

- A. Bid Delivery. To be eligible for consideration, written bids must be received at the office of the Board of County Commissioners (“BOCC”), Columbia County Courthouse, Room 338, 230 Strand, St. Helens, Oregon 97051, no later than 4:00 pm (according to the clock in the BOCC’s office) on January 17, 2018. Each bid submitted shall be on the form which is attached hereto as Exhibit 4, and is incorporated herein by this reference. Bid forms shall be submitted in sealed envelopes, with the outside of the envelope clearly referencing the lease offering and the specific lease tract number(s) applicable to the bid.
- B. Bid Opening. Bids will be opened at 10:30 am on January 18, 2018, in the office of the BOCC.
- C. Apparent High Bidder Determination. The qualified bidder offering the highest per-acre bonus bid for a lease tract will be deemed the Apparent High Bidder (“Apparent High Bidder”) by the County as to that tract. The minimum bonus bid accepted by the County will be \$2.50 per acre as to any tract. To be deemed qualified, a bidder must have demonstrated experience and capacity to permit, develop, and operate oil and gas exploration and production. The County reserves the right to delay naming the Apparent High Bidder until such time that bidder qualifications have been confirmed by the County. In the event of a tie bid between one or more qualified bidders, the County will arrange for the tied bidders to complete the competitive process through an oral auction on a date and time specified by the County.
- D. Lease Form. The Apparent High Bidder will be required to enter into an oil and gas lease with the County in a form substantially the same as Exhibit 5, which is attached hereto and is incorporated herein by this reference (“the Lease”).
- E. Bid Security and Lease Execution. Bidding parties will include a bid bond in the amount of the bonus bid, as bid security (“the Bid Security”). In the event that the Apparent High Bidder, through no fault of the County, fails to return a signed Lease, and required amounts due under the Lease, to the County by close of business on the 10th day following issuance of the Lease by the County, the Bid Security will be forfeited by the Apparent High Bidder to the County, and the County will have no remaining obligations to the Apparent High Bidder. Bid bonds will be returned to unsuccessful bidding parties within ten (10) business days of the Apparent High Bidder being named by the County.

- F. Agents. If any bidder is acting as an agent or an employee of a prospective lessee, the bidder shall provide satisfactory evidence of his or her agency status and supply the proper name, address and phone number and other information with which to complete the lease documents. All bidders will be held personally responsible for proper submission of Bid Security and fulfillment of the requirements of paragraph E, above, regardless of employee or agency status. After lease documents have been prepared and completed, ready for signature, and before approval and execution by the Board, no name changes or other such changes will be made except upon payment of an additional administrative fee deemed reasonable by the County.
- G. Publication of Notice. Notice of the County storage lease offering shall be given by publication in a newspaper of general circulation in the County. The offering shall be advertised for not less than once a week for two successive weeks. The first such publication shall be at least 14 days prior to the date that bids will be considered. The notice will refer interested parties to the online and physical location of specific offering information, including, but not limited to: the terms and conditions of the lease offering, the lease tracts maps and descriptions, the Lease form, the County bid form, and other information as may be deemed necessary by the Board. If the Board postpones or cancels the offering, it shall publish notice of the postponement or cancellation of the offering, as the case may be.


DATED this 29th day of November, 2017.

Approved as to form:

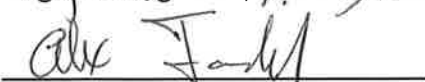

County Counsel

FOR COUNTY:

BOARD OF COUNTY COMMISSIONERS FOR
COLUMBIA COUNTY, OREGON

By: 
Henry Heimuller, Chair

By: 
Margaret Magruder, Commissioner

By: 
Alex Tardif, Commissioner

Dated: November 29, 2017

EXHIBIT 1

Offered Tracts Map

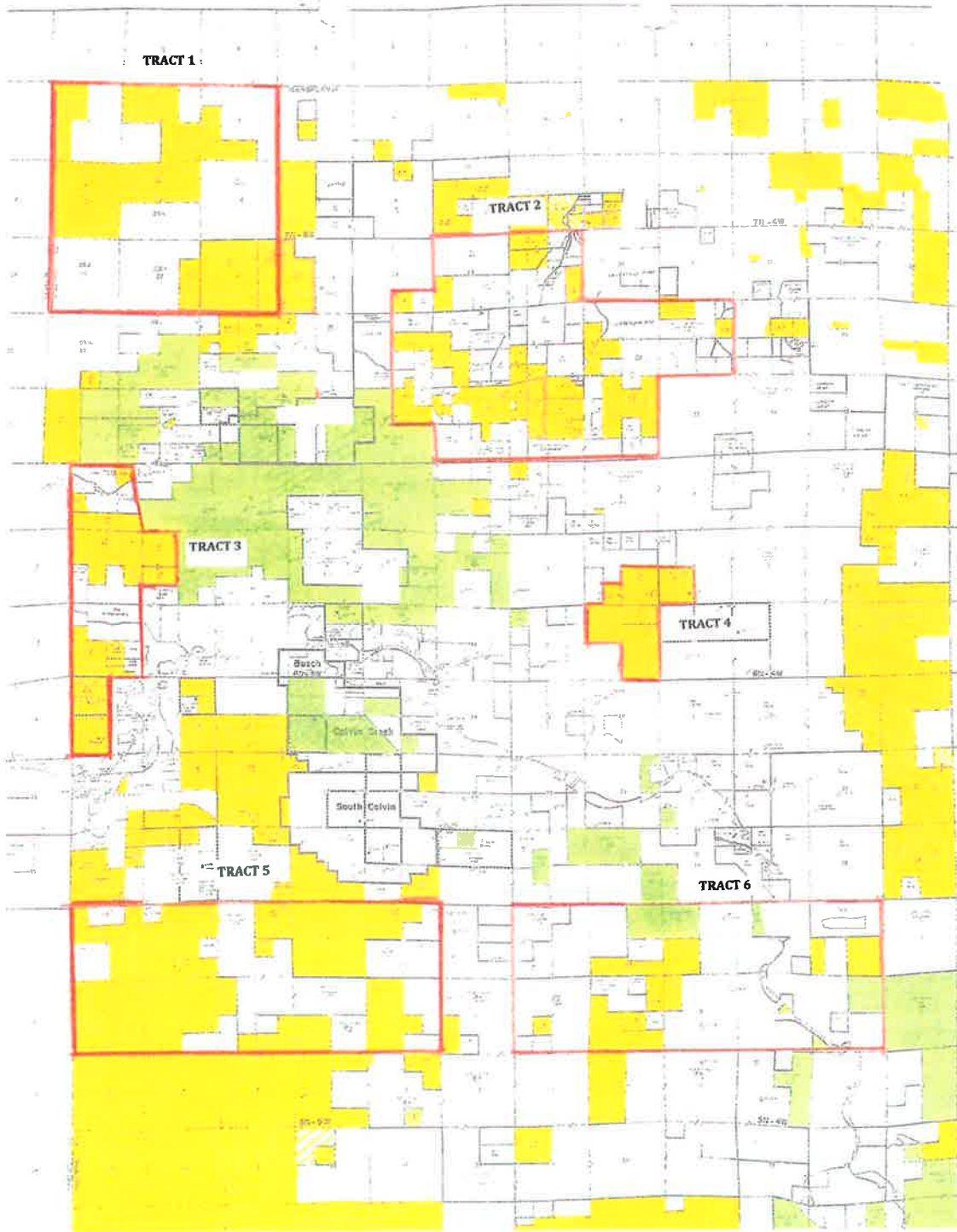


EXHIBIT 2

Offered Lease Tracts

Columbia County 2018 Oil and Gas Lease Sale Offered Tracts

Tract 2017-01: All County mineral estate located within the following described area, with said area, and associated County lands, depicted on Exhibit 1-B hereto:

Sections 7, 8, 9, 16, 17, 18, 19, 20 and 21; Township 7 North; Range 5 West; Willamette Meridian, Columbia County, Oregon.

