



STATE OF IDAHO OIL AND GAS LEASE NO. OXXXXXX – Summary Page

Lessor: STATE OF IDAHO, Idaho State Board of Land Commissioners
c/o Idaho Department of Lands
300 N. 6th Street, Suite 103
P.O. Box 83720
Boise, Idaho 83720-0050
Phone: (208) 334-0200
Facsimile: (208) 334-3698
Email: mineralsleasing@idl.idaho.gov

Lessee: Lessee of Record Full Legal Name
Attention or Contact Name
Address 1
Address 2
City, State, Zip, Country if not USA
Phone:
Email:

Leased Premises: State Mineral Estate: [Cannot exceed one Section or 640 acres]

Surface Owner: State of Idaho OR Split Estate

Existing Conditions: Lease is subject to the existing conditions identified in Attachment B. or None.

Lease Term: Up to 10 years, beginning **, 20**, and terminating **, 20**.

Annual Rent: \$

Royalty: 12 ½ %

Bonds: Bonding requirements as more fully described in Section 6 herein.

Liability Insurance: Combined single limit per occurrence, not less than \$1,000,000.00.
Each annual aggregate limit shall not be less than \$2,000,000.00.

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Attachment A – Special Terms and Conditions
Attachment B – Existing Conditions
Attachment C – Legal Description of Leased Premises
Attachment D – Site Maps

This summary page of lease provisions is for convenience and ease of review only. The information in the summary page is intended to be accurate and consistent with the lease terms in the following Lease. In the event any information in the summary page is inconsistent with the Lease, the Lease will control.

**STATE OF IDAHO
OIL AND GAS LEASE No. ****

This Oil and Gas Lease (“**Lease**”), is dated as of the ** day of **, 20** (“**Effective Date**”) and is made by and between the Idaho State Board of Land Commissioners (“**Board**”), whose administrative agency is the Idaho Department of Lands (“**IDL**”) acting on behalf of the State of Idaho (“**Lessor**”); and **INSERT Lessee(s) Full Legal Name(s), a Business Entity Type duly organized under the laws of the State of State, and authorized to do business in the State of Idaho [if an out of state company]** (“**Lessee**”). Lessor and Lessee are collectively referred to herein as the “**Parties**” and individually as a “**Party**”. In consideration of the rentals, minimum annual royalties, and production royalties to be paid, and the covenants, conditions, and restrictions as set forth in the Lease herein, Lessor does hereby lease and demise unto Lessee the lands described Section 2.1 below (“**Leased Premises**”) for the uses specified herein.

1. DEFINITIONS. Unless otherwise stated, the definitions in I.C. § 47-801 through 47-812 and IDAPA 20.03.16.010 shall be applied to and govern words and phrases used, but not specifically defined in this Lease. Definitions in I.C. § 47-301 through 47-336 and IDAPA 20.07.02.010 will also govern undefined words or phrases to the extent those definitions are consistent with I.C. § 47-801 through 47-812 and IDAPA 20.03.16.010. Where words and phrases are specifically defined in this Lease and not in statute or rule, such words and phrases shall be given the defined meaning in this Lease.

- 1.1. “**Arm’s-Length**” means a contract or agreement that has been arrived at in the marketplace between independent, non-affiliated persons with opposing economic interests regarding that contract. For purposes of this subpart, two persons are affiliated if one person controls, is controlled by, or is under common control with another person.
- 1.2. “**Commission**” means the Idaho Oil and Gas Conservation Commission.
- 1.3. “**Cost of Operation**” means the costs actually incurred by Lessee in the Production of Oil or Gas after completion of Exploration, site preparation and drilling, and before Oil or Gas is removed from the Leased Premises for refining, transportation, or sale. Cost of Operation may include wages, cost of electricity to run pumps, and regular maintenance, which are all specific to the Leased Premises. Cost of Operation does not include depreciation of equipment, administrative overhead, or capital costs or expenditures.
- 1.4. “**Director**” means the Director of IDL.
- 1.5. “**Dry Gas**” means gas that contains less than or equal to seven (7) pounds of water per million standard cubic feet. (The volume of gas, on a Dry Gas basis, is determined by mathematically removing the water vapor from gas that is partially or fully saturated with water vapor at measurement conditions of flowing pressure and temperature. The total energy content of gas is the product of the volume of gas, on a Dry Gas basis, times the heating value per unit volume, in Btu per standard cubic foot, on a Dry Gas basis, at the same base temperature and base pressure.)
- 1.6. The terms “**including**” and “**includes**” mean including, but not limited to.

- 1.7. **“Exploration”** means activities related to the various geological and geophysical methods used to detect and determine the existence and extent of hydrocarbon compound deposits.
- 1.8. **“Hydrocarbon Compound[s]”** means any organic compound consisting entirely of hydrogen and carbon atoms.
- 1.9. **“Gross Production”** means the total volume of all Oil and Gas brought from underground up, to, and through the well head, including all oil Produced at the well head or recovered after being run through a gravity separator or other equipment; all gas, not in liquid form, Produced from the well, including recovery gas lift and injected gas; and all final Natural Gas Plant Liquids.
- 1.10. **“Market Value”** means the price at the time of sale, in cash or on terms reasonably equivalent to cash, for which the oil and gas should bring in a competitive and open market under all conditions requisite to a fair sale, the buyer and seller each acting prudently and knowledgeably, and assuming the price is not affected by undue stimulus from either party. The costs of marketing, transporting and processing oil and gas produced shall be borne entirely by the producer, and such cost shall not reduce the severance tax directly or indirectly.
- 1.11. **“Marketable Condition”** means Oil or Gas that is sufficiently free of impurities and otherwise in a condition that will be accepted by a purchaser under an Arm’s Length Transaction.
- 1.12. **“Natural Gas Plant Liquids”** means Hydrocarbon Compounds in Non-Processed Gas that are separated as liquids through any type of processing designed to remove elements or compounds, whether hydrocarbon or non-hydrocarbon, including at a fractionating plant, cryogenic plant, or cycling plant, and includes ethane, propane, butane, pentane, and any Hydrocarbon Compound with a molecular weight of C6 and higher. Component Hydrocarbon Compounds may be fractionated, mixed, purified, or blended to make a final product.
- 1.13. **“Non-Processed Gas”** means all Hydrocarbon Compounds that are gaseous at the normal conditions under which their volumes are measured or estimated, and are typically either recovered from the well head or with minimal processing.
- 1.14. **“Oil and Gas”** and **“Oil or Gas”** mean oil, gas, or both oil and gas, and includes casinghead gas; casinghead gasoline; Dry Gas; condensate, meaning hydrocarbon-based liquids; Natural Gas Plant Liquids; Non-Processed Gas; Processed Gas; or any other Hydrocarbon Compound in liquid or gaseous forms.
- 1.15. **“Processed Gas”** means Hydrocarbon Compounds that have been processed in a processing plant(s) of any kind, located on or off the Leased Premises, to remove or extract Natural Gas Plant Liquids, Condensate, or other Hydrocarbon Compounds from the unprocessed multiphase Hydrocarbon Compound stream to Produce Oil or Gas.
- 1.16. **“Produce[d]”** and **“Production”** mean all Oil or Gas from the Leased Premises brought from underground up to and through the well head and processed or refined, on lease or off lease; except that Oil or Gas consumed for the direct operation of the producing well and that lost through no fault of Lessee.

