

**DeClar Oil & Gas, Inc.**  
**13500 Road W**  
**Weldona, Colorado 80653**

May 26, 2011

Synergy Resources Corporation  
20203 Highway 60  
Platteville, Colorado 80651  
Attention: Mr. Craig Rasmuson

RE: Farmout Agreement

Gentlemen:

This letter, when accepted in the manner as hereinafter provided, shall be a Farmout Agreement ("**Agreement**") between DeClar Oil and Gas, Inc, ("**Farmor**"), having the mailing address indicated above, and Synergy Resources Corporation, ("**Farmee**").

1. Farmout Acreage. Only the working interest owned by Farmor in the lease described below ("the Lease") insofar as said Lease covers the lands described below ("Farmout Acreage") is being farmed out hereunder, and then only as to all zones. Farmor does represent that it owns the Lease, but does not in any way warrant that the Lease covers any interest in the Farmout Acreage. Farmee shall conduct its own title review and examination prior to commencing operations.

Lessor: CGO, LP, a Nevada limited partnership, et al.

Lessee: DeClar Oil and Gas, Inc.

Date: September \_\_, 2010 (acknowledged September 15, 2010)

Recorded: September 16, 2010 at Reception No. 3718823

Description: Township 4 North, Range 68 West  
Section 34: NW/4 and S/2

Township 3 North, Range 68 West

Section 3: NE/4, less part lying South of a line described in Quit Claim Deed dated April 27, 1996, recorded at Book 1544, Reception No. 2488026, and except a 6 foot strip conveyed by Warranty Deed recorded October 16, 1902 at Book 200, Page 291.

As amended by Amendment to Oil and Gas Lease dated December 22, 2010, recorded at Reception No. 3741497.

2. Initial Wells. On or before August 15, 2011 (the "Commencement Date"), Farmee shall commence or cause to be commenced operations at a location as required by the Lease in the NW/4 of Section 34, T4N, R68W, for the drilling of 5 wells with bottomholes to be located in the said NW/4 ("Initial Wells or Group I Wells"). Farmee shall drill all wells with due diligence

and in a good and workmanlike manner, and no less than one of the Initial Wells must be drilled to a depth sufficient to test the "J" Sandstone formation, and all remaining Group I Wells shall be drilled to a depth sufficient to test the Niobrara and Codell formations ("the Objective Depth"). If Farmee fails to commence or cause to be commenced the first well within the Group I Wells on or before the Commencement Date or shall fail to drill the said Well with due diligence in a good and workmanlike manner to said Objective Depth, this Agreement shall ipso facto terminate, and neither party shall have any obligation hereunder. However, notwithstanding such termination, Farmee shall remain liable to Farmor as set forth on Exhibit 1, Section 7.5, and furthermore Farmee shall remain liable with respect to any obligation or liability rising out of or incident to its operations hereunder.

3. Option Wells. Following the drilling and completion of the Initial Wells, Farmee may commence or cause to be commenced the drilling of one or more additional option wells ("Option Well(s)"), as follows:

A. On or before February 15, 2012, Farmee may commence operations to drill no less than five (5) wells at a location as required by the Lease in the SW/4 of Section 34, T4N, R68W, with bottomholes in the said SW/4 ("Group II Wells").

B. On or before August 15, 2012, Farmee may commence operations to drill no less than five (5) wells at a location as required by the Lease in the SE/4 of Section 34, T4N, R68W, with bottomholes in the said SE/4 ("Group III Wells").

C. On or before February 15, 2013, Farmee may commence operations to drill no less than five (5) wells at a location as required by the Lease in the NE/4 of Section 3, T3N, R68W, with bottomholes in the said NE/4 ("Group IV Wells").

Collectively Group I-IV Wells may be referred to as the "Well Groups", and severally each may be referred to as a "Well Group".

Farmee may not commence drilling operations on any subsequent Well Group until ALL five (5) wells in the previous Well Group have been drilled and completed. Farmee shall drill the Option Wells with due diligence and in a good and workmanlike manner to a depth sufficient to test the Niobrara and Codell formations.

Except as otherwise provided in this Section 3, all Option Wells shall be drilled subject to, and in accordance with, all applicable terms and provisions stipulated for the drilling of the Initial Wells.

Notwithstanding anything contained herein to the contrary, all wells drilled within a particular Well Group and any Boundary Line Wells drilled simultaneously therewith, shall be completed and capable of production no later than 120 days from rig release from the Well Group on which the drilling rig was then located.