Estimated to contain 2,150 County mineral estate acres, more or less.

Tract 2017-02: All County mineral estate located within the following described area, with said area, and associated County lands, depicted on Exhibit 1-B hereto:

Sections 24, 25 and 36; South half of the Southwest Quarter of Section 23; West half of Section 26; and the Northeast Quarter of Section 35; Township 7 North; Range 5 West;

together with: Sections 19, 28, 29, 30, 31 and 32; Township 7 North; Range 4 West; Willamette Meridian, Columbia County Oregon.

Estimated to contain 3,870 County mineral estate acres, more or less.

Tract 2017-03: All County mineral estate located within the following described area, with said area, and associated County lands, depicted on Exhibit 1-B hereto:

Sections 6, 7, and 18; Northwest Quarter and North half of the Southwest Quarter of Section 8; West half of Section 19; Township 6 North; Range 5 West; Willamette Meridian, Columbia County, Oregon.

Estimated to contain 1,690 County mineral estate acres, more or less

Tract 2017-04: All County mineral estate located within the following described area, with said area, and associated County lands, depicted on Exhibit 1-B hereto:

Southeast Quarter and the Southeast Quarter of the Southwest Quarter of Section 8; Southwest Quarter of Section 9; and the Northeast Quarter, Northwest Quarter and Southeast Quarter of Section 17; Township 6 North; Range 4 West; Willamette Meridian, Columbia County, Oregon.

Estimated to contain 840 County mineral estate acres, more or less.

Tract 2017-05: All County mineral estate located within the following described area, with said area, and associated County lands, depicted on Exhibit 1-B hereto:

Sections 2, 3, 4, 5, 6, 7, 8, 9, 10 and 11; Township 5 North; Range 5 West; Willamette Meridian, Columbia County, Oregon.

Estimated to contain 3,250 County mineral estate acres, more or less.

Tract 2017-06: All County mineral estate located within the following described area, with said area, and associated County lands, depicted on Exhibit 1-B hereto:

Sections 2, 3, 4, 5, 6, 7, 8, 9, 10 and 11; Township 5 North; Range 4 West; Willamette Meridian, Columbia County, Oregon.

Estimated to contain 2,050 County mineral estate acres, more or less.

Estimated total County mineral estate acres within all Tracts: 13,850 acres, more or less.

Notes:

1. Columbia County provides no representations or warranties as to the title circumstances of the offered lands. Prospective bidders are fully responsible for completing it own due diligence as to said title circumstances.
2. Final tract acreage included in a County lease will be based on legal descriptions and acreage completed after the lease sale has been completed, with rents and bonus bids to be based on said final legal descriptions and acreages.

EXHIBIT 3

PUBLIC NOTICE

BEFORE THE BOARD OF COUNTY COMMISSIONERS
FOR COLUMBIA COUNTY, OREGON

In the Matter of Leasing County-Owned) NOTICE OF PUBLIC AUCTION
Oil and Gas Interests For the Exploration and)
Production of Natural Gas) [January 17, 2018 Oil and Gas Lease Offering]

NOTICE IS HEREBY GIVEN that the Board of County Commissioners for Columbia County, Oregon, will hold a public auction for certain Columbia County mineral interests in the Mist Gas Field situated in Columbia County, Oregon, with said lands more particularly described on Exhibit A to this Notice.

The auction is scheduled for Wednesday, January 17, 2018, at 4:00 p.m. The auction will be conducted through sealed written bids for the rights to lease the Property. To be eligible for consideration, the written bids must be received at the Board of County Commissioners' Office, Columbia County Courthouse, Room 331, 230 Strand, St. Helens, Oregon 97051, no later than 4:00 p.m. on January 17, 2018. Each bid submitted shall be on the form provided by the County and enclosed in a sealed envelope. Bid security in the amount of the bonus bid, shall accompany the bid.

No later than ten (10) days following the issuance of the Lease at 5:00 p.m. (PDT), the party identified as the Apparent High Bidder by the County shall return a signed lease to the County, along with all remaining amounts due to the County under the Lease.

The minimum acceptable bonus bid for the Property is \$2.50 per acre per leased tract. Annual rent shall be as provided for in the standard County lease form.

Lease sale documents can be reviewed on line at <http://www.co.columbia.or.us/requests-for-proposals>, or by appointment at the County offices by calling 503-397-4322 to arrange for an appointment. Lease sale documents available online include: the offered tract maps, the legal descriptions of the tracts within which the County-owned mineral estate is being offered, the terms and conditions of the lease offering, the County lease form, the County bid form, and other information deemed relevant by the County Board of Commissioners.

For additional information about the County lease offering contact Steve Planchon, Natural Resource Administrator, at steve@planchonconsulting.com or by phone at 503-467-8699.

Dated this ___ day of _____ 2017.

BOARD OF COUNTY COMMISSIONERS
FOR COLUMBIA COUNTY, OREGON

By: _____
Henry Heimuller, Chair

Chronicle: Please publish in January 3, and January 10, 2018 issues

ORDER NO. 81-2017

UNDERGROUND GAS PRODUCTION OFFERING

Chronicle: Please publish in January 3, and January 10, 2018 issues

EXHIBIT 4

**BEFORE THE BOARD OF COUNTY COMMISSIONERS
FOR COLUMBIA COUNTY, OREGON**

In the Matter of Leasing County-)
Owned Oil and Gas Production Rights in the) **WRITTEN BID FORM**
Mist Gas Field)

Columbia County Oil and Gas Lease Auction January 17, 2018

Lease Tract No: _____

Acreage: _____ acres (stipulated)

Offered Rights: Oil and gas exploration and production rights, with all other mineral estate rights, including gas storage, to be reserved by the County.

Bid Information

1. **Bidder:** _____
Mailing Address: _____
Phone No.: _____ Email Address: _____

2. **Agent:** _____ (if applicable)
Mailing Address: _____
Phone No.: _____ Email Address: _____

3. **Bonus Bid** (minimum \$2.50 per acre): _____ [per acre bonus bid x stipulated tract acreage]

4. **Bid Security Due with Bid:** Bid bond in amount of bonus bid.

5. **Forfeiture Authorization:** The undersigned bidder or bidder's agent, on behalf of himself/herself, and on behalf of bidder, authorizes forfeiture of the full amount of the bid security if bidder is deemed the Apparent High Bidder by the County but elects not to accept the lease through no fault of the County.

7. **Declaration of Qualifications:** By signing below, Bidder, or Bidders agent on behalf of Bidder,

7. **Terms and Conditions of the Offering:** Bidder or its agent has reviewed and accepts the terms and conditions of the offering, attached hereto as Exhibit A to this Bid Form.