- 1.17. **“Produce[d] [or Production in Paying Quantities]”** and **“Paying Quantities”** mean that the gross income from Oil or Gas Produced, after deduction of Lessee’s taxes and Lessor’s Royalty, from the Leased Premises exceeds operation costs.
- 1.18. **“Reworking Operations”** means any actual acts, work or operations that a reasonably prudent operator would engage in to restore Production or increase Production from an already-completed well.
- 1.19. **“Royalty”** and **“Royalties”** mean Lessor’s share of all Gross Proceeds from Oil or Gas Produced from the Leased Premises, free of any and all of Lessee’s expenses of Exploration, drilling, Production, primary or enhanced recovery operations, and all post-Production costs, and as is further defined in Section 5 of this Lease.
- 1.20. **“Rules”** means IDAPA 20.03.16 – Rules Governing Oil & Gas Leasing on Idaho State Lands, as may be amended.
- 1.21. **“Rules of the Commission”** means IDAPA 20.07.02 - Rules Governing Conservation of Oil and Natural Gas in the State of Idaho, as may be amended.
- 1.22. **“Shut-in Well”** means a producing well removed from active service in anticipation of Reworking Operations, Suspension of Production under provision 3.5, or plugging and abandonment operations. The wellbore condition must be such that its utility may be restored by opening valves or by energizing equipment involved in operating the well, including that the completion interval is open to the tubing and the casing, or is open to the tubing only
- 1.23. **“State Lands”** means lands, including the beds of navigable waters within Idaho, in which the title to mineral rights are owned by the State of Idaho and that are under the jurisdiction and control of the Board or any other state agency.

2. RIGHTS; GRANTED TO LESSEE, RESERVED BY LESSOR.

- 2.1. **Leased Premises.** Lessor grants and leases to Lessee the exclusive right and privilege to conduct Exploration for, drill for, Produce, consume for the direct operation of the producing well, and save and sell by Arm’s-Length transaction(s) Oil and Gas located within the mineral estate under the surface boundaries of the following-described tract of land located in ** County, State of Idaho:

Legal Description

containing ** acres, more or less, together with the rights and privileges for use and occupancy of the surface land, as stated in Section 2.2.

2.2. Rights Granted to Lessee.

- 2.2.1. **Use and Occupancy.** Lessee is entitled to use and occupy so much of the surface of the Leased Premises as may be required for all purposes reasonably incident to Exploration, drilling, Production, marketing and sale of Oil or Gas Produced from the Leased Premises, including the right to construct and maintain all works, buildings, plants, waterways, roads, communication lines, gathering lines,

pipelines, reservoirs, tanks, pumping stations or other necessary structures (collectively and individually "Facilities").

These use and occupancy rights are not self-executing and Lessee must coordinate with Lessor, as follows:

- A. At least sixty (60) days prior to conducting any surface disturbing operations Lessee must submit a complete and correct plan that describes and depicts the proposed construction or installation of any Facilities. Lessor may, in its sole discretion, require Lessee to amend such construction or installation plans subject to any related and approved permit or order issued by the Commission at Lessor's discretion.
- B. Lessee must satisfy all requirements of I.C. §§ 47-317 and 47-319 and corresponding Rules of the Commission, as amended.
- C. Where Lessor is the surface estate owner for all or part of the Leased Premises, and after receiving Lessee's plan for proposed construction or installation of Facilities, Lessor may, in its sole discretion, require the Parties to enter into a surface use lease, easement, or right-of-way agreement, which may include separate rentals, bonds, and conditions.
- D. Within sixty (60) days of completion of construction or installation of any Facilities, Lessee must provide Lessor with an as-built survey of the project.
- E. Lessee must not use the Leased Premises for Exploration or Production of Oil or Gas from lands other than the Leased Premises, without prior written approval by Lessor, which may include separate rentals, bonds, and conditions.

2.2.2. Ingress and Egress. Lessee will have the right of ingress and egress at all times during the term of this Lease.

2.2.3. Non-Exclusive Use. This Lease is subject to all leases, easements, and other agreements related to the Leased Premises that were issued by Lessor prior to this Lease. Lessee's operation must not unreasonably interfere with operations under any lease, license, claim, permit or other authorized, lawful use of the Leased Premises.

2.2.4. Surface Estate. In the event that Lessor is not the surface landowner of all or part of the Leased Premises, Lessee's Exploration, drilling, Production, transportation, refining, and marketing operations, or construction of Facilities allowed under this Lease will also be subject to I.C. § 47-334, IDAPA 20.07.02.110 and IDAPA 20.07.02.510, as amended.

2.3. Rights Reserved to Lessor.

2.3.1. Rights not expressly granted. Lessor reserves all rights and privileges of every kind and nature, except as specifically granted in this Lease.