4. Boundary Line Wells. Colorado Oil and Gas Conservation Commission Rule 318 A.e. permits the drilling of certain wells referred to as Greater Wattenberg Infill and/or Boundary

Wells (the "Boundary Line Well(s)"). Provided Farmee drills and completes the Initial Wells and Option Wells as herein provided, Farmee at its option may drill any Boundary Line Well permitted to be drilled from the surface locations allowed under the terms and conditions of the Lease. However, in order to facilitate the timely and cost efficient drilling of any Boundary Line Well, Farmee is permitted to drill such well at such time as the drilling rig is on location of any particular Well Group, provided that all wells required to be drilled in such Group are drilled and completed prior to drilling any Boundary Line Well. However, notwithstanding anything contained herein to the contrary, if in Farmee's opinion prudent operations dictate that certain Boundary Line Wells be drilled in a sequence different that set forth above, Farmee shall contact Farmor and the parties may agree by separate writing to modify the required drilling sequence.

5. Information, Tests, and Notices. Farmor's authorized representatives shall at all times have full and free access to the rig floor, at their sole risk and expense, and to the well and all information concerning each well drilled hereunder. Farmee shall test to Farmor's satisfaction any oil and/or gas shows encountered and all formations generally considered by the industry to have the potential for commercial production in the general area of the Farmout Acreage and shall otherwise make a bona fide effort to complete said well as a well capable of production.

Farmee shall keep an accurate, complete, and detailed log of each well drilled hereunder and shall comply with all the requirements set out on Exhibit 2 attached to and incorporated herein. In connection with the actual drilling of any Well to total depth, Farmee will provide to Farmor any and all information pertaining to or obtained from operations conducted in connection therewith, whether obtained directly from the well or subsequently reissued in any form, immediately when obtained, including but not limited to the information on Exhibit 2; without limiting in any way any other provisions hereof or Farmor's remedies with respect thereto, it is expressly agreed that failure to timely provide such information shall be deemed a material breach of and a failure to substantially comply with this Agreement, unless Farmee shall cure said breach within seventy-two (72) hours after Farmee's receipt of notice of such breach.

6. Assignment. If all of the Group I-IV Wells drilled hereunder are timely commenced, are drilled to the required Objective Depth with due diligence in accordance with all terms and provisions hereof, are completed and capable of production, and if Farmee has otherwise substantially complied with all terms and provisions of this Agreement, Farmor shall make, execute and deliver to Farmee an assignment of Farmor's entire working interest in the Farmout Acreage only to the extent that it covers the Farmout Acreage.

However, Farmee shall not earn any interest in the Lease and/or Farmout Acreage in the event of a dry hole. Furthermore, Farmee must drill and complete all wells in Well Groups I-IV in order for Farmee to earn the right to an assignment of the entire leasehold interest in the Farmout Acreage. In the event Farmee fails to drill and complete all of the Group I-IV Wells in accordance with the terms and conditions hereof, Farmee shall earn no rights except in the wellbore of the completed wells, and will earn no interest in the Lease outside of such completed wellbores, and Farmee shall have no right to deepen the wellbores. The intent of this paragraph is that in order for Farmee to earn any leasehold interest outside the wellbore of any well, Farmee must drill and complete all of the Group I-IV Wells, otherwise the interest earned by Farmee will be limited to the forty (40) acres upon which the wellbore is located, and limited from the surface

to the base of the deepest producing formation in such wellbore. In the event a well is completed in the "J" Sandstone formation, and Farmee has not drilled all the wells in the Well Groups, Farmee shall earn an interest in the one-hundred sixty (160) acres upon which the "J" Sandstone formation well is located, however limited to the wellbore of such well and further limited from the surface to the base of the "J" Sandstone formation. Notwithstanding anything contained herein to the contrary, Farmee shall not, under the terms of this Agreement, earn any interest in the Lease beyond that which Farmor would be entitled to earn for the drilling of the wells on the Farmout Acreage.

In the event Farmee does not drill all the wells required within each of the Groups as heretofore stated, as to wells which are required by the Colorado Oil and Gas Conservation Commission to be spaced on units larger than the lands permitted to be retained by Farmee, Farmor and Farmee shall execute an appropriate segregation agreement so as not to disturb the Commission mandated spacing unit. Farmee shall execute such segregation with the intent to release all of Farmee's rights to any other lands within such mandated spacing unit upon which a completed well is not located and as to all formations within such spacing unit not capable of production.

Any assignment required to be made by the terms hereof shall be made within thirty (30) days of written request by Farmee, but in no case prior to the time a well has been completed as a well capable of production.

Said Assignment shall convey the Farmout Acreage without representation or warranty of any kind, either express or implied, and shall be made subject to all applicable terms and provisions of this Agreement and the Lease. Notwithstanding anything contained herein to the contrary, the interest earned by Farmee, and assigned by Farmor to Farmee, shall under no circumstance exceed the rights permitted to be retained by the Lessee under the terms and conditions of the Lease.