BIDDER OR BIDDER'S AGENT

Date: _____, 2018

(Signature)

(Printed Name)

Exhibit A

2018 Columbia County Oil and Gas Lease Offering
Terms and Conditions
January 18, 2018

1. The Property: Six (6) tracts, with estimated acreage ranging from 840 to 13,850 acres.
2. Offered Rights: Oil and gas exploration and production rights.
3. Lease Terms and Conditions. As provided for in the standard form Columbia County oil and gas lease, available on line at:
<http://www.co.columbia.or.us/requests-for-proposals>.
4. Lease Offering Details.
 - a. Written bids will be submitted on the required Columbia County bid form.
 - b. Bids will be submitted in sealed envelopes, along with the required bid security.
 - c. Bids must be received at the Board of County Commissioners' Office, Columbia County Courthouse, Room 331, 230 Strand, St. Helens, Oregon 97051, no later than 4:00 pm on Wednesday, January 17, 2018.
 - d. Bids will be opened at 10:30 a.m. on Thursday, January 18, 2018.
 - e. The Apparent High Bidder will be named at the conclusion of the bid opening for each individual tract. In the event of a tie bid between one or more qualified bidders, the County will arrange for the tied bidders to complete the competitive process through an oral auction at a date and time specified by the County.
 - f. Bid security will be returned to unsuccessful bidders within 10 business days of the bid opening.
 - g. Subject to the County's confirmation of the apparent high bidders' qualifications, two original leases will be delivered to the apparent high bidders for all tracts receiving bids within thirty (30) business days of the bid opening; provided, however, that the County reserves the right to extend the delivery deadline for the purpose of completing required administrative actions. The final form leases will include specific legal descriptions and acreage for the leased lands, with bonus bid and rental amounts due under the Lease to be based on said descriptions and acreages.
 - h. Signed originals of the Lease must be returned to the County by no later 10 days after issuance of original leases (Lease Delivery Deadline), along with all remaining amounts due, with said amounts to include: the bonus bid, the first year's rent due under the lease; and a \$145 document processing fee.
 - i. The bid security will be forfeited to the County if, through no fault of the County, signed Leases and remaining amounts due under the lease are not delivered to the County by the Lease Delivery Deadline.
5. County Execution. Subject to the Apparent High Bidder being deemed qualified by the County and satisfying all lease offering requirements, the County Board of Commissioners will adopt an order authorizing the County to enter into a lease with

the Apparent High Bidder. The lease will then be signed by the County and a fully executed original Lease will be delivered to the lessee.

6. Memorandum of Lease. Upon executing the Lease, the County will sign and record a Memorandum of Lease, with the lessee to be provided a copy of the recorded document.
7. Agents. If any bidder is acting as an agent or an employee of a prospective lessee, the bidder shall provide satisfactory evidence of his or her agency status and supply the proper name, address and phone number and other information with which to complete the lease documents. All bidders will be held personally responsible for the bid security and fulfillment of the lease offering terms and condition, regardless of employee or agency status.
8. Name Changes. After lease documents have been prepared and completed, ready for signature, and before approval and execution by the Board, no name changes or other such changes will be made except upon payment of an additional administrative fee deemed reasonable by the Board.
9. No Warranty or Guarantee. Columbia County does not warrant or guarantee title to the offered mineral rights. Bidders are urged to conduct their own due diligence as to the title circumstances associated with the offered mineral rights.

EXHIBIT 5

Columbia County Oil and Gas Lease Form

SUBSURFACE OIL AND GAS LEASE

THIS AGREEMENT ("Lease") is made and entered into effective as of 12:01 a.m., on the ___ day of, 20___, between **COLUMBIA COUNTY**, a political subdivision of the State of Oregon, by and through its Board of Commissioners ("Lessor"), and - _____, ("Lessee") on the following terms and conditions.

1. DEFINITIONS.

(a) "Commencement of Operations" means the actual penetration of the leased lands by the drill bit (which is also known as spudding a well).

(b) "Gross Revenues" means (1) the proceeds received by Lessee from the sale of a Royalty Resource at the wellhead; or (2) if such Royalty Resource is not sold at the wellhead, then the fair market value of such Royalty Resource at the wellhead before any deductions as described in Section 7, Deductions.

(c) "Leased Premises" means County-owned mineral rights, including any appurtenant or ancillary interests, described and depicted on Exhibits A and B attached hereto and made a part hereof. **NOTE:** This is a subsurface lease with no right of entry above 500 feet below the surface of the leased premises.

(d) "Offset Distance" means 330 feet from the boundary of the Leased Premises in the case of oil and 1320 feet from the boundary of the Leased Premises in the case of all other Royalty Resources.

(e) "Outside Well" means any well drilled within the Offset Distance of the Leased Premises which produces, in Paying Quantities, any resource which would be subject to a royalty under this Lease if found on the Leased Premises, provided that the term "Outside Well" does not include any well drilled on land for which Lessor has leased mineral rights subject to a royalty equal to or greater than the royalty specified in this Lease.

(f) "Paying Quantities" means amounts of a Royalty Resource which in the reasonable judgment of the Lessee are economically recoverable, without consideration of drilling and completing costs.

(g) "Pool" means an underground reservoir containing a common accumulation of oil and/or natural gas. A zone of a structure which is completely separated from any other zone in the same structure is a pool.

(h) "Productive Acreage" shall mean and refer to the acreage in the leased premises which is allocated by the Oregon Department of Geology and Mineral

Industries under ORS 520.210(3) and OAR 632-010-225 governing the establishment of spacing units to a well for production purposes upon which production of a Royalty Resource in Paying Quantities continues and/or delay drilling penalties or shut-in royalties are being paid.

(i) "Royalty Resource" means oil, gas, other hydrocarbons produced in liquid or gaseous form, sulphur, or any other associated substance including nitrogen, carbon dioxide and helium, but excluding hard minerals, which is contained in the Leased Premises, whether or not economically or physically recoverable.

(j) "Working Date" means the date five (5) years from the effective date of this Lease.

(k) "Zone" means a sand (including fractured shale and any other Oil or Gas bearing rock), or series of sands, that are vertically separate from other sands, or series of sands, in such a manner that good oil field practice would indicate separate development.

2. **CONSIDERATION.** For and in consideration of the covenants and agreements hereinafter made by the Lessee, Lessor does hereby grant and lease to Lessee, for the term specified herein, the exclusive right to explore, prospect, and drill for, and to develop, operate, produce, save, market, and take care of all the Royalty Resources in the Leased Premises.

3. **TERM.**

(a) Subject to the other provisions contained herein, this Lease is granted for a Primary Term of ten (10) years from the effective date of this Lease (hereafter "Primary Term") and for so long thereafter as a Royalty Resource in Paying Quantities shall be produced from the Leased Premises or drilling or development operations (including, without limitation, drilling, redrilling, deepening, repairing and reworking) continue without cessation for more than ninety (90) consecutive days (hereafter "Extended Term").

(b) Notwithstanding anything to the contrary herein, the Extended Term, if achieved, will only be effective as to those depths that are associated with producing Zones at the time the Lease is fully developed in accordance with Section 10(b), with deeper Zones, if any, within the Lease area to automatically revert to Lessor at said time. Lessee, if requested to do so in writing by Lessor, shall record a satisfactory release of said deeper Zones from the Lease within thirty (30) days of said written request.

4. **BONUS PAYMENT.** This Lessee has paid a bonus payment of _____ U.S. (\$XXX) per acre governed by this Lease as set forth in Schedule A, and receipt thereof is hereby acknowledged.