2.3.2. Other leases. Lessor reserves the right to lease the Leased Premises for grazing, agricultural or other uses of State Lands leased under this Lease. All lessees have the right of reasonable ingress and egress at all times during the Lease term(s).

2.3.3. Disposal of leased lands. Lessor reserves the right to sell or otherwise dispose of the surface of the Lease Premises; provided that any sale of surface rights made subsequent to the execution of this Lease will be subject to all terms and provisions of this Lease.

2.3.4. Rights of way and easements. Lessor reserves the right to establish rights-of-way and easements upon, through, and across the Leased Premises, under terms and conditions that will not unreasonably interfere with operations under this Lease, for roads, pipelines, electric transmission lines, transportation and utility corridors, and any other purposes deemed reasonably necessary by Lessor.

3. TERM OF LEASE. Subject to the other provisions in this Lease, the term of this Lease is for a period of **up to ten (10)** years, beginning on the Effective Date and ending on the ****** day of ******, 20****** (“**Lease Term**”), and as long after the Lease Term as Oil or Gas are Produced in Paying Quantities, or for so long after achieving Production in Paying Quantities as Lessee continues in good faith to conduct Diligent and Continuous Drilling Operations on the Leased Premises.

3.1. Diligent Exploration Required; Prudent Operator. Lessee must perform Diligent Exploration on the Leased Premises during the first thirty-six (36) months of the Lease Term. “**Diligent Exploration**” means that Lessee will undertake continuing efforts as a reasonably prudent operator would toward achieving Production in Paying Quantities from the Leased Premises, including performing geological or geophysical surveys and the drilling of a test well or wells. After discovery of Oil or Gas, and subject to the rights of relinquishment or termination under this Lease, Lessee will conduct drilling and Production operations as a prudent operator in accordance with standard industry methods and practices, having due regard for the prevention of waste of Oil and Gas; the protection of Lessor’s interest with respect to the Leased Premises, and the Production of Oil and Gas from the Leased Premises; the preservation and conservation of the property and productive strata therein for future operations; the health and safety of workers and employees; and such other practices that are recognized within the industry.

3.2. Diligent Drilling. Following Lessee’s Diligent Exploration, Lessee must engage in Diligent and Continuous Drilling Operations during the remaining Lease Term or until Production in Paying Quantities is achieved. “**Diligent and Continuous Drilling Operations**” means no delay or cessation of drilling for a period greater than one hundred twenty (120) calendar days, unless extended in writing by Lessor. Lessor must receive a written request for an extension at least ten (10) business days prior to the termination of the one hundred twenty (120) day period. Diligent and Continuous Drilling Operations must be calculated to advance Production of Oil and Gas in Paying Quantities from the Leased Premises.

3.3. Notification at End of Lease Period. Lessee must notify Lessor in writing prior to the end of the final year of the Lease Term that either Diligent and Continuous Drilling Operations or Reworking Operations have commenced and will extend beyond the expiration of the Lease Term. Under such circumstances, Lessee must pay rental to Lessor as provided in Section 4, below.

3.4. Inactive Wells. During the Lease Term, Lessor shall declare a well inactive after twelve (12) continuous months of inactivity. The Lease will then automatically terminate at its next anniversary date unless Lessor determines, in writing, that such cessation of Production

is justified, or the well meets the requirements of a Shut-In Well and has been granted a Suspension of Production under provision 3.5.

3.5. Suspension of Production. If Lessee has drilled a well on the Leased Premises that is capable of Production in Paying Quantities, Lessor may, at Lessor's discretion, grant one (1) Suspension of Production not to exceed one (1) year.

3.5.1. Lessee must submit a written application for suspension of production. Lessee must timely submit a written application for a Suspension of Production to Lessor. Such application must show that Lessee is:

(1) unable to market Oil or Gas from a well located on the Leased Premises that is capable of Production in Paying Quantities due to either: (a) a lack of suitable Production facilities; or (b) a suitable market for the Oil or Gas; and

(2) that such conditions are outside the reasonable control of Lessee; and

(3) that the Lease is not being otherwise maintained in force and effect.

3.5.2. Shut-In Well Payment. If a well is a Shut-In Well and Lessor approves the application(s) for a suspension of production or continuation of that Suspension of Production, Lessee must pay a shut-in well payment in the amount equal to double the annual rental. Lessee must pay the total shut-in well payment within thirty (30) calendar days of Lessor's approval of any application.

3.6. Termination. Termination of this Lease may occur as provided for in this Lease, including those reasons and circumstances stated in Section 15.

4. RATE OF RENTAL; INCREASE AND TERMS

4.1. Rate. Lessee must pay to Lessor an annual rental of \$3.00 per acre, for ****** acres, totaling **** thousand **** dollars (\$******), or a minimum of two hundred fifty dollars (\$250.00), whichever is greater. Each annual rental must be paid to Lessor, in advance, on or before each year's Effective Date.

4.2. First Advance Annual Rental Amount. Lessee will have five (5) business days after close of auction to pay the first advance annual rental payment, which will total the sum of Lessee's winning bid, plus the annual rental amount, plus the nomination fee prescribed by Lessor (if not previously paid by Lessee). Failure of Lessee to pay the first advance annual rental within five (5) business days after the close of auction will be a breach of contract by Lessee, and Lessor may pursue any action or remedy at law or in equity against Lessee.

4.3. Notification at End of Lease Period. If Lessee notifies Lessor that Diligent and Continuous Drilling Operations or Reworking Operations have commenced and will extend beyond the Lease Term, the total of all annual rental(s) for each anticipated additional year must be paid to Lessor, in advance, on or before the termination of the Lease Term. Such payment by Lessee will entitle Lessee to hold the Lease only so long as Diligent and Continuous Drilling Operations or Reworking Operations are pursued. After such operations are concluded, this Lease will continue only if Lessee achieves Production in Paying Quantities.

4.4. **No Refund.** Under no circumstances will Lessor refund to Lessee any amount or portion of unused annual rental.