Said Assignment shall reserve unto Farmor an overriding royalty interest, on all oil, gas and associated hydrocarbons produced, saved, marketed or sold from the Farmout Acreage and/or the wellbore(s) assigned to Farmee, equivalent to the difference between Eighty Percent (80%) and the royalty burdens existing as of the date of the Assignment created by or through Farmor. Such interest shall be subject to and bear its proportionate share of all severance, production or other taxes applicable thereto. Any royalty payable on gas and associated hydrocarbons shall specifically be free and clear of all costs and expenses associated with transporting, dehydrating, separating, compressing or other treatment required or reasonably necessary to render the gas marketable. The intent of this paragraph is that Farmor will deliver to Farmee a net revenue interest of no less than eighty percent (80%).

Said assignment and reserved overriding royalty interest shall also be subject to the general terms and provisions set forth in Exhibit 1.

7. Additional Provisions. All operations conducted and all interests in the Farmout Acreage acquired hereunder by Farmee shall be conducted and acquired in accordance with and subject to all terms and provisions set forth in those Additional Provisions attached hereto as Exhibit 1.

8. Other Agreements. This Agreement and any assignments hereunder are made subject to all terms and provisions of the Lease, as amended, affecting the Farmout Acreage, and all assignments, agreements, instruments or other contracts relating thereto (inclusive of contracts for the sale, gathering or transportation of production from the Farmout Acreage) to which Farmor is a party or which otherwise affect Farmor's interest therein, whether of record or not.

9. Counterpart Execution. This Agreement may be executed in counterparts, each of which so executed shall be given the effect of execution of the original Agreement. Failure of any party to execute this Agreement shall not render it ineffective as to any party which does execute. If counterparts of this Agreement are executed, the signatures of the parties thereto may be combined in and treated and given effect for all purposes as a single instrument.

10. Priority of Documents. Exhibits 1 and 2, inclusive, are hereby made a part hereof for all purposes and are incorporated by reference as if here fully set forth. This letter shall govern if there is any conflict between this letter and the terms or provisions of any of the Exhibits attached to it.

11. Amendment. This Agreement may be amended, supplemented, clarified or modified only by a written instrument duly executed by Farmor and Farmee.

12. Acceptance. If this Agreement is not accepted and executed by Farmee and returned to Farmor prior to May 27, 2011 at 5:00 p.m., the Agreement shall automatically terminate and become null and void for all purposes.

Very truly yours,

DECLAR OIL & GAS, INC.

Signature: Lewis C Camp  
Printed Name: Lewis C Camp  
Title: President

AGREED TO AND ACCEPTED THIS 26<sup>th</sup> DAY OF May, 2011.

SYNERGY RESOURCES CORPORATION

Signature: William E. Scuff  
Printed Name: William E. Scuff  
Title: Vice President

## EXHIBIT 1

### ADDITIONAL PROVISIONS

1. Definitions. The following terms, including variations thereof, if used in this Agreement shall have the meanings indicated below.

1.1. "capable of production" or "capable of producing" - shall mean a well which has been fully equipped for the taking of production, through and including the tanks for an oil well and including the christmas tree for a gas well, or plugged and abandoned if a dry hole; and, as to formations within a completed wellbore shall mean that the formation has been perforated, fractured or is otherwise capable of production as defined herein.

1.2. "commencement of operations" - shall mean and require that Farmee has a drilling rig on location capable of drilling the well to the Objective Depth, and is prepared to penetrate the surface of the earth.

1.3. "completion" or "completed" - shall mean and is intended to require that the wellbore of any well drilled is cased.

1.4. "dry hole" - a well which has been drilled to the Objective Depth and not shown by good oil field practices to be a "producer" as herein defined.

1.5. "gas well" - a well so classified by law or an authorized governmental entity for conservation purposes, or, in the absence thereof, a well which produces 15,000 cubic feet of gas, or more, to each barrel of liquid hydrocarbon from the same zone based on a twenty-four (24) hour production test under normal producing conditions and using separator facilities or equivalent testing equipment and procedures.

1.6. "oil well" - a well which produces hydrocarbons and is not herein defined as a gas well.

1.7. "producer" - a well which has been drilled to the Objective Depth and in accordance with good oil field practices is capable of producing oil or gas from any depth in sufficient quantities to maintain the applicable lease(s) in force and to enable the owner(s) of the working interest(s) therein to realize a profit over operating expenses, without regard to drilling costs.

1.8. "spacing unit" - the acreage allotted to the well by an authorized governmental entity for the purpose of establishing allowable production therefrom, or in the absence of any such allocation, up to 40 acres around an oil well and up to 160 acres around a gas well, such acreage to be designated by Farmee in a reasonably compact configuration around the well which will allow the maximum lawful density of wells on any remaining adjacent acreage in which Farmor holds an oil and/or gas interest.