5. **RENTAL.**

(a) The Lessee shall pay to the Lessor an annual rental in the amount of Five Dollars U.S. (\$5.00) per year for each acre of land leased hereunder which is still held under this Lease at the time payment becomes due as provided herein. The first year's rental has been paid, and receipt thereof is hereby acknowledged. Rental for each subsequent year

shall be due and payable on each subsequent anniversary of the effective date of this Lease. Rent paid for a year pursuant to this Lease shall be deducted from any royalty due Lessor for Royalty Resources produced under this Lease during the year for which rent has been paid. Lessee's obligation to pay rent shall continue as long as Lessee remains in possession under this Lease, or in possession of any portion of this Lease, notwithstanding expiration of the Primary Term.

(b) Rent shall be submitted to the Lessor's address provided for in Section 41 herein. Lessor is not required to give notice that rentals are due by billing Lessee. If Lessor's (or depository's) office is not open for business on the anniversary date of this Lease, the time for payment shall be extended to include the next day on which that office is open for business. If the rent due hereunder is not timely paid in full Lessee shall be in default.

6. ROYALTIES.

(a) Except as provided in Section 8, Optional Royalties in Kind, of this Lease, the Lessee shall pay monthly in money to the Lessor during the Primary and Extended Term of this Lease a royalty of three-sixteenths (3/16ths) [18.75 percent] of the Gross Revenues on the actual production of each Royalty Resource, except sulphur, extracted and sold pursuant to this Lease for each calendar month.

(b) Except as provided in Section 8 of this Lease, the Lessee shall pay monthly in money to the Lessor during the Primary and Extended Term of this Lease a royalty of one tenth (1/10th) [10 percent] of the Gross Revenues on the actual production of sulphur extracted and sold pursuant to this Lease for each calendar month.

(c) No royalty is owed on Royalty Resources used or consumed on the Leased Premises, or lands pooled therewith under Section 22, Pooling, for development and production of Royalty Resources except that if used or consumed on lands subject to an operating unit agreement under Section 22, a royalty is owed on all Royalty Resources used or consumed in greater proportion to the total of such substances used or consumed than the number of acres of Leased Premises bears to the total acres governed by the operating unit agreement, whether or not the lands pooled with the Leased Premises are owned, leased or controlled by Lessor. No royalty is owed on any Royalty Resource unavoidably lost.

7. **DEDUCTIONS.** Lessee may deduct from Gross Revenues three-sixteenths (3/16ths) [18.75 percent] of a fee based on the actual costs incurred by Lessee for transportation, treatment and compression of Royalty Resources, except sulphur. Such fees may vary by well and the basis of its calculation shall be shared with Lessor annually. Lessee may deduct one-tenth (1/10th) of the actual costs incurred by Lessee for transportation of sulphur. The deductions for transportation, treatment and compression charged to the wells producing such Royalty Resources shall not increase by more than three (3) percent in any calendar year. The base for calculating the maximum increase shall be the deductions charged for such wells during the year that they commence commercial production. In all cases, Gross Revenues shall be calculated with no deduction for taxes of any kind as described in Section 34, Taxes.

8. **OPTIONAL ROYALTIES IN KIND.** Lessor shall have the option, which may be

exercised from time to time but upon not less than ninety (90) days notice to Lessee and for a period of not less than six (6) months, to take its royalty on any Royalty Resource in kind. Upon exercise of such option, Lessee shall deliver to Lessor free of charge at the wellhead, or shall deliver to Lessor at such other place and upon such terms as Lessor and Lessee shall mutually agree, three-sixteenths (3/16ths) of the gross production of such Royalty Resource from the Leased Premises. Lessee agrees, if necessary, to furnish storage for all such Royalty Resources, other than gaseous substances, free of charge for thirty (30) days after the Royalty Resources are delivered. Lessee shall not be held liable for the value of such Royalty Resources that are lost or destroyed during storage from causes beyond Lessee's reasonable control.

9. **COVENANT TO DRILL.** Notwithstanding any other provision of this Lease, unless this Lease is otherwise surrendered, terminated, or canceled, Lessee shall be in default:

(a) If it fails to commence operations, as defined by Section 1, Definitions, by the Working Date for the drilling of at least one well upon the Leased Premises of such depth as may be necessary to make a reasonable test for oil and/or gas; or

(b) If operations have not commenced by the Working Date, if Lessee fails to pay in advance annually a delay drilling penalty of Fifteen Dollars U.S. (\$15.00) per acre (which is in addition to the annual rental described in Section 5, Rental), for each year remaining under the Primary Term of this Lease. The Lessee shall notify the Lessor within five (5) days after the Commencement of Operations at any drilling location. The delay drilling penalty paid for any year shall be deducted from any royalty due Lessor under this Lease during that year.

(c) Payment of a delay drilling penalty [as outlined in Section 9(b)] shall cover the privilege of deferring the obligation to commence operations for a period of twelve (12) months. Such payment shall be due on or before the Working Date, and each anniversary of the Working Date if operations have not yet commenced, and shall be due and payable on all acreage held under this lease at the time of payment. Lessee shall have the right to make successive payments of the delay drilling penalty, deferring the obligation to commence operations in a like manner during the Primary Term hereof. Lessor may, in its discretion, and at Lessee's written request, extend this Lease up to four (4) years after expiration of the Primary Term, as long as Lessee continues to make delay drilling payments and otherwise meets its obligations under this lease.

10. **DEVELOPMENT.**

(a) If a Royalty Resource is found in Paying Quantities in any well drilled by Lessee on the Leased Premises, Lessee shall continue to drill wells, working with reasonable diligence, allowing not more than twelve (12) months between the completion of one well, whether as a dry hole or a producing well, and the Commencement of Operations for the next well, until the Leased Premises have been fully drilled. The completion of a well shall be the date when a well has been drilled to its total depth and is capable of producing Royalty Resources in paying quantities.

(b) The Leased Premises shall be deemed fully drilled when the Lessee has drilled the maximum number of wells permitted on the Leased Premises by the Oregon Department of Geology and Mineral Industries under ORS 520.210 and OAR 632-010-225, which establishes spacing units of 160 acres where the top of the producing zone is less than 7,000 feet and 640 acres when the top of the producing zone is 7,000 feet or more. Provided, however, Lessee shall not be obligated to seek permission under ORS 520.210(3) to drill wells on spacing units smaller than those customarily established by the state for lands in the vicinity of the Leased Premises.

(c) Within the Primary term of the Lease the payment of a delay drilling penalty [as outlined in Paragraph 9 (b)], shall cover the privilege of deferring the continuous drilling obligation for a period of twelve (12) months. Such payment shall be due on or before the twelve-month anniversary of the completion of the well as set forth in Paragraph 10 (a) and shall be due and payable on all acreage held under this lease at the time of payment, except for Productive Acreage. Lessee shall have the right to make successive payments of the delay-drilling penalty, deferring the continuous drilling obligation in a like manner during the Primary Term hereof. Lessee shall be in default if it both fails to meet its continuous drilling obligation, and fails to pay delay-drilling penalties, except as to Productive Acreage.

Lessor may, in its discretion, and at Lessee's written request, extend this Lease up to four (4) years after expiration of the Primary Term, as long as Lessee continues to make delay-drilling payments and otherwise meets its obligations under this lease.