5. ROYALTY RATES AND TERMS

5.1. **Rate.** Lessee must pay, or cause to be paid, to Lessor a Royalty rate of twelve and one-half percent (12½ %) of Lessee's Gross Proceeds from Lessee's sale of the Gross Production of Oil and Gas Produced from the Leased Premises. "**Gross Proceeds**" means the total monies and other consideration, including bonuses, premiums or allowances, or Settlements (as defined in provision 5.2.3 received, or to be received, by Lessee for Oil or Gas Produced from the Leased Premises as a result of an Arm's-Length Transaction.

5.2. Not Reduced by Lessee's Costs Exception, Royalty in Kind.

5.2.1. **Royalty in money.** Where Royalties are paid in money, post-Production costs including for marketing, transporting and processing the Oil or Gas Produced will be borne entirely by Lessee, and such costs must not reduce the Lessor's Royalty directly or indirectly.

5.2.2. **Royalty in kind.** If the Director elects to take Royalty in kind, Lessor will reimburse Lessee for reasonable and related additional storage and transportation costs, after Lessee provides written proof of such costs.

5.2.3. **Royalty on contract settlements.** Lessee must pay to Lessor twelve and one-half per cent (12½ %) of all monetary settlements or payments to Lessee from any person, vendor or purchaser related to Oil or Gas Produced from the Leased Premises, including "take or pay" settlements, "buy-down" payments, "buy out" payments, judicial or arbitration awards, insurance payments, dispute settlements, or any other benefit of value received by Lessee, or any parent company or subsidiary of Lessee, as consideration for Oil or Gas marketing, transporting, processing, or sales ("**Settlements**").

5.3. **Due on All Production, Exceptions.** Royalty is due on the Gross Proceeds from every Arm's-Length Transaction and all Settlements for all Oil and Gas Produced from the Leased Premises except that Oil or Gas consumed for the direct operation of the producing well and that Oil or Gas lost through no fault of Lessee. All Production volumes must be reported in accordance with provisions 5.5 of this Lease.

5.4. Measurement, Metering, Separation, Commingling.

5.4.1. **Separation.** Lessee agrees that before any Oil or Gas Produced from the Leased Premises is sold, transferred, surface commingled with the production from any other lease tract or pooled unit, or used in a processing plant, all Oil and Gas will be run, free of cost to Lessor, through a gravity-based oil and gas separator of conventional type and of adequate size and efficiency such that all crude oil and Condensate that is recoverable from the gas by such means shall be recovered. Upon written consent of Lessor, Lessee may apply other forms of separation equipment that are at least as efficient as a gravity-based separator upon such terms and conditions as prescribed by Lessor. Upon written consent of Lessor, the requirement that Oil and Gas from the Leased Premises be run through a separator or other equipment may be waived upon such terms and conditions as

prescribed by Lessor. Lessee must request and obtain a waiver in writing from Lessor before the installation or use of any flow meters, including full well stream, liquid-rich gas, or multiphase flow meters that measure any Production on or from the Leased Premises.

5.4.2. Measurement of gross production. Lessee must meter, gauge, measure and correct for temperature, all Oil and Gas Produced from the Leased Premises in conformance with the methods and time intervals accepted as standard industry practice by the American Petroleum Institute, and as otherwise prescribed by the Rules of the Commission and codified in I.C. § 47-322. Lessee agrees that all Oil and Gas Produced from the Leased Premises will be measured separately before any Oil or Gas leave the Leased Premises.

5.4.3. Metering devices compliant with most current industry standard. All measuring devices must be tamper-proof. Lessee must comply with all applicable American Gas Association Standards and American Petroleum Institute Manual of Petroleum Measurement Standards for installation, use and operation of all metering systems, including measurement devices, tanks or other storage receptacles, and pipelines. In the event the standards conflict, the most current American Petroleum Institute Standard must be applied. Each meter must be properly constructed, maintained, repaired, calibrated, and operated to continually and accurately register the quantity of Oil or Gas Produced from the well, including at all custody transfer meters and allocation meters used in the allocation of custody transfer volumes, and to accurately report sample handling, sample testing, and allocation of lease fuel, flared gas volumes, vented volumes, or any other lease use.

5.4.4. Commingling prohibited. Lessee must not, prior to metering, commingle production from two (2) or more wells. After metering and measurements, but before commingling, Lessee must obtain prior written permission from the Director to commingle Oil or Gas Produced from the Leased Premises, whether or not pooled or unitized with any production from any other private, federal, or other state lease; and whether using or planning to use a common manifold or separator, a common storage receptacle, a common gathering system or pipeline, or an off-lease gas supply to inject gas for lift purposes into any Oil or Gas producing formation in the Leased Premises. These requirements are in addition to, and separate from, commingling regulations of the Commission or any federal agency.

5.5. Payment and Reporting. All Royalty owed to Lessor in money must be paid to Lessor in the following manner:

5.5.1. Royalty on oil. Payment of Royalty on Production of oil products must be received by Lessor on or before the sixty-fifth (65th) calendar day after the month of Production.

5.5.2. Royalty on gas and natural gas plant liquids. Payment of Royalty on Production of gas and Natural Gas Plant Liquid products must be received by Lessor on or before ninety-fifth (95th) calendar day after the month of Production.

5.5.3. Royalty report. All Royalty payments, whether in money or in kind, must be reported by Lessee on the form prepared by IDL, as may be amended, which will

include: (1) the gross amount of all Oil and Gas Produced; (2) the disposition of all Oil and Gas Produced; and (3) the Market Value of all Oil and Gas Produced.

5.5.4. Records. Lessee must maintain, and make available to Lessor upon request, copies of all documents, records and reports regarding or confirming the Gross Production, disposition and Market Value, including gas meter readings, pipeline receipts, gas line receipts, other checks or memoranda of any amount Produced and put into pipelines, tanks, or pools and gas lines or gas storage, and any other reports or records that Lessor may need to verify the Gross Production, disposition, or Market Value of Oil and Gas Produced.

5.5.5. Check stub. Each Royalty payment must be accompanied by a check stub that includes all information required by Idaho Code § 47-332; a schedule, summary or other remittance advice showing this Lease number; and the amount of Royalty being paid on this Lease.