2. Title Information. Upon Farmee's request, Farmor will promptly furnish to Farmee copies of all ownership data Farmor may have pertaining to the subject matter of this Agreement, and Farmee shall furnish to Farmor any additional ownership data Farmee may obtain with respect thereto while this Agreement is in effect; provided, however, that neither party shall warrant or otherwise be liable with respect to the accuracy, completeness or reliability of any such data. The word "data", as used in this provision, includes, but is not limited to title opinions and all curative documents.

3. Lease Payments. During the term of this Agreement prior to making an assignment to Farmee, Farmor shall make a bona fide effort to pay all lease maintenance payments (except shut-in and royalty payments) becoming due on said lease(s), and Farmee shall reimburse Farmor for the entire cost of such payments attributable to the Farmout Acreage. After an assignment is made to Farmee, Farmee shall make all such payments attributable to the acreage earned hereunder, and Farmor shall bear the cost thereof in proportion to its working interest ownership of each lease or part thereof as to which a payment is made. Farmor shall not be liable to Farmee for any error or omission made in connection with any such payment.

4. Notice of Shut-In Well. If Farmee shuts in a well, or anticipates that a well may be shut in prior to commencement of production, Farmee shall pay as promptly as reasonably possible any required or permitted shut-in payment and take any other appropriate action. Farmor shall have the right, but not the obligation, to pay shut-in payments, royalties and other payments which may become due under any lease assigned by Farmor to Farmee hereunder, and if such payment is made, Farmee agrees to promptly reimburse Farmor for Farmee's share of such payment together with interest thereon at the maximum lawful rate from the date of such payment by Farmor.

5. Substitute Well. If, during the drilling of any well commenced under this Agreement, Farmee encounters an impenetrable substance or other physical condition in the well prior to reaching the Objective Depth which would cause a prudent operator to conclude that further attempts to drill would be impractical, Farmee may plug and abandon such well and commence a substitute well within thirty (30) days after such abandonment, or within such lesser time as may then be required to maintain the Lease in force. If the location of the abandoned well was specified in this Agreement or by Farmor, then any substitute therefor must be located as near as practicable to the location of the abandoned well unless a different location is mutually agreed upon. If and to the extent this Agreement gives Farmee the right to select the location of any such abandoned well, Farmee shall have a like right to select the location of any well drilled as a substitute therefor. Except with respect to the different location and time of commencement provided for above and as may otherwise be provided herein, the provisions in this Agreement pertaining to the well for which any substitute well is drilled (including but not limited to depth requirements) shall apply with equal force to each such substitute well, which shall be treated as if it were the well for which it is a substitute.

6. Failure to Drill. Time is of the essence in this Agreement. Except as otherwise provided in Section 7.5 below, Farmee shall not be liable in damages to Farmor for failure to commence any well as provided herein, but such failure shall automatically result in the loss to Farmee of all rights not previously earned under this Agreement, and shall limit the interest earned by Farmee in the Farmout Acreage as set forth in the Agreement.

## 7. Operations.

7.1. Costs. The entire risk, cost and expense incurred in or arising out of operations by Farmee under this Agreement shall be borne solely by Farmee except as may otherwise be expressly provided.

7.2. Standard of Performance. All operations and related actions to be conducted by Farmee under this Agreement shall be under the exclusive control of Farmee and conducted with due diligence in accordance with the standards of a prudent operator.

7.3. Suspensions and Abandonments. All operations pursuant to this Agreement shall be conducted in due course without unreasonable delays, and Farmee shall promptly notify Farmor of any suspensions of operations and the reasons therefor. When each well drilled hereunder reaches the Objective Depth and has been tested as herein provided, Farmee shall either complete the same as a producer, or plug and abandon the same in accordance with all applicable laws and regulations; provided, however, that if after Farmee drills any well under the terms and conditions of this Agreement and determines that such well should be plugged and abandoned, Farmee shall promptly notify Farmor in writing of such determination. Should Farmor agree with this determination (and failure by Farmor to respond in the manner and within the time indicated below shall constitute agreement), Farmee shall proceed at its sole cost, risk and expense to plug and abandon the well in accordance with applicable state laws and regulations.

7.3.1. Should Farmor disagree with this determination, it shall have twenty-four (24) hours following the receipt of such notice, including Saturdays, Sundays, and holidays, within which to advise Farmee of its decision whether to take over operations of the well.

7.3.2. Upon the election of Farmor to assume operations on such well, Farmee shall be deemed to have relinquished and transferred to Farmor all its right, title and interest of any kind in and to (1) the proposed abandoned well, (2) the material and equipment therein and used or acquired in connection therewith which Farmor retains for conducting operations hereunder, (3) the lands included in the drill-site spacing unit upon which the well is located, and (4) Farmee's rights under this Agreement which have not previously been earned. Farmor shall pay Farmee the estimated salvage value of all salvable materials and equipment in such well, but Farmee shall be responsible for all costs and expenses of said well incurred prior to the takeover by Farmor. All testing and completing operations on such well after Farmor's takeover, including plugging and abandonment of a dry hole, shall be conducted by Farmor at its sole cost, risk and expense. In

the event Farmee elects to plug and abandon any well, then the interest earned by Farmee shall be limited as set forth in the letter to which this Exhibit is attached.

7.4. Access and Well Information. In addition to any requirements set forth in the Agreement to which this exhibit is attached, Farmor's authorized representatives shall at all times have full and free access to the rig floor, at their sole risk and expense, and to the well and all information concerning each well drilled hereunder as is customary and reasonable in the industry.

7.5. Farmee shall secure all permits, licenses and consents (herein collectively referred to as "Permits") necessary to perform the drilling, production and all other operations contemplated by this Agreement. All Permits shall either be assignable to Farmor and/or list Farmor as an additional applicant. In the event Farmee fails to commence operations to drill the first well within the Group I Wells, all Permits which are assignable shall be assigned by Farmee to Farmor within five (5) days, including weekends and holidays, after the Commencement Date of the aforesaid first well. Any such assignment shall be in writing, and in the manner and form required by the issuing authority to give full effect thereto and to allow Farmor to be subrogated to the all the rights and benefits afforded Farmee under the assigned Permits. In the event any Permit is not assignable, unless previously delivered by Farmee to Farmor, Farmee shall deliver within the time period set forth above all information acquired and used by Farmee to obtain the Permits, including, by way of example, but not limited to, all plats, engineering studies, traffic studies, applications, title materials and opinions. All costs, expenses and fees associated with obtaining and assigning the Permits shall be born by Farmee. The purpose and intent of this provision is that in the event Farmee elects not to commence operations to drill the first well within the Group I Wells, Farmee shall in good faith assign all assignable Permits, or if not assignable provide to Farmor the Permits required by Farmor to drill such well within the time required to preserve Farmor's interest in the Lease. Failure to strictly comply with this provision may cause the Lease to terminate, or cause Farmor to incur additional costs and liabilities (including a diminished net revenue interest to Farmor) to secure an extension of the Lease.

8. Use and Restoration of Surface. To the extent Farmor may do so, Farmor agrees that Farmee may exercise any and all rights of ingress and egress of Farmor to the Farmout Acreage to the extent necessary for Farmee's operations hereunder. Farmee shall acquire, at its expense, any additional rights of ingress and egress and all other necessary authorizations which are necessary to its operations. Farmor shall have full right of ingress and egress to all lands, depths, zones and formations not earned by Farmee hereunder, including any rights of ingress and egress acquired by Farmee. Farmee shall use no more land than is reasonably necessary to conduct its operations hereunder. Farmee shall, to the extent necessary, repair or restore those portions of the surface lands damaged by operations hereunder. Farmee shall use its best efforts to promptly settle and dispose of all claims for damages resulting from operations hereunder, including, but not limited

to, damages to crops, trees and roads. If any such claim is not so settled or disposed of within sixty (60) days after the completion or abandonment of the operation to which it pertains, Farmor shall have the option to settle and dispose of the same, and Farmee shall, upon demand, reimburse Farmor for all reasonable costs and expenses thereby incurred by Farmor. In the event of conflict between the terms and conditions of this Section and the Lease, the Lease shall control and Farmee shall strictly comply with the terms and conditions of the Lease in all respects.

9. Roads and Other Easements. All roads constructed and easements obtained by Farmee in connection with operations hereunder may be used by Farmor to the extent and so long as Farmee may have the right to grant such rights of use to Farmor. Upon request, before or after the termination of this Agreement, Farmee will execute and deliver to Farmor any reasonable recordable documents desired by Farmor to confirm such rights. In the event of conflict between the terms and conditions of this Section and the Lease, the Lease shall control and Farmee shall strictly comply with the terms and conditions of the Lease in all respects.

10. Well Location. If any well drilled hereunder may be drilled at a location of Farmee's choice, such well location shall be selected in such a manner as to maximize the number of wells that can be drilled on the Farmout Acreage. In the event of conflict between the terms and conditions of this Section and the Lease, the Lease shall control and Farmee shall strictly comply with the terms and conditions of the Lease in all respects.

11. Laws, Rules and Regulations.

11.1. Law: Choice of Law, Forum and Jurisdiction. Unless the law of the State where all or most of the Farmout Acreage is located expressly requires that the dispute be venued in such State or that this Agreement be interpreted and enforced in accordance with such State's laws, this Agreement shall, to the fullest extent enforceable under applicable law, be interpreted and enforced exclusively in accordance with the laws of the State of Colorado, USA, excluding any conflicts of law rules that might refer same to another jurisdiction. Farmor and Farmee agree that all disputes (except as provided herein) in any way relating to this Agreement shall be litigated, if at all, exclusively in the state and/or federal courts venued in Weld County, Colorado, and Farmor and Farmee accordingly hereby submit to the jurisdiction and venue of such courts for all such purposes.

11.2. Rules and Regulations: Compliance. Farmee shall comply with all valid laws applicable to operations under and concerning this Agreement. The word "laws" as used here includes statutes, regulations, rules, ordinances, orders and codes of federal, state, local and other governmental entities having jurisdiction. Without limiting the generality of the foregoing, Farmee shall comply with all applicable provisions of the Fair Labor Standards Act, the Occupational Health and Safety Act, and shall not engage in any conduct or practice which violates any applicable law prohibiting discrimination against any person by reason of race, religion, color, sex, national origin, age, physical or mental handicap, and Farmee further agrees to comply fully with the

provisions of Section 202(1) to (7) of [Executive Order 11246](#), dated September 24, 1965, (Equal Opportunity Clause) as amended; [Executive Order 11375](#), dated October 13, 1967, as amended, as more fully set forth in 41 C.F.R. Part 60-1.4 et seq. Written Affirmative Action [Program](#); [Executive Order 11625](#), dated October 13, 1971, as more fully set forth in 13 C.F.R. Veterans Employment Clause Part 124 et seq. Minority Small Business and Capital Ownership Development Association; and [Executive Order 11758](#), dated January 15, 1974, as more fully set forth in [29 U.S.C.A. 793](#) Employment of Handicapped on Federal Projects (Affirmative Action).

12. Relationship of Parties. Neither this Agreement nor any agreement provided for herein is intended to create nor shall be construed as creating, any mining partnership, commercial partnership, or other partnership or joint venture. Rather, it is the intent and purpose of the parties to create a relationship which is limited to the development, extraction and processing of oil, gas and any other minerals covered hereby for division in kind or for sale for the separate accounts of the parties individually, and in which the liabilities of each of the parties hereto shall be several and not joint or collective. Accordingly, no party hereto is the agent or other legal representative of any other party hereto by virtue of this Agreement, and shall not act as such. The foregoing shall in no way, however, constitute an election to form or not to form a tax partnership solely for United States federal and state income tax reporting purposes, which election is or shall be made separately from this provision. If notwithstanding the foregoing, this Farmout Agreement is or may be construed as creating a partnership for federal or state income tax purposes then, unless the parties hereto expressly provide herein for a tax partnership, Farmee is authorized and directed to execute and file on behalf of all parties hereto an election to be excluded from application of the provisions of Subchapter K, Chapter 1, Subtitle A of the Internal Revenue Code of 1986 as amended, or to be excluded from application of any comparable provisions of state law. Each party hereto agrees to execute such additional evidence of such election as the parties may deem necessary or proper.

13. INDEMNITY. NOTWITHSTANDING ANY PROVISION HEREIN CONTAINED TO THE CONTRARY, FARMEE SHALL, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, INDEMNIFY AND SAVE FARMOR HARMLESS FROM AND AGAINST ANY AND ALL CLAIMS, DEMANDS, CAUSES OF ACTION AND JUDGMENTS OF WHATSOEVER NATURE ARISING ON ACCOUNT OF PERSONAL INJURY, DEATH, PROPERTY DAMAGE OR FOR ANY OTHER REASON WHATSOEVER, ARISING, IN WHOLE OR IN PART, DIRECTLY OR INDIRECTLY, FROM FARMEE'S OPERATIONS HEREUNDER.

14. Liens. Farmee shall pay all taxes when due and shall not permit any valid mechanic's lien, materialman's lien or other encumbrances, directly or indirectly attributable to Farmee's operations, to become affixed to or otherwise burden any lease or other property interest covered by this Agreement, and any such lien or other encumbrance which may become affixed thereto as a matter of law shall be promptly discharged by Farmee.

15. Insurance. Farmee shall carry all such insurance as may be required by law and such types and coverages as would a reasonably prudent operator under similar circumstances, including,

but not limited to the following:

15.1. Workmen's Compensation Insurance to fully comply with the laws of all states in which Farmee conducts operations hereunder, Employer's Liability Insurance with limits of \$500,000 per accident, and if such operations are conducted in navigable waters, shall include coverage with such limits under the Longshoremen's and Harbor Worker's Compensation Act and the Jones Act.

15.2. Comprehensive General Liability Insurance (excluding products, but including watercraft liability if any operations hereunder are conducted in inland waters, bays or marshes) with a single combined limit of \$500,000 for bodily injuries, death or property damage arising out of any single accident.