11. PRODUCTION

(a) Lessee shall operate wells upon the Leased Premises in a competent and efficient manner in an endeavor to recover all of the Royalty Resources pursuant to the requirements specified in Section 3 and the definition of "Paying Quantities" in Section 1(f). Lessee shall endeavor to recover the Royalty Resource down to ten percent (10%) of the original reservoir pressure, or such lower level of pressure as Lessor shall authorize in writing. Lessee shall consult with Lessor when recovery of the Royalty Resource has reached twenty-five percent (25%) of original reservoir pressure or sooner, at Lessee's discretion, to determine the final approved reservoir pressure, and shall at that time submit all available data to Lessor to assist Lessor in making an informed decision, provided, however, that data which is constrained by contractual or license obligations shall be subject to reasonable non-disclosure assurances by Lessor. At Lessor's sole discretion, it can require Lessee to shut-in or abandon the well once it has reached the final approved reservoir pressure.

(b) Should Lessor require that a well be shut-in or abandoned before all economic reserves have been produced, any remaining economically recoverable reserves shall be the sole property of the Lessee subject to the payment of Royalties as specified in Section 6, until such time as Lessor compensates Lessee for such economically recoverable reserves. Lessee shall be entitled to compensation for the value of its share of the remaining economic reserves when the parties have agreed upon that value in accordance with Section (c) below.

(c) If within 90 days of a well being shut-in or abandoned Lessor and

Lessee disagree concerning the value of any economically recoverable reserves remaining when a well is shut in or abandoned, or the estimated production schedule for such recoverable reserves, the matter shall be submitted to an oil and gas consulting firm agreed upon by both parties. The consulting firm's determination shall be final and binding upon the parties. The parties shall share equally all costs and expenses of the consultant. If the parties cannot agree on a consulting firm, each party shall select its own consulting firm within 30 days of expiration of the above 90-day period. Within 15 additional days, those two firms shall agree on a third firm for final determination of the value of the remaining economic reserves and that selection shall be binding on the parties. Within 30 days of selection of the consulting firm, Lessee shall provide to Lessor all related, developed or acquired data, including geological, geophysical, and engineering studies, drilling and completion records, prepared mapping, graphs, tables, charts, documents and all related papers, presentations or reports used in the determination of economically recoverable reserves. The final consulting firm shall then make its determination within 30 days of receipt of the available information. Lessor agrees that all information proprietary to Lessee submitted in the course of this valuation process shall be submitted in confidence. Lessor therefore obligates itself in good faith to the extent permitted under the public records disclosure laws not to disclose any such confidential proprietary information.

(d) Lessor agrees that it shall not have the authority to require a shut-in or abandonment of any well producing in paying quantities if it does not own the entire mineral estate of the governmentally approved spacing unit.

12. **OFFSET WELLS.** If an Outside Well is drilled before the Leased Premises have been fully drilled as set forth in Section 10, Development, Lessee shall offset such Outside Well by the Commencement of Operations at a suitable offset location within six (6) months after Lessee ascertains that the production of oil or gas from such Outside Well is in Paying Quantities, except that (a) if Lessee is drilling a well on the Leased Premises, the time for Commencement of Operation of an offset well shall be extended until six (6) months after the completion of the well then being drilled, or (b) if there already exists or is being drilled on the Leased Premises a well at a suitable offset location, such well shall take the place of the required offset well. A suitable offset location within the meaning hereof shall be located within an offset area extending the Offset Distance from the boundary separating the properties and a like distance on each side of a straight line, or projection thereof, extending from the Outside Well through the nearest point on said boundary.

13. **SHUT-IN WELLS.** If at any time either before or after the expiration of the Primary Term of this Lease, there is any well capable of producing a Royalty Resource in Paying Quantities but which is shut-in, either before or after production therefrom, and the production therefrom is not sold or used off the Leased Premises for a period of ninety (90) consecutive days, Lessee shall pay to Lessor as shut-in royalty Fifteen Dollars U.S. (\$15.00) per acre per year for the number of acres then covered by this Lease, such payment being in addition to the minimum annual rental and not in lieu of or as a deduction from such annual rental. Such payment shall be due on the last day of the next succeeding month following the calendar month in which the ninety (90) day shut-in period expires, which last day of the month is hereby referred to as the "shut-in royalty date". In like manner, on or before each annual succeeding shut-in royalty date, while such well remains shut-in, Lessee shall make payment of shut-in royalty in the same amount and manner. A shut-in well for which such shut-in royalty is being paid shall be considered under this Lease as a well

producing a Royalty Resource in Paying Quantities for the purpose of continuing this Lease. However, where this Lease is not being maintained by production of Royalty Resources, by operations or otherwise, no such payment shall serve, in lieu of actual production, to continue this Lease for a period in excess of two (2) years after the shut-in well has become capable of producing a resource in Paying Quantities. No payment of shut-in royalty shall relieve Lessee of the duty to comply with the express covenant to use due diligence to sell all recovered resources, nor of the duty to fully develop the Leased Premises. Lessor may, in its sole discretion, extend this Lease upon written request by Lessee by permitting Lessee to make shut-in royalty payments for so long after the end of the two (2) year period described above as Lessor may determine. Lessee shall notify Lessor in writing within ten (10) days after a well is shut-in.

14. **UNDERGROUND STORAGE.** Nothing in this Lease constitutes the grant of permission by Lessor for Lessee to engage in underground storage operations on the Leased Premises, and Lessee shall not engage in underground storage operations unless Lessee has a separate underground storage lease with Lessor. "Underground storage operations" means any operations carried out for the purpose of exploring for, evaluating, preserving, constructing or operating underground gas storage facilities within or on the Leased Premises.

15. **AUDIT AND INSPECTION.** Lessor, at all reasonable times, may inspect the Leased Premises and the work done and in progress thereon, and the production therefrom. Lessor may also examine the books and records kept by Lessee in relation to drilling operations, the amount and character of the production from the Leased Premises and the disposition or sale thereof including net payments of the Royalty Resource. Lessor or Lessor's consultant shall be allowed to make copies of any portion of such books and records in order to complete its inspection and audit, as long as Lessor and/or its consultant enter into a confidentiality agreement with Lessee regarding such books and records and so long as Lessee is not prohibited from providing same through existing contractual or license rights and obligations. Lessee, on written request of Lessor therefore, shall furnish copies of logs of all wells drilled by Lessee in connection with the Leased Premises. Lessor agrees that such well logs will be submitted in confidence, and are the proprietary information of Lessee, which should reasonably be considered confidential, until such time that the Lease terminates. Lessor acknowledges that such information would not otherwise be required by law to be submitted to Lessor if not required hereunder. Lessor therefore obligates itself, and its consultant, in good faith under ORS 192.501(2), to the extent permitted by law, not to disclose such information.

16. **OPERATIONS.**

(a) **Well Location.** Prior to commencement of drilling on the premises, Lessee shall provide written notice to Lessor of Lessee's intent to drill a well, together with a plat of the premises showing the location of each well to be drilled.

(b) **Oregon Department of Geology and Mineral Industries Forms.** Copies of all forms and other information filed with the Oregon Department of Geology and Mineral Industries pertaining to operations under this lease shall be filed simultaneously by Lessee with Lessor. Lessee shall submit copies of correspondence and other information received by Lessee from the Oregon Department of Geology and Mineral Industries to

Lessor within ten (10) days after receipt by Lessee, the operator, or other contractor or agent of lessee.

(c) Operational Information. Notwithstanding other information sharing obligations provided for herein, Lessee shall make operational information, including geophysical data, available to Lessor if reasonably necessary for Lessor to make informed decisions under this Lease. If requested to do so in writing, Lessor and its consultants shall treat the information and data as confidential in accordance with the terms conditions of a confidentiality agreement more specifically provided for in Section 15 herein. In the event that Lessee is prevented from complying with this information sharing obligation due to contractual disclosure restrictions applicable to the information, Lessee will make a good faith effort to obtain permission to share the information with Lessor.

17. STATUS. Lessee shall report to Lessor within ten (10) days of Lessee's knowledge thereof, in writing to the Lessor, any changes in the status of production or drilling operations other than shut downs for routine maintenance.

18. MONTHLY PAYMENT AND STATEMENTS. Unless the time of payment is otherwise extended by the Lessor, Lessee shall make payment on or before the last day of the second calendar month succeeding the month of production and removal for sale of a Royalty Resource from the Leased Premises and such payment shall be accompanied by a statement which shall show the amount of each Royalty Resource produced and saved during the preceding calendar month covered by the payment, the gross production in cubic feet, the BTU (British Thermal Unit) content from the Leased Premises, the net production volume in therms, the wellhead or unit price paid therefore, deductions made pursuant to Section 7 herein, the royalty obligation under the Lease and the net payment being made to Lessor. Review of such statements and acceptance of payment thereon shall not constitute a waiver of amounts properly owing under this Lease. In the event Lessee shall make payment of money due under this Lease later than the due dates provided herein, Lessee agrees to pay to Lessor interest upon such sums at the maximum rate of simple interest then allowed by law.

19. NON-ROYALTY OIL OR GAS. Lessee shall furnish to Lessor every six (6) months detailed reports showing the amount of Royalty Resources used or consumed for production purposes or unavoidably lost on lands subject to this Lease or pooled therewith as well as a plat showing development work and improvements on or with regard to such lands. The first report shall be due on the first day of the eighth full calendar month following the date this Lease is entered into, and shall include the required data for the first three (3) months, plus any increment of the month in which this Lease becomes effective. Subsequent reports shall be submitted every six (6) months thereafter, and shall contain the required data for the preceding six (6) months.

20. PRODUCTION BOND. Prior to the commencement of production from any well upon the Leased Premises, or the allocation of production thereto, the Lessee shall provide a production bond to guarantee payment of royalties, which shall remain in effect so long as this Lease is in effect. In the absence of mutual agreement between Lessor and Lessee as to the amount of the production bond, the Lessor shall determine the amount of said bond based upon well test data, such amount to approximate three (3) months' royalty payment at full production. Production from subsequent wells on the Leased Premises or royalty

payments in any three (3) month period that exceed or are less than the bond amount by 50% or more shall be reason to order a revision in the bond amount.

21. **LESSOR'S LIEN.** Lessor shall have a first lien upon all production for unpaid royalties.

22. **POOLING.**

(a) Upon receiving the written approval of Lessor, which approval shall not be unreasonably withheld, Lessee shall have the option, at any time and from time to time, either before or after the discovery of any Royalty Resource on the Leased Premises, but prior to the expiration of twenty (20) years from the date of this lease, to combine and pool all or any part of the Leased Premises or interest therein into one or more operating units with any other land or interest therein (whether held by Lessee or others and whether or not the surface of such other land may be used for oil or gas development purposes) lying within the section in which the Leased Premises to be pooled are located or within any section having a common boundary or corner with such section. Pooled units may be of such size and shape as Lessee may desire, within the limitations of the Oregon Department of Geology and Mineral Industries. Lessee shall file with Lessor and record in the appropriate records of Columbia County an instrument describing and designating the pooled acreage as a pooled unit. Any operating unit may include land upon which a well has theretofore been commenced, and within the meaning of the requirements of this Lease any such well operations, if off the Leased Premises, shall be considered as having been commenced immediately upon the effective date of such operating unit agreement. Production, drilling, or reworking operations commenced or continued after entry into any operating unit agreement under this section, anywhere on any operating unit created hereunder, shall be treated as production, drilling, or reworking operations on the Leased Premises. There shall be allocated to the Leased Premises the proportion of the pooled production from any such operating unit (whether or not such production is from the Leased Premises) that the number of acres covered by this Lease and included in such unit bears to the total number of acres in such unit; royalties shall be paid only upon that portion of production so allocated, and as to pooled production from such Leased Premises in such unit such royalties shall be in lieu of any other royalties arising from the pooled acreage.

(b) Notwithstanding anything to the contrary herein contained, the Commencement of Operations for drilling or reworking of a well, or the production of oil, gas or other minerals from any well situated on lands included within an operating unit embracing a portion of the Leased Premises and other lands not covered hereby shall serve only to maintain this Lease in force as to that portion of the Leased Premises embraced in the operating unit; but during the Primary Term the delay drilling penalty payable under Sections 9 and 10 of this Lease shall be proportionately reduced and be payable on that portion of the Leased Premises not included in such unit.

23. **DEFAULT.**

(a) The failure of Lessee to perform timely its obligations under this Lease, or the failure of Lessee otherwise to abide by all express and implied provisions of this Lease, shall be a default of Lessee's obligations under this Lease. In the event of a default by Lessee, Lessor may pursue any remedies that may be available at law or in equity and each such right and remedy shall be cumulative and shall be in addition to every other

right or remedy provided for in this Lease, whether now or hereafter existing at law or equity or by statute or otherwise. In addition to all other rights and remedies of Lessor under this Lease or otherwise, whenever Lessee: (i) fails to comply with any provision of this Lease and fails to begin and diligently prosecute operations to remedy that default within thirty (30) calendar days after receiving written notice thereof; or (ii) fails to comply with any provision of this Lease requiring the payment of money and Lessee fails to cure such failure within five (5) business days after receiving written notice thereof, Lessor may immediately terminate this Lease. If Lessor brings suit to compel performance of, or to recover for breach of any express covenant herein contained or any covenant implied, or for declaratory or injunctive relief, Lessee agrees to pay Lessor's full actual reasonable attorneys', experts' and/or consultants' fees.

(b) Notwithstanding the forgoing, Lessor may cancel this automatically if the Lease was procured by fraud, deceit, or misrepresentation, or if the Leased Premises are used for unlawful or illegal purposes.

24. **FORCE MAJEURE.** This Lease shall not expire or be terminated or cancelled in whole or in part, nor shall Lessee be deemed to be in default in the performance of any of its obligations hereunder (other than as to accrued monetary obligations), as a result of any failure of Lessee to commence or conduct any operations on the Leased Premises or otherwise perform its obligations hereunder while and so long as Lessee is prevented from performance by act of God, accident, strike, lockout, or operation of law beyond the reasonable control of Lessee, or while and so long as such operations would be in violation of or in conflict with any law, ordinance, order, rule or regulation of any governmental (civil or military) agency or authority, including all governing bodies claiming jurisdiction over the issuance of permits. Lessee shall have a reasonable time after any such cause, law, ordinance, order, rule or regulation terminates within which to commence or resume such operations or to perform such other obligations. Nothing in this section shall be construed to relieve Lessee of its obligations to protect against undue waste, damage, or injury.

25. **SURRENDER AND DELIVERY.** Lessee may at any time record with Lessor a written surrender of all rights under this Lease, or any reasonably configured portion of the Lease, with said configuration being relative to any separate or distinct formation, zone or geological horizon or any portion thereof. Such surrender shall be effective as of the date of its recording with Lessor subject only to the continuing obligation of Lessee to pay all rentals and royalties theretofore accrued and to place all wells on the Leased Premises or in the formations, zones or horizons surrendered in condition for suspension or abandonment in accordance with the applicable Lease terms, regulations and laws. Lessee shall remove its equipment and debris which it has generated, within a reasonable time following surrender. After surrender, Lessee shall be released from all obligations under this Lease with respect to the Leased Premises, formations, zones and horizons surrendered but no such surrender shall release Lessee or its surety from (a) liability for breach of any monetary obligation hereunder, with respect to which Lessee is in default at the time of the filing of such surrender or thereafter, (b) liability for damage as provided herein, or (c) the requirement to plug and abandon any wells on the Leased Premises in accordance with the rules, regulations or orders of the Oregon Department of Geology and Mineral Industries then in effect. On the surrender, expiration or earlier termination or cancellation of this Lease, Lessee shall quietly surrender possession to Lessor and file for

record a quitclaim deed in the Columbia County Clerk's Office.

26. **LESSEE OBLIGATIONS UPON TERMINATION, EXPIRATION OR SURRENDER.** Unless otherwise authorized in writing by the applicable owner(s) of the surface estate, upon termination, expiration or surrender of this Lease as to all or any portion of the Leased Area, Lessee shall: (i) remove all machinery, equipment, tools, and materials (the "Equipment") from the Leased Premises; (ii) remove and rehabilitate roads and drill pads; (iii) plug and abandon all wells; and (iv) deliver the Leased Premises or those portions of the Leased Premises to Lessor in a safe condition reasonably satisfactory to Lessor and the surface estate owner, with all pits, openings, and other dangerous areas created by Lessee fenced, filled or protected so as to adequately protect public safety to the satisfaction of Lessor, the surface owner and applicable regulatory entities.

27. **ASSIGNMENT.** Lessee shall not assign or otherwise transfer this Lease, or any working interest therein, without first obtaining the written approval of the Lessor. No such assignment shall be valid until Lessee complies with this Section 26 and Lessor's approval is given, which approval shall not be unreasonably withheld. As an express condition to such approval as may be granted by Lessor, Lessee shall furnish to Lessor a true or certified copy of all such proposed assignments, and fully inform Lessor of the identity and address of any such assignee. These provisions shall apply to any type of assignment, sublease, conveyance or transfer of all or a portion of this Lease or rights or interest thereunder. Notwithstanding anything to the contrary herein, Lessor may disapprove an assignment of less than the entire Lease for any reason.

28. **REMAINING ROYALTY RESOURCES.** Upon expiration, termination, cancellation or surrender of this Lease, all Royalty Resources remaining in the Leased Premises shall be the sole property of Lessor as the mineral estate owner, except as set forth in Section 11 of this Lease.

29. **ARBITRATION.** Any dispute arising under this Lease not otherwise covered by the terms herein shall be resolved by arbitration pursuant to the provisions of the Oregon Uniform Arbitration Act, ORS 36.600 to 36.740, or any other applicable arbitration statute subsequently adopted by the Oregon legislature. The arbitration shall not be conducted by the American Arbitration Association unless the parties otherwise agree. Either party may give written notice to the other party stating the claims to be arbitrated ("Initial Notice") pursuant to ORS 36.605 and 36.635. An arbitrator shall be selected by agreement of the parties. If the parties are unable to agree on a single arbitrator within ten (10) days of receipt of the Initial Notice, each party shall name an arbitrator and the two arbitrators so named shall promptly choose a third. The arbitrator(s) selected to act shall be qualified by education and training to pass upon the particular question in dispute. Unless the parties agree otherwise, the arbitrator shall conduct a hearing no later than sixty (60) days after the date of the Initial Notice. The arbitrator(s) shall make an award or decision within thirty (30) days after the hearing. Each party shall bear the expense of prosecuting its own case. The costs and fees of the arbitrator shall be shared equally by the parties; provided, however, if three arbitrators are selected, each party shall pay the costs and fees of the arbitrator selected by that party. Pending the resolution of the dispute, the parties shall continue to perform their obligations under this Lease, including the payment by the Lessee of moneys due. Nothing in this Section 29 shall limit the rights of either party to seek injunctive relief in any court of competent jurisdiction in Oregon.

30. **SURFACE USE.** Lessee expressly acknowledged that Lessor may or may not own some or all of the surface estate above the Leased Premises and that Lessor makes no warranties of any kind regarding such ownership or access rights. Lessee has the obligation to determine surface ownership. Whether or not Lessor owns the surface estate of the Lease Premises, Lessee agrees:

(a) To obtain separate written permission from Lessor for the use of Lessor surface estate within the Lease boundary.

(b) To conduct all operations authorized by this Lease with due regard for good land management; to not cut or destroy timber or clear away forest cover unless reasonably necessary and to pay for all timber cut or destroyed at a rate mutually agreed upon by the owner and Lessee; to reasonably accommodate existing surface uses; to avoid unnecessary damage to improvements, roads, crops, or other cover; unless authorized by Lessor, not to drill or otherwise disturb the surface of the Leased Premises within 300 feet of any building standing on the Leased Premises; and to fence or fill all sump holes, ditches, and other excavations, remove all debris, and so far as reasonably possible, restore the surface of the Leased Premises to its former condition, unless otherwise agreed to by the surface owner, including the removal of structures as and if required, and to bury all pipelines at least thirty (30) inches below the ground unless otherwise allowed by Lessor and the surface owner. Lessee recognizes that the lands covered by this Lease are held by the surface owner for the primary purpose of growing timber thereon, and cutting, removing and otherwise utilizing the same from time to time.

(c) To do all acts reasonably in its powers to prevent and suppress forest, brush and grass fires on the Leased Premises and to require its employees, contractors, subcontractors and employees of contractors and subcontractors to do likewise.

(d) To comply with the Oregon laws relating to forests and/or other lands and the activity thereon, and to comply with the rules and regulations duly promulgated under such laws that are in effect as of the date of any operation on the Leased Premises.

31. **RESERVATIONS.** The Lessor expressly reserves the right to sell, lease, or otherwise dispose of any interest in the lands hereby leased, except the interest conveyed in this Lease, with said reservation specifically including, but not limited to, gas storage rights. However, Lessor agrees that sales, leases, or other dispositions of any interest or estate in the lands hereby leased shall be subject to the terms of this Lease, and shall not unreasonably interfere with Lessee's possession or rights hereunder. Lessor shall provide Lessee with reasonable advance notice of its intent to competitively offer its reserved interest for sale or lease and shall notify Lessee within thirty (30) days of the actual sale, lease, or other disposition of any interest or estate in the lands hereby leased. In the event of said sale, lease or other disposition, Lessee agrees to not unreasonably interfere with the rights of the party or parties that acquired a reserved interest from Lessor.

32. **BANKRUPTCY OR INSOLVENCY.** In the event that Lessee at any time during the term hereof is insolvent under any of the provisions of the United States Bankruptcy laws, Title 11, United States Code, or makes a voluntary assignment of its assets for the benefit of its creditors, or is adjudged a bankrupt, either upon Lessee's voluntary petition in

bankruptcy, or upon the involuntary petition of Lessee's creditors, or any of them, or should an attachment be levied and permitted to remain for any unreasonable length of time upon or against the interest, rights or privileges of Lessee in or to any Royalty Resource produced from the wells drilled by Lessee upon the Leased Premises then, upon election by the Lessor, all of the interest, rights and privileges of Lessee in and to all Royalty Resources produced and saved from the Leased Premises by reason of Lessee's operations thereon, shall terminate upon receipt of written notice from Lessor advising that Lessor has so elected. In such event, Lessor shall have, and Lessee, by the acceptance hereof, hereby gives Lessor the right, option and privilege to terminate this Lease and all of the terms and provisions granted hereby, and all of the rights and privileges of Lessee in and to or upon said lands and in and to any Royalty Resources produced and saved from the Leased Premises by reason of Lessee's operations thereon. All of Lessee's rights and privileges granted by this Lease shall terminate immediately upon receipt of written notice from Lessor that Lessor has so exercised its option.

33. **NON-WARRANTY OF TITLE.** Lessor makes no representation or warranty whatsoever with respect to its title to the Leased Premises and Lessee shall be solely responsible for satisfying itself with respect to the ownership of such premises. If Lessor owns less than the whole of the mineral rights in the Leased Premises, the rentals and royalties accruing hereunder shall be proportionately reduced. Lessee agrees to indemnify and hold harmless Lessor for any claim or cause of action brought by any other party, including Lessee, arising out of title matters associated with the Lease, including the wrongful or erroneous payment of any royalty, rental, bonus bid, or other payment under this Lease.

34. **TAXES.** Lessee shall pay all taxes levied upon or assessed against its improvements, fixtures, and personal property on, and taxes in connection with, the Leased Premises, including Lessee's substances stored thereon, taxes levied upon or assessed against the minerals and mineral rights subject to this lease, any severance tax or other tax, assessment or license now or hereafter levied or imposed, measured by the quantity or value of Leased Resources produced from the Leased Premises or any portion thereof, any other ad valorem taxes or assessments the levy of which was made possible by the execution of this Lease, and all other federal, state or local taxes.

35. **CONFORMITY TO LAW.** Lessee shall comply with all state, federal and local laws and with the rules, regulations and orders of any federal, state or other government agency having jurisdiction in the premises with respect to the spacing, drilling, or producing of wells, and other operations for Leased Resources and if there be any conflict between the same and provisions of this Lease, such laws, rules, regulations, and orders shall modify or supersede, as the case may be, the relevant provisions of this Lease. Lessee shall comply with state and federal laws and regulations governing fair employment practices.

36. **WAGES AND EMPLOYEE BENEFITS.** Lessee shall regularly pay all wages due its employees in this state, at least once every thirty (30) days in lawful money of the United States, and shall promptly pay all employee benefits required by contract or law, including state unemployment and workers' compensation insurance.

37. **MATERIALS.** Lessee shall promptly pay for all materials used in the prosecution of the work contemplated by this Lease and shall not permit any lien or judgment

for labor or materials to remain unsatisfied for longer than thirty (30) days after entry, by a court of competent jurisdiction, of a final decree adjudicating the rights of the parties with respect to any such matter

38. **GENERAL AND MOTOR VEHICLE INSURANCE** Prior to beginning any exploration, drilling, development or production operations, or other work to be done pursuant to this Lease, Lessee, its agents and subcontractors shall obtain and at all times keep in effect commercial general liability insurance covering all classes of work to be done, and motor vehicle public liability and property damage insurance on all motor vehicles and equipment used in any of their operations hereunder. Lessee shall furnish evidence of such insurance to Lessor prior to commencing any operations pursuant to this Lease. All such insurance as required in this Section 38 shall be with a carrier approved by Lessor. Lessee shall provide Lessor with one or more certificate(s) of insurance as evidence of coverage, which shall name Columbia County, its officers, agents, and employees as additional insureds. Liability insurance provided hereunder shall not be less than the following amounts:

i. Commercial general liability coverage of not less than \$5,000,000 combined single limit per occurrence for bodily injury and property damage, including contractual liability covering Lessee's duty of indemnification under this Lease. The certificate of insurance shall be accompanied by an additional insured endorsement.

ii. Motor vehicle public liability and property damage coverage of not less than \$5,000,000 combined single limit per occurrence for bodily injury and property damage.

(a) Lessor, its officers, agents and employees, shall be named as additional insureds on all insurance coverage obtained under this Lease. Lessee shall provide Lessor with a minimum of fifteen (15) days' notice of any material modification, non-renewal or termination of coverage.

(b) Lessor may waive the insurance coverage required under this section after Lessee has satisfactorily demonstrated to Lessor that it has and maintains adequate self-insurance in a manner acceptable to Lessor.

8. **PROTECTION FROM LIENS**. Lessee, at its own cost and expense, shall pay for all labor performed and materials furnished in the operations of Lessee hereunder and Lessor shall not be chargeable with, or liable for, any part thereof. Lessee shall protect the Leased Premises from liens of every character arising from its operations.

9. **INDEMNITY**. Lessee shall protect, indemnify and save Lessor harmless from and against any and all liability, claims, demands and causes of action, and all expenses associated therewith including reasonable attorneys' fees, of any kind and character arising in favor of any person, including Lessor and its employees, on account of personal injuries, or death, damage to property or any other loss occurring, growing out of, incident to, or resulting directly or indirectly from the work to be performed by Lessee hereunder, and particularly, but not by way of limitation, against any loss (other than loss of royalty) or damages caused by fire, blowout, explosions or accidents of any kind, when such loss,

damage, injury or liability arises from or is contributed to by the negligence of Lessee, its agents, contractors or employees, and whether due to the imperfection of any material furnished to Lessee or said caused whatsoever. Lessee shall not be liable for any damages due to the sole gross negligence of Lessor, its officers or employees.

10. **NOTICE.** Any notice to be given by either party to the other, any payment, or any instrument required hereunder may be delivered in person or sent by the United States Postal Service or by registered or certified mail, if required, postage prepaid, addressed to the party for whom intended as follows:

LESSOR:

Natural Resource Administrator
Columbia County Courthouse
230 Strand, Room 338
St. Helens, Oregon, 97051

LESSEE:

Either party may from time to time, by written notice to the other, designate a different address which shall be substituted for the one above specified. All notices required or permitted under this Lease shall be effective on receipt.

11. **SUCCESSORS IN INTEREST.** This Lease and all the terms and provisions hereof shall be binding upon and shall inure to the benefit of the parties hereto, their respective successors, heirs and assigns.

IN WITNESS WHEREOF, Lessor and Lessee have caused this Lease to be executed in duplicate on the date first hereinabove written.

LESSOR:

By: _____

Its: _____

Approved as to form:

By: _____
County Counsel

FOR COUNTY:

BOARD OF COUNTY COMMISSIONERS FOR
COLUMBIA COUNTY, OREGON

By: _____
Henry Heimuller, Chair

By: _____
Margaret Magruder, Commissioner

By: _____
Alex Tardif, Commissioner

Dated: _____

(Acknowledgments follow on next page)

STATE OF OREGON)
)
County of Columbia)

ACKNOWLEDGMENT

This instrument was acknowledged before me on the ___ day of _____, 20__, by Henry Heimuller, Chair, Board of County Commissioners of Columbia County, Oregon, on behalf of which the instrument was executed.

Notary Public for Oregon

STATE OF OREGON)
)
County of Columbia)

ACKNOWLEDGMENT

This instrument was acknowledged before me on the ___ day of _____, 20__, by Margaret Magruder, Board of County Commissioners of Columbia County, Oregon, on behalf of which the instrument was executed.

Notary Public for Oregon

STATE OF OREGON)
)
County of Columbia)

ACKNOWLEDGMENT

This instrument was acknowledged before me on the ___ day of _____, 20__, by Alex Tardif, Board of County Commissioners of Columbia County, Oregon, on behalf of which the instrument was executed.

Notary Public for Oregon