasonably be completed as a producer of oil and/or gas, Farmee shall, in accordance with timing constraints specified by COGCC regulations plug the well and perform all necessary surface restoration work. Time is of the essence in Farmee's performance of all undertakings provided for in the Agreement.

2.3 Federal Contract Requirements. If applicable, Farmee agrees to comply with the requirements of all applicable Executive Orders governing Federal contractors, as well as all related rules, regulations, and orders and any amendments or additions of these rules and orders. Farmee additionally agrees to supply Farmor all certificates required pursuant to any applicable rules, regulations, and orders.

2.4 Lease Obligations. Except as otherwise provided in the body of the Farmout Agreement, Farmee shall at its sole cost, risk and expense comply with all of the express and implied covenants and other obligations of the oil and gas leases and other agreements covering the Farmout Lands, including the payment of royalties, shut-in royalties, and delay rentals, and the cost of any renewals or extensions of such leases.

2.5 Well Information. During Farmee's operations, Farmee shall promptly furnish Farmor the following information pertaining to the Earning Wells and any other well drilled by Farmee:

- (a) Written notice of the time and date on which the well is spudded.
- (b) A daily drilling report showing all formations encountered and the depths at which those formations were encountered during the immediately preceding day, and the well operations conducted during the immediately preceding day.
- (c) Copies of all reports and other forms filed with any federal, state or local governmental authority concerning the well.
- (d) A complete copy of all electrical logs.
- (e) Copies of any fluid analyses and other reports or information obtained with respect to the well.
- (f) Any other information specifically required by Farmor as part of this Farmout Agreement.

2.6 Confidentiality. Without the other parties prior written consent, Farmor and Farmee shall not divulge information obtained from Farmee's operations under the terms of this Agreement to any individual or entity other than Farmor, any party owning an interest in the well, and the appropriate governmental authority.

2.7 Substitute Wells. If Farmee has failed to earn a wellbore assignment under the terms of this Agreement, either (i) because the original Earning Well failed to reach the required depth as a result of mechanical problems or practically impenetrable strata or other conditions in the hole which make further drilling impracticable, under generally accepted oil field practices, or (ii) because the original Earning Well was drilled to the required depth but it is not capable of producing in paying quantities, Farmee shall have the option, but not the obligation, to drill one or more substitute wells subject to the following provisions:

- (a) Farmee shall give Farmor written notice describing the status of the well and stating whether or not Farmee elects to drill a substitute well. This notice shall be given while the drilling rig or completion unit is on the well, or within 10 days after its release. Failure to timely make such an election shall be deemed to be an election by Farmee not to drill a substitute well.
- (b) If Farmee elects to drill a substitute well, Farmor shall advise Farmee within 10 days after receipt of Farmee's notice, or within 12 hours if the rig is on location, to either plug the original well or turn it over to Farmor as provided in paragraph 2.8 below, and to proceed with the substitute well as provided in paragraph 2.7(d) below.
- (c) If Farmee elects not to drill a substitute well, or if Farmee has waived its right to do so as provided in paragraph 2.7(a) above, Farmor shall advise Farmee within 10 days

after receipt of Farmee's notice, or within 12 hours if the rig is on location, whether or not Farmor elects to take over the well as provided in paragraph 2.8 below. If Farmor elects not to take over the well or fails to make an election, Farmee shall promptly plug and abandon the well and restore the surface. In either event, Farmee shall have no right to drill a substitute well in order to earn an assignment.

(d) Any substitute well drilled by Farmee shall be spudded within 90 days after Farmee's election to drill it, at a mutually acceptable location, and the well shall be drilled, tested, and completed or plugged and abandoned in accordance with all of the requirements specified for the original Earning Well and with the same consequences. The foregoing shall be subject to rig availability and approval by appropriate regulatory agencies. If either a rig is not available, or regulatory approval can not be obtained within 90 days, Farmee shall proceed to obtain such with all due diligence and proceed to cause the substitute wells to be drilled as soon as possible thereafter. The substitute well shall be considered as the Earning Well for all purposes of this Agreement.

2.8 Takeover by Farmor. If Farmor elects to take over a well, the effective date of the takeover shall be 12 hours after the date of Farmor's election to do so or when Farmor takes actual custody of the well, whichever is earlier. If Farmor elects to takeover a well it shall own Farmee's interest in the well and the related equipment, along with any and all interest Farmee owns (or has a right to earn under other contracts or agreements) in the drilling unit for the well taken over, excluding any other producing wells and related equipment in the drilling unit, and excluding any depth intervals or formations which would not have been earned under this Agreement. As soon as practicable after Farmor takes over the well, Farmee shall make an assignment to Farmor, as may be necessary to evidence the foregoing, at which time Farmor shall reimburse Farmee for the estimated value of Farmee's equipment, facilities, pipe, casing, fixtures in and on the well, less estimated costs to salvage such items. Farmee shall have no further rights or obligations under this Agreement, except Farmee shall be liable for all actions which occurred prior to the effective date of the takeover and Farmor shall be liable for all actions which occur after the effective date of the takeover.

3. Earned Assignment.

3.1 Scope of Assignment. Any assignment of interest earned by Farmee shall be subject to all of the provisions of the Agreement and all its Exhibits, whether or not any of the provisions are recited in the assignment. Farmor shall retain all rights and interests not expressly assigned to Farmee. Farmor expressly retains the right to use all or any part of the assigned Farmout Lands to explore, develop, and operate the Farmout Lands and other lands not assigned to Farmee, but any such use of the Farmout Lands by Farmor shall not unreasonably interfere with Farmee's rights under the Agreement and all its Exhibits. The assignments shall be without warranty of title, express or implied, but the assigned interest shall be free and clear of all royalties, overriding royalties and other such payments out of production, except those in existence as of the effective date of the Agreement.

3.2 Drilling Unit. Whenever an assignment relates to the "drilling unit" for the Earning Well, the term "drilling unit" means the area within the surface boundaries of the drilling or spacing unit established or prescribed as of the date of the Agreement by order of the Colorado

Oil and Gas Conservation Commission for the objective reservoir to be tested or the reservoir in which the wellbore of the Earning Well is completed, if other than the objective reservoir.

3.3 Failure to Drill or Default by Farmee. If Farmee fails to spud the Earning Well(s) within the deadline established in this Agreement, this Farmout Agreement shall automatically terminate without notice, effective as of the date of the deadline and without penalty to Farmee except for the loss of the right to earn an assignment. If Farmee defaults in the timely and proper performance of any other obligation, Farmor shall have the right to terminate this Agreement by giving notice of default to Farmee, the receipt of which by Farmee shall commence a forty-five (45) day cure period within which Farmee may elect to cure such default. If such default has not been cured, then Farmor may elect to terminate this Agreement or waive such default. Upon termination, Farmee shall have no further rights except rights already earned, and, in addition to any other available legal or equitable remedies for Farmee's default, Farmor may elect to take over, pursuant to paragraph 2.8 above, any well which has not yet satisfied the earning requirements of this Agreement. In the event of a default hereunder by Farmor, then Farmee may seek to have Farmor's obligations hereunder enforced by specific performance and Farmee may seek damages against Farmor together with any other remedy as may be available under applicable law.

4. Reserved and Relinquished Interest.

4.1 Calculation and Payment. For the purpose of this Farmout Agreement, "gross value" means the gross proceeds actually received by Farmee in an arm's length sale of production, or, in the absence of an arm's length sale, the prevailing market value of the production of the wellhead when produced.

4.2 Periodic Statements. From time to time, but not less frequently than quarterly, Farmee shall provide to Farmor a statement showing cumulatively, and for the period covered by the statement, the following information:

(a) Farmee's costs, which are the costs incurred by Farmee in drilling, testing, reworking, completing, equipping, and operating the Earning Well as calculated in accordance with generally accepted accounting procedures, insofar as those costs are attributable to the interest assigned or relinquished to Farmee under this Agreement.

(b) The Farmee's revenue, which is the gross value of production as defined in paragraph 4.1 above, less: (i) applicable production or severance taxes and federal excise taxes; and (ii) all royalties, overriding royalties, and other such payments out of production which, as of the effective date of this Agreement, burden the interest assigned to Farmee.

(c) In the event more than one well has been drilled on the lands subject to this agreement, Farmee may, but shall not be required to, install more than one set of production facilities to separately measure the production from the individual wells. Rather, Farmee may elect to establish an allocation procedure that, in Farmor's opinion, fairly allocates production to the individual wells.

4.3 Audits. Upon three (3) days prior written notice to Farmee, Farmor may, during normal business hours, examine Farmee's books and records relating to the calculation of ORRI. Such examination rights may be exercised at any time.

5. Liability and Insurance.

5.1 Relationship of Parties. In performing its obligations, Farmee shall be an independent contractor and not the agent of Farmor. Nothing in this Agreement shall be construed as creating a partnership or otherwise establishing joint or collective liability. The relationship of the parties for federal and state income tax purposes shall be as set forth in paragraph 10.2 below, and shall be effective from and after the effective date of this Agreement.

5.2 Farmee's Indemnity. Farmee shall indemnify and hold harmless Farmor and its employees and agents from all claims, demands, losses, and liabilities of every kind and character arising out of Farmee's performance or failure to perform under this Agreement, or the acts of or failure to act by Farmee's employees, agents contractors and subcontractors.

5.3 Required Insurance Coverage. At all times while Farmee has the right to earn an assignment of interest or is conducting operations on the Farmout Lands, Farmee shall maintain, at its sole cost, the following insurance coverage for its operations:

(a) Worker's Compensation Insurance and Employer's Liability Insurance with such limits as are specified by law in the jurisdiction in which the Farmout Lands are located.

(b) Comprehensive General Public Liability Insurance, including Contractual Liability coverage, with a combined single limit of \$1, 000,000 for bodily injury and property damage.

(c) Automobile Liability Insurance with the same limits as prescribed above for Comprehensive General Public Liability Insurance.

5.4 Proof of Coverage. Prior to the commencement of operations, Farmee shall, upon written request, furnish Farmor one or more certificates signed by the insurance carrier or carriers showing, to Farmor's satisfaction, that the required insurance coverage is in force and stating that such coverage shall not be canceled or materially altered without at least 10 days advance written notice to Farmor. A cancellation or material alteration, if not accompanied by new insurance coverage satisfactory to Farmor, shall constitute a default by Farmee under paragraph 3.3 above. Each certificate shall also contain a waiver by the insurance carrier of any right to be subrogated to the rights of any claimant against Farmor or Farmor's employees and agents, except that the carrier shall be subrogated to the rights of Farmee against Farmor with respect to any risk expressly assumed by Farmor.

6. Assignments, Encumbrances and Restrictions.

This Agreement shall be binding on the respective heirs, successors and assigns of Farmor and Farmee. Farmor may freely assign or encumber its interest at any time, but Farmee shall not assign or encumber its interest without the prior written consent of Farmor, which consent shall not be unreasonably withheld. Any attempt by Farmee to assign or encumber its interest without Farmor's prior written consent shall constitute a default under paragraph 3.3 above. When an assignment or encumbrance is made, Farmee shall promptly furnish a copy to Farmor. Any rights of reverter and the rights to reassignment retained by Farmor shall be

superior to all liens, encumbrances, debts, judgments, claims, overriding royalty interests, and production payment burdens and other obligations created or incurred by Farmee and asserted against any oil and gas lease that is the subject of this Agreement. Any interest in any oil and gas lease included in the Farmout Lands reverting to Farmor or reassigned to Farmor shall be free and clear of all such liens, encumbrances, debts, judgments, claims, overriding royalty interests, and production payment burdens and other obligations. Farmee agrees not to use, for any promotion purposes or for the purpose of selling stock in any organization, and not to advertise in any manner, Farmee's relationship with Farmor arising out of this Agreement.

7. Reassignment Rights of Farmor.

7.1 Termination or Cancellation of Leases. If at any time after an interest in any oil and gas lease is assigned to Farmee, and Farmee elects to surrender its interest in the lease, or allow the lease to expire by its terms, or subject the lease to possible cancellation for failure to comply with any express or implied covenant, Farmee shall notify Farmor in writing at least 60 days before the intended date of surrender or expiration, or as soon as practicable in the event of possible cancellation, and Farmor shall then have 30 days to notify Farmee in writing of Farmor's election to reacquire such interest. If Farmor elects to reacquire the interest, Farmee shall promptly assign it to Farmor free and clear of all royalties, overriding royalties interests and other payments out of production and any other lease burden, except those in existence as of the effective date of this Agreement and except those to which Farmor has consented. Upon such assignment, Farmor shall reimburse Farmee for Farmee's share of the estimated value of any equipment, facilities, pipe, casing and fixtures in and on any wells covered by the assignment, less estimated salvage costs. Farmor's failure to notify Farmee in writing shall be deemed an election to not reacquire the interest.

7.2 Abandonment of Wells. Farmee shall not plug and abandon any Earning Well or Additional Well drilled without giving Farmor written notice at least 30 days before the intended plugging date. Farmor shall then have 15 days to notify Farmee in writing of Farmor's election to take over the well. Upon giving that notice, Farmor shall own Farmee's interest in the well and the related equipment, along with any and all interest Farmee owns (or has a right to earn under other contracts or agreements) in the drilling unit for the well taken over, excluding any other producing wells and related equipment in the drilling unit, and excluding any depth intervals or formations which would not have been earned under this Agreement. As soon as practicable after that time, Farmee shall make such assignment to Farmor as may be necessary to evidence the foregoing. At that time, Farmor shall reimburse Farmee for the estimated salvage value of Farmee's salvable equipment in and on the well, less estimated salvage costs. Farmee shall have no further rights or obligations under this Agreement, except Farmee shall be liable for all actions which occurred prior to the effective date of the takeover, and Farmor shall be liable for all actions which occurred after the effective date of the takeover. Farmor's failure to notify Farmee in writing shall be deemed an election by Farmor to not take over the well.-

If Farmor's election to take over results in a diversity of ownership giving rise to a commingling of production with uncommon ownership, in Farmee's storage tanks, Farmor shall be responsible for and shall bear all cost of setting and connecting tanks and pipelines for production from the well taken over by Farmor.

8. Renewals and Extensions.

If any oil and gas lease included in the Farmout Lands is extended or renewed in whole or in part by either party or their agents, during the term of the Agreement, this Agreement shall apply to such extension or renewal to the same extent as it would have applied to the original lease. For this purpose, any new lease covering an interest originally included in the Farmout Lands and acquired within 90 days after the termination of the original lease shall be considered an extension or renewal.

9. Term of Farmout Agreement.

The Farmout Agreement shall be in effect until such time as: (i) Farmee's rights to earn an assignment of interest have expired pursuant to paragraph 3.3, without Farmee having earned an assignment; (ii) Farmee has earned an assignment of interest and neither Farmee nor Farmor have any further rights or obligations under the Agreement; or, (iii) this Agreement terminates pursuant to paragraph 3.3 above as a consequence of Farmee's default.

10. Miscellaneous.

10.1 Taxes. Farmee shall pay when due all taxes, including, but not limited to, federal excise taxes, and state and local ad valorem, occupation, excise, privilege or regulatory taxes, now or hereafter lawfully assessed against Farmee's interest in the Farmout Lands or the production attributable to Farmee's interest.

10.2 Income Tax Provisions. If this Agreement is or may be construed as creating a partnership for federal or state income tax purposes, which the Parties hereto expressly do not intend for such construction to occur, then, Farmee is authorized and directed to execute and file on behalf of all parties an election to be excluded from application of the provisions of Subchapter K, Chapter 1, Subtitle A of the current United States Internal Revenue Code, and any amendments, or to be excluded from application of any comparable provisions of state law. Each party agrees to furnish such additional evidence of that election as may be necessary or proper.

10.3 Payments by Farmor. Farmor shall have the right to pay rentals, royalties or other payments which may become due under any oil and gas lease included in the Farmout Lands, and Farmee agrees to reimburse Farmor for the full amount of those payments which Farmor is not obligated to bear. Farmee shall pay interest on paid sums effective as of the date of the payment by Farmor at the interest rate provided in the body of this Agreement, provided however, that Farmor first provides advance notice to Farmee that Farmor intends to make such payments and the date(s) that such payments are to commence.

10.4 Division of Proceeds. To make proper division of the proceeds from the sale of oil and gas production from the Farmout Lands, in the event Farmee shall be unable to make proper distribution of the proceeds of production, Farmor shall have the right, but not the obligation, to collect such proceeds. After deducting the working interest to which it is entitled (if any), Farmor shall pay to Farmee its portion of the proceeds thus collected. At all times, Farmor shall rely on Farmee's division or proceeds. Provided however, Farmor shall have the right to request and receive a copy of any title opinions prepared by Farmee's attorneys and covering the lands

subject to this agreement. This provision shall not, however, be interpreted as requiring Farnee to prepare any such title opinions.

10.5 Furnishing Data. Each party has the affirmative duty to timely supply adequate data to the other party when such data is necessary to comply with Federal, State or local reporting requirements.