15.3. Comprehensive Automobile Public Liability and Property Damage Insurance with single combined limits of \$500,000 for bodily injuries or death and property damage.

15.4. Umbrella Liability Insurance coverage in the amount of \$1,000,000.

15.5. Upon request of Farmor, Farmee shall provide Farmor with certificates of insurance evidencing such coverage, and if Farmor so requests, naming Farmor as an additional insured party under such insurance policies.

16. Compliance With Lease Obligations. Except as may otherwise be expressly provided herein, and notwithstanding any less stringent obligations in this Agreement, Farmee shall comply with and meet all express and implied covenants and conditions in the Lease and in all assignments, operating agreements or other conveyances, agreements, permits or other documents insofar as the same are of record or available to Farmee and apply to interests which may be assigned to Farmee pursuant to this Agreement. FURTHERMORE, UPON ASSIGNMENT OF THE LEASE FROM FARMOR TO FARMEE, OR ANY PART THEREOF, FARMEE AGREES TO ASSUME ALL DUTIES, LIABILITIES AND OBLIGATIONS, IMPLIED OR EXPRESS, ARISING OUT OF OR THROUGH THE LEASE TO THE EXTENT OF FARMEE'S INTEREST THEREIN, AND FARMEE SHALL, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, INDEMNIFY AND SAVE FARMOR HARMLESS FROM AND AGAINST ANY AND ALL CLAIMS, DEMANDS, CAUSES OF ACTION AND JUDGMENTS OF WHATSOEVER NATURE ARISING ON ACCOUNT ANY BREACH OR VIOLATION OF THE DUTIES, LIABILITIES AND OBLIGATIONS, IMPLIED OR EXPRESS, ARISING OUT OF THE LEASE. A COPY OF THE LEASE AND AMENDMENT THERETO IS ATTACHED HERETO AND FARMEE BY EXECUTING BELOW ACKNOWLEDGES RECEIPT OF THE SAME. SUCH ASSUMPTION OF LIABILITY SHALL BE INCLUDED IN ANY ASSIGNMENT TO FARMEE.

17. Notice of Cessation of Production. If any well on the acreage subject to this Agreement or acreage pooled therewith is completed as a producer and thereafter ceases to produce, Farmee shall promptly notify Farmor, no later than fifteen (15) days from the date of such cessation.

Such notification shall include the reasons for the cessation and any plans Farmee may have for reestablishing production or plugging the well, and Farmee shall keep Farmor advised as to the status of the work no less often than weekly until the well is placed back on production or is abandoned. Farmor shall thereafter have the right to a reassignment as herein below provided, regardless of whether such cessation of production may result in the termination of a lease covered by this Agreement.

18. Reassignment Option. Farmee shall not cause or permit any lease covered by this Agreement to expire or to be surrendered, abandoned, released or otherwise terminated, in whole or in part, for any reason unless Farmee first notifies Farmor not less than sixty (60) days in advance of such event, and if requested by Farmor within thirty (30) days of such notice, Farmee shall promptly reassign to Farmor such lease, or affected portion thereof, together with a like interest in all the lease equipment and personal property therein or used in connection therewith; provided, however, that Farmor shall then be obligated to pay Farmee the estimated salvage value of any such equipment and personal property as of the effective date of its request for assignment. No such assignment shall relieve Farmee of any liability which may have already accrued prior thereto. Any reassignment from Farmee to Farmor under this or any other provision of this Agreement shall contain an express warranty that the leasehold estate or estates so assigned are free and clear of any encumbrance, lien, assignment, or burdens of any kind, other than those in existence at the time of the assignment to Farmee pursuant to this Agreement.

19. New, Renewal or Extension Leases. This Agreement and any overriding royalty interest reserved hereunder shall apply to any new, substitute, replacement, renewal or extension leases, acquired by Farmee within two years of the expiration of the leases covered hereby, on the lands covered hereby so that the parties hereto shall be entitled to the same interest in said new, renewal or extension leases as they would have under the leases described herein regardless of whether or not said new, renewal or extension leases are for the entire interest covered by the expiring leases or cover only a portion of their area or an interest therein.

20. Proportionate Reduction Clause. If the leasehold interest owned by Farmor in the acreage subject to this Agreement (that is, the working interest owned by Farmor in said acreage, without regard to any existing royalties, overriding royalties, production payments or other like interests in the production of revenue) is less than a full leasehold interest in said acreage or if such leasehold interest covers less than the full mineral interest in the acreage subject to this Agreement, then the overriding royalty retained hereunder and the working interest to which the overriding royalty may be converted, including all obligations appurtenant thereto, shall be proportionately reduced to accord with such leasehold or mineral interest actually covered hereby.

21. Miscellaneous Provisions.

21.1. Notices. All notices and other communications provided for in this Agreement, unless otherwise specified herein, shall be given by United States Mail, facsimile, Western Union

Telegram, or equivalent service, charges pre-paid, to the addresses of the parties, and to the attention of such representatives, as may be contained in this Agreement, subject to the right of all parties hereto, from time to time, to designate other reasonable addresses and/or representatives for such purposes upon thirty (30) days notice to all other parties hereto. Notices shall be deemed to be given upon receipt by the intended party.

21.2. Complete Agreement. This Agreement constitutes the entire agreement between the parties hereto as to the subject matter herein set forth and supersedes all prior written or oral agreements and representations pertaining thereto. No change, modification, alteration or amendment to this Agreement shall be binding upon the parties hereto except as specifically expressed in writing and signed by each party agreeing to be bound thereby.

21.3. Assignments of this Agreement. This Agreement shall inure to the benefit of and be binding upon the parties hereto, their respective heirs, successors and assigns. Neither this Agreement nor the obligations hereunder may be transferred or assigned, in whole or in part, without Farmor's advance written consent, which consent shall not unreasonably be withheld, provided however, such consent shall not become binding upon Farmor unless and until the assignee under such assignment shall have agreed in writing to accept and assume all of the terms and conditions hereof. If Farmor shall so consent to any such transfer or assignment, Farmee shall nevertheless remain bound by all of the provisions hereof unless Farmor shall specifically release Farmee therefrom in writing.

21.4. No Third Party Beneficiary. Notwithstanding any provision to the contrary herein, nothing herein shall be construed to create any right in any third party as a beneficiary under this Agreement.

21.5. Furnishing Data. Each party hereto 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.

21.6. Execution of Further Documents. Each party hereto, upon request, shall execute, acknowledge and deliver any additional document(s) which may be reasonably required to carry out, evidence or confirm the provisions and purposes of this Agreement.

21.7. Attorney Fees and Costs. In the event any legal action is filed in relation to this Agreement in a court of competent jurisdiction, the successful party shall be entitled to an award of attorney's fees, costs and expenses, in addition to other damages awarded in the action.

21.8. NO WARRANTY OF TITLE. THIS AGREEMENT IS MADE WITHOUT WARRANTY OF TITLE, EITHER EXPRESS OR IMPLIED.

21.9. Headings. The underlined headings used throughout this Agreement (including, but not limited to, this exhibit) are for administrative convenience only and shall be disregarded for

purposes of construing this Agreement.

## EXHIBIT 2

24 HOUR PHONE NOTIFICATION OF ANY LOGGING, CORING OR TESTING IS REQUESTED. REGARDING ANY PROPOSAL TO ATTEMPT TO COMPLETE, PLUG AND ABANDON, DEEPEN, SIDETRACK, PLUG BACK OR ATTEMPT ANY UNUSUAL OPERATION NOT CONTEMPLATED UNDER OUR ORIGINAL AGREEMENT, ONE OF THE FOLLOWING

Lewis C. Camp 970 590-3332

ANY AND ALL INFORMATION PERTAINING TO THE WELL, WHETHER OBTAINED DIRECTLY FROM THE WELL OR SUBSEQUENTLY REISSUED IN ANY FORM, WILL BE SENT IMMEDIATELY WHEN OBTAINED OR REISSUED, TO:

1. Location Plat.
2. Complete daily drilling report and mud logs should be sent by email to Lewis C. Camp at [lewis@schneiderenergy.com](mailto:lewis@schneiderenergy.com).
3. If applicable, one (1) mud log, when received by Farmee shall be electronically transmitted and mailed, immediate notification of any shows, and two copies of the final mud log.
4. Two (2) field copies and two (2) final copies of all electrical and/or formation logs, and one (1) film of each final log; one (1) copy of deviation reports and directional surveys.
5. One (1) copy of all completion test information.
6. Copies of all forms filed with state and/or federal agencies where well is drilled (including permits, completion and P & A).
7. If applicable, production, fluid analysis, and BHP reports.
8. All well logs required by to be provided to Lessor under the terms of the Lease.

PRIOR TO CORING, DRILL STEM TESTING AND LOGGING. AFE PROPOSALS JOINT INTEREST BILLING STATEMENTS, PROPOSALS FOR DRILLING ADDITIONAL WELLS ON THE PROPERTY, AND ANY OTHER NOTICES SHALL BE FURNISHED TO:

NAME OF FARMOR: DeClar Oil & Gas, Inc.

ADDRESS 13500 Road W  
Weldona, Colorado 80653

TELEPHONE: 970 590-3332

FAX \_\_\_\_\_

EMAIL [lewis@schneiderenergy.com](mailto:lewis@schneiderenergy.com)