5.6. Overriding Royalty; Lessee's Obligation, Violation. Subject to Section 13 of this Lease, any assignment of overriding royalty without a working interest made directly by Lessee, from Lessee's working interest, and not included with an assignment of this Lease, must be filed with IDL, along with the processing fee of \$100.00 per document, within ninety (90) calendar days from the date of execution of the valid assignment.

5.6.1. It is Lessee's responsibility, and not Lessor's or IDL's responsibility, to process and administer any overriding royalty.

5.6.2. Any assignment that creates an overriding royalty that exceeds the Royalty payable to Lessor by greater than five percent (5%), will be deemed a violation of this Lease, unless that assignment expressly provides that the obligation of Lessee, to pay the excess overriding royalty must be suspended when the average Production of oil per well per day, averaged on a monthly basis, is fifteen (15) barrels or less at sixty (60) °F at atmospheric pressure; or when the average Production of gas per day, averaged on a monthly basis, is 60,000 cubic feet (1,700 m³) or less at fourteen and seventy-three hundredths (14.73) pounds per square inch absolute and the standard temperature base of sixty (60) °F.

5.6.3. A reservation or assignment of an overriding royalty will not relieve Lessee of any of Lessee's obligations for payment of Royalties to Lessor.

5.6.4. Any reservation or assignment of overriding royalty by Lessee must terminate upon the termination of this Lease.

5.7. Duty to Market. Lessee must exercise due diligence and use all efforts of a reasonably prudent operator to Produce all Oil and Gas and market all Oil and Gas Produced in order to obtain the best Market Value for the Oil and Gas Produced.

6. BOND REQUIREMENTS.

6.1. Prior to Motorized Exploration. Prior to entry on the Leased Premises with motorized exploration equipment, Lessee must submit to Lessor a corporate surety bond or collateral bond in the amount of one thousand dollars (\$1,000) in favor of the State of Idaho and conditioned on the payment of all damages to the surface and improvements thereon that result from Lessee's operations, regardless of whether any lands in the Leased Premises

have been sold or leased for any other purpose by Lessor. This bond will be released by Lessor upon Lessee providing a sufficient bond pursuant to provision 6.2 of this Lease.

- 6.2. Prior to Drilling.** Prior to entry on the Leased Premises with drilling equipment or prior to commencing any construction in preparation for drilling, Lessee must submit to Lessor a corporate surety bond or collateral bond in the amount of six thousand dollars (\$6,000) in favor of the State of Idaho and conditioned upon compliance with this Lease and all applicable law and agency rules; the removal of all equipment upon termination of this Lease; the payment of all damages to the land surface and all improvements thereon, including crops, which result from Lessee's operation, regardless of whether any lands in the Leased Premises have been sold or leased for any other purpose by Lessor; and payment of all debts to the State of Idaho or any of its agencies, related to this Lease. This bond is in addition to the drilling bond required under the Rules of the Commission.
- 6.3. Statewide Bond.** In lieu of the aforementioned bonds in sections 6.1 and 6.2, Lessee may furnish a good and sufficient "statewide" bond conditioned as above in the amount of fifty thousand dollars (\$50,000) in favor of the State of Idaho to cover all Lessee's leases and operations carried on.
- 6.4. Period of Liability.** Except as otherwise provided in this Lease, the period of liability of any bond must not terminate until all obligations under this Lease, and all applicable law and agency rules have been fulfilled and the bond is released in writing by Lessor. All bonds must contain automatic renewal provisions.
- 6.5. Bond Cancellation.** Any surety company or indemnitor canceling a bond must provide Lessor with no less than sixty calendar-days' (60) notice prior to cancellation. Lessor will not release a surety or indemnitor from liability under existing bonds until Lessee has submitted to Lessor an acceptable replacement bond. Such replacement bond must cover any liability accrued against the bonded principal covered by the previous bond.
- 6.6. Surety License.** If the license to do business in Idaho of any surety is suspended or revoked, Lessee must find a substitute for such surety within thirty (30) calendar days after notice by Lessor. The substitute surety must be licensed to do business in Idaho. If Lessee fails to secure a substitute surety, Lessee must cease all operations pursuant to this Lease.
- 6.7. Form.** All bonds furnished must be on a form acceptable to Lessor, or on the IDL form as may be amended.
- 6.8. Other Agencies.** Lessee must comply with all bonding requirements of the Commission, Idaho Department of Water Resources or other agencies of the State of Idaho as may be required under any applicable law or regulation.

7. PAYMENT OF TAXES. Lessee must pay, when due, all taxes and assessments of any kind lawfully assessed and levied against Lessee's interest or operations.

8. OPERATIONS

- 8.1. Unitization or Pooling Plans of Development or Operation.** For the purpose of properly conserving the natural resources of any Oil and Gas pool, field or like area, Lessee may, upon written consent by the Director, and in compliance with IDAPA 20.03.16.090, the Rules of the Commission, and other applicable laws and agency rules, commit the Leased Premises to a unit, pooling or other plan of development or operation with other state,

federal, Indian, or privately-owned lands. If the Director agrees to the Leased Premises being included in a pooling or unitization agreement, the terms of this Lease may be modified to conform to that agreement; except that Lessee must still pay Lessor all annual rentals, including for those lands not within the plan area, and all Royalties due, as provided in this Lease and with allocation on a surface acreage basis. Operations for drilling on or Production of Oil or Gas from any part of the pooled unit will be considered as operations for drilling on or Production of Oil or Gas from the Leased Premises.

8.2. Surface Obligations and Operations.

8.2.1. *Prevention of Injury or damage.* Lessee and Lessee's agents, employees, contractors and assignees must take all reasonable precautions to prevent injury or damage to persons, real property, and personal property.

8.2.1.1. Lessee and Lessee's agents, employees, contractors and assignees must take all reasonable precautions to prevent waste or damage to the Oil or Gas and other surface and subsurface natural resources and the surrounding environment, including to vegetation, livestock fish and wildlife and their natural habitat, streams, rivers, lakes, timber, forest and agricultural resources.

8.2.1.2. Lessee and Lessee's agents, employees, contractors and assignees must compensate Lessor, other surface lessees, grantees or contract purchasers for any damage resulting from Lessee's operations or any damage resulting from Lessee's failure to take all reasonable precautions to prevent injury or damage to persons, real and personal property and to prevent waste or damage to the Oil or Gas and other surface and subsurface natural resources and the surrounding environment, including to vegetation, livestock fish and wildlife and their natural habitat, streams, rivers, lakes, timber, forest and agricultural resources.

8.2.1.3. Lessee and Lessee's agents, employees, contractors and assignees must comply with all federal, state and local environmental laws, rules and regulations as they pertain to Lessee's operation.

8.2.2. *Blowout or spill.* Lessee must report to Lessor any blowout, fire, uncontrolled venting, or spill above or within the Leased Premises within twenty-four (24) hours and must confirm this report in writing within ten (10) calendar days.

8.2.3. *Fences.* Lessee must not at any time fence any watering place upon the Leased Premises, without first having secured Lessor's written consent.

8.2.4. *Timber removal.* Lessee will not unreasonably interfere with the removal of timber purchased prior or subsequent to the issuance of this Lease. Lessee may remove any timber required for ingress or egress, or necessary for operations. Lessee must pay Lessor for any timber cut or removed on a current stumpage price basis as determined by Lessor.

8.2.5. *Potable water discovery.* Potable water is not a mineral conveyed under this Lease. If Lessee finds only potable water in any well drilled for Exploration or to Produce Oil and Gas, and the water is of such quality and quantity as to be

valuable and usable for agricultural, domestic or other purposes, Lessor may acquire the well with whatever casing is installed in the well at the fair market value of the casing and upon the assumption by Lessor's surface lessee, grantee, or contract purchaser of all future liabilities and responsibilities for the well, with approval of the Commission, and upon the condition that Lessor's surface lessee, grantee, or contract purchaser will also comply with applicable laws and rules of IDWR.

- 8.2.6. Reclamation.** Lessee must reclaim all State Lands disturbed by Lessee's Exploration or operations to Produce Oil and Gas in compliance with the Rules of the Commission, including at least to conditions consistent with previous use by the surface owner, including segregating and protecting topsoil and regrading to approximate previous contour. If substantial removal of topsoil has occurred, as determined by Lessor, Lessee must replace the topsoil and revegetate as necessary to minimize erosion.
- 8.2.7. Noxious weed control.** Lessee must control noxious weeds upon the Leased Premises.
- 8.2.8. Waste.** Lessee must provide and maintain suitable containers for the disposal of garbage and human excreta; and must ensure the disposal of that waste at government-approved disposal sites. Waste petroleum products must not be drained, poured, stacked, stored, or otherwise disposed of on the Leased Premises, on any State Lands, or at any non-government-approved disposal site. Lessee must capture and store waste petroleum products, waste water, filter socks, and any other waste by-product in suitable containers and ensure the disposal of that waste at government-approved disposal sites. Lessee must comply with all applicable federal, state and local statutes, regulations and ordinances, whether now in effect or enacted in the future, including without limitation the rules and regulations relating to safety, public health, pollution control, management of hazardous substances, cultural resources and environmental protection.
- 8.2.9. Fire prevention.** Lessee must create and implement a fire prevention and emergency response plan that will remain in effect during the entirety of Lessee's operations and reclamation. The written plan must be easily accessible to all workers, whether Lessee's employees or contractors, on the Leased Premises, and must include the following:
- 8.2.9.1.** Local emergency contact numbers and information;
 - 8.2.9.2.** Easily accessible firefighting equipment, including sufficient quantities of shovels and operable fire extinguishers;
 - 8.2.9.3.** Fire prevention and safety procedures, including evacuation routes and procedures, designated safety meeting place(s), and emergency shutdown procedures; and
 - 8.2.9.4.** Evidence of coordination with local municipalities, including nearby cities and surface landowners, the county(ies), IDL, any rangeland fire protection association, and federal land agencies.

8.2.10. Location surveys. If Lessee completes a well, and if the mineral estate of land title is disputed by Lessor or if location of the producing interval is disputed by Lessor, then Lessee must fund appropriate location surveys, including a Legal Boundary Land Survey and a Producing Interval Location Survey.

8.2.10.1. A Legal Boundary Land Survey must determine the location and acreage encompassed by the spacing or pooling unit and the Leased Premises acreage within that unit. The Legal Boundary Land Survey must be conducted by an Idaho-licensed Professional Land Surveyor acceptable to Lessor, and must be prepared pursuant to survey requirements provided by Lessor. Any surveyor must conduct surveys in accordance with all applicable jurisdictional requirements and professional standards of practice. Boundary lines and corners of any portion of the Leased Premises being surveyed must be established or retraced in accordance with appropriate boundary law principles governed by the set of facts and evidence found in the course of performing the research and survey. All data gathered by Lessee must be presented to Lessor in a format compatible to Lessor's software.

8.2.10.2. A Producing Interval Location Survey must determine the location of the producing interval of the well borehole. Lessee must determine the three-dimensional coordinate location as follows:

8.2.10.2.1. The top of the producing interval by its magnetic azimuth recorded in degrees of latitude, degrees of longitude, and true vertical depth in feet; and

8.2.10.2.2. The bottom of the producing interval by its magnetic azimuth recorded in degrees of latitude, degrees of longitude, and true vertical depth in feet.

The location data must be measured via borehole logging tools either in drill string assembly (e.g. measured while drilling) or lowered into wellbore after the well is drilled (e.g. gyroscopic survey), or by another method approved by Lessor. Lessee must provide to Lessor the wellbore's bottom hole location and producing interval location. This information must be projected onto a surface map that also shows the well surface location, the Leased Premises boundaries, and distances to boundaries. At Lessor's discretion, Lessee must provide additional directional surveys, accuracy requirements, and reported data.

8.3. Subsurface Operations; Information, Representatives.

8.3.1. Best practices. Lessee is, at all times, obligated to act as a reasonably prudent operator with the duties to explore for, drill for, Produce, operate, develop, market, and sell Oil or Gas from the Leased Premises, including to exercise due diligence in drilling any additional wells that may be necessary to fully develop the Leased Premises. Lessee must conform to the best practices and engineering principles in use in the oil and gas industry and improve contemporaneously with improvements to those best practices and principles.

- 8.3.2. Conservation.** Lessee must use all reasonable means to prevent the underground or above-ground waste of Oil or Gas and to avoid the physical waste, flaring or venting of any gas Produced from the Leased Premises.
- 8.3.3. Loss through waste or failure to produce.** As provided in the Rules, the Director will determine the value of Production accruing to Lessor where there is loss through waste or failure to drill and Produce protection wells on the Leased Premises and the compensation due to Lessor as reimbursement for such loss. Payment for such loss must be made within sixty (60) calendar days after the date of billing. The value of Production resulting from a loss through waste or failure to protect a well will be calculated at ninety percent (90%) of the last year's actual Production Royalty or a minimum royalty of five dollars (\$5.00) per acre, whichever is greater.
- 8.3.4. Diligence, offset wells.** Lessee must diligently drill and Produce from any wells that are necessary to protect Lessor from loss by reason of drainage from production on adjacent or contiguous properties. A rebuttable presumption will exist that any production of Oil or Gas from any well located in any quarter-quarter section that is not State Lands and is immediately adjacent to any part of the Leased Premises will result in offset drainage. Upon the written consent of the Director, instead of drilling an additional well, Lessee will compensate Lessor for Lessee's failure to drill and Produce from any offset well. All wells under this Lease must be drilled, maintained and operated to Produce the maximum amount of Oil and Gas that can be Produced without injury to the formation of the well.
- 8.3.5. Well logs and progress reports.** Lessee must keep a correct and complete log of each well drilled under this Lease. Every log must show by name or description the stratigraphic zones passed through; the producing stratigraphic zones; the depth at which each stratigraphic zone was reached; the number of feet of each size casing set in each well, and where each is set; the total depth of each well drilled; and the location of any buried pipe. Lessee must timely provide, or cause to be provided, to Lessor a complete and correct copy of each and every report required to be filed with IDL under Idaho Code § 47-324.
- 8.3.6. Valuable by-products.** Where Production, use, refining or conversion of Oil or Gas under this Lease, is susceptible of producing any valuable non-petroleum hydrocarbon by-product, including commercially demineralized water, carbon dioxide, carbon black, helium, hydrogen, sulphur, or coal, Lessee must submit to Lessor all available information concerning all potential by-product(s). Lessor may conduct tests or studies at its expense and may issue reasonable orders to produce and preserve such by-product(s). Such valuable non-petroleum hydrocarbon by-products must, in Lessor's discretion, be produced and sold under a separate lease as agreed between Lessor and Lessee, and do not constitute a mineral conveyed under this Lease.
- 8.3.7. Geothermal information.** When drilling in a known geothermal resources area, Lessee must comply with all rules of IDWR. Prior to abandoning or decommissioning any well, Lessee must submit to the Director all available information concerning geothermal resource potential. IDL may conduct related tests or studies at its expense prior to the abandonment of any well. Lessee must

promptly and correctly plug and abandon any well on the Leased Premises that is not used or useful, in accordance with the Rules, the Rules of the Commission, or the rules of IDWR.

8.4. Designation of Operator. In all cases where operations are not conducted by Lessee, but are conducted under authority of an approved operating agreement, assignment, or other written arrangement, a written designation of operator must be submitted to the Director prior to commencement of operations. Such a designation must authorize the operator, or the operator's local representative, to act for Lessee and to sign any papers or reports required under the Rules. Lessee must immediately report in writing to the Director all changes of address and termination of the authority of the operator. Lessee's approved and designated operator will be subject to all the terms and obligations of this Lease.

8.5. Legal Representative. Lessee hereby designates [Name, physical address, and telephone number] as its representative in Idaho empowered to receive service of process and notices and orders issued pursuant to the Rules. Any change to this designation by Lessee must be provided as required under provision 20.7 of this Lease.

8.6. Water Rights. No water rights developed or obtained by Lessee through the discovery of potable water in conjunction with operations under this Lease may be sold, assigned or otherwise transferred without written approval of the Director. Upon termination for this Lease for any reason, Lessee must take all actions required to assign to Lessor all water rights, including applications and permits, subject to applicable laws regarding the transfer or assignments of permits to appropriate water.

9. COMPLIANCE WITH LAWS AND RULES. Lessee's use, activities and operations on the Leased Premises must be conducted in accordance with the Act, the Rules, the Rules of the Commission, and the rules of the Idaho Department of Water Resources, which provisions are hereby made a part of this Lease to the same extent as if stated in full in this Lease. Lessee must also comply with all other applicable federal, state and local laws, and agency rules and regulations. The violation of any applicable law, rule or regulation will be a breach of this Lease and may result in Lessor's termination of this Lease.

10. AUTHORIZED ACTIONS BY LESSOR; INSPECTION; AUDIT. Lessor or Lessor's authorized employee or agent may take the following actions:

10.1. At all reasonable times to go in and upon the Leased Premises and Lessee's improvements or premises to inspect the operations and the products obtained, and to post any lawful notice.

10.2. At any time require that reasonable tests, surveys, samples, etc., be taken in accordance with the Director's instruction, without cost to the State of Idaho, to assure Lessee's compliance with the Rules, Rules of the Commission, or other agency rules.

10.3. At any reasonable time inspect and copy, at Lessor's expense, all of Lessee's books and records pertaining to this Lease. Lessee expressly acknowledges and agrees that it will maintain a complete and correct file of all records, data, documents, communications, and other written materials which pertain to this Lease, including the Production, metering, refining, marketing, transportation, or sale of Oil or Gas from the Leased Premises. Lessee must maintain that file for at least five (5) years after termination of this Lease. Lessee agrees to permit Lessor or Lessor's duly authorized agent to audit, inspect, examine,

excerpt, copy or transcribe Lessee's file to ensure compliance with the terms of this Lease or to evaluate Lessee's performance under this Lease.

- 10.4. Upon failure of Lessee to take timely, corrective measures as ordered by the Director, the Board or the Commission, the Director may order Lessee's operations to immediately cease if the Director determines they are unsafe or are causing or can cause waste or pollution to oil, gas, or other resources. Lessor may terminate this Lease in accordance with the terms of this Lease. Lessor may require Lessee to repair or correct, at Lessee's expense and forfeiture of bond, any damage or unsafe conditions.
- 10.5. If notice of an audit or investigation pursuant to this Lease, the Rules, or the Rules of the Commission has been provided to Lessee, all records must be maintained until Lessor releases Lessee and the record holder of the obligation to maintain such records.

11. INSURANCE

- 11.1. **Commercial General Liability.** Prior to entry upon the Leased Premises for any reason other than casual, non-motorized exploration or inspection, as allowed by law, Lessee must secure, and provide Lessor a complete copy of, commercial general liability insurance on an occurrence coverage form. Lessee must maintain said insurance during the Lease Term and any Term Extension. The limits of liability must not be less than:

- 11.1.1. \$1,000,000 per occurrence; and

- 11.1.2. \$2,000,000.00 general aggregate; and

- 11.1.3. Must not contain exclusions for explosion, fire, blowout, oil spill, collapse, or underground property hazards.

- 11.2. **Additional Insured Endorsement.**

- 11.2.1. All insurance, except for Workers Compensation, shall be endorsed to the name of the State of Idaho, the State Board of Land Commissioners, and the Idaho Department of Lands.

- 11.2.2. If the land surface and improvements thereon covered by the Lease are not owned by the State of Idaho, or have been sold or leased by the State of Idaho, the owner or lessee of the surface rights and improvements must be an additional named insured.

- 11.2.3. None of the foregoing additional insureds or endorsed parties will be liable for the payment of premiums or assessments of the policy(ies).

- 11.3. **Subject to Approval.** The required insurance is subject to Lessor's approval, but any acceptance of insurance by Lessor will in no way limit or relieve Lessee of its duties and responsibilities set forth in this Lease.

- 11.4. **Primary Basis.** Lessee's insurance must be issued on a primary basis, non-contributory with any other insurance coverages or self-insurance carried by the State of Idaho.

- 11.5. **Lessee's Expense; Insurer's Qualifications.** Lessee will maintain at its sole expense the required insurance, purchased from an insurer licensed and authorized to transact business in the State of Idaho. All insurance shall be with insurers rated A- and AMB-1, or better, in the latest AM Bests Rating Guide.

11.6. Advance Notice. Lessee must provide a minimum of thirty (30) calendar days' advance written notice of cancellation, material change, or nonrenewal of policies required under the Lease. If the insurance carrier refuses to provide notice to Lessor, Lessee must notify Lessor in writing of any cancellation or reduction in coverage or limits of any insurance within seven (7) calendar days of receipt of insurer's notification to that effect.

12. LESSEE'S REPRESENTATIONS.

12.1. Qualified Person. Lessee warrants that it is not in default of any contract with the State of Idaho or any department or agency of the State of Idaho. Lessee further warrants that it is not a member of the Board or an employee of IDL.

12.2. Authority; Indemnification of Authority. The signatory for Lessee represents and warrants that such signatory possesses the authority and has been authorized by Lessee to enter into this Lease. In the event any other person asserts any interest in or the right to pursue any term or condition of this Lease, Lessee will promptly and fully defend and indemnify Lessor against any and all such claims. The signatory, if signing on behalf of another person, must submit a power of attorney to Lessor that outlines the signatory's delegated authority.

13. ASSIGNMENT AND SUBLEASE.

13.1. Prior Written Approval; Effective Date. This Lease must not be assigned or transferred except upon Lessor's written consent. No valid assignment may take effect until the first day of the month following its approval. Any assignment, sublease or other conveyance made without Lessor's prior written consent will be void and have no legal effect unless and until approved in writing by Lessor. Exercise of any right with respect to the Leased Premises in violation of this provision will constitute default under this Lease.

13.2. Qualified Assignee. This Lease may only be assigned to a person qualified to hold a state lease issued by Lessor.

13.3. Responsibilities. The assignor and its surety must continue to comply with this Lease and all applicable laws and rules until the effective date of the assignment. After the effective date of the assignment, the assignee and its surety will be bound by this Lease and all applicable laws and rules to the same extent as if the assignee were the original lessee, irrespective of any conditions in the assignment to the contrary. The assignor-lessee will remain liable for rentals and Royalties due and damages accruing prior to the effective date of the assignment.

13.4. Form of Assignment. An approved assignment must be a valid legal instrument, properly executed and acknowledged, stating the number of this Lease, a legal description of the land involved, the name and address of the assignee, the interest transferred and the consideration. A fully executed copy of the instrument of assignment must be filed with Lessor along with the application of approval of an assignment, as required by the Rules, and the processing fees of \$100 per document. If an instrument of assignment conveys two or more leases to one assignee, only one application for assignment must be filed, but the processing fee must be paid for each effected lease. If an instrument of assignment partitions the Leased Premises between two or more assignees, a separate application for assignment and filing fee must be filed for each assignee and for each lease assigned.

13.5. Partition of Leased Lands.

13.5.1. In the event an assignment partitions the Leased Premises between two (2) or more qualified people, neither the assigned nor the retained part created by the assignment may contain less than forty (40) acres or a government lot, whichever is less.

13.5.2. If an assignment partitions the Leased Premises between two (2) or more qualified people, the assignment must clearly segregate the assigned and retained portions of the leasehold.

13.6. Remainder of Lease Term. An assignment, or resulting segregated leases, will continue in full force and effect for the balance of the Lease Term and as may be further extended pursuant to this Lease or the Rules.

13.7. Denial. An application for approval of an assignment may be denied by Lessor if the Lessee or the assignee is delinquent in payment of rentals or Royalties, has otherwise violated applicable laws or rules, or would result in an overriding royalty not permitted by provision 5.6.

14. RELINQUISHMENT.

14.1. Procedure. Lessee may surrender the Leased Premises or any surveyed subdivision of the Leased Premises, by filing a written relinquishment with IDL. A partial relinquishment must not reduce the remaining acreage to less than forty (40) acres or a government lot, whichever is less.

14.2. Effective Date; Release. Lessee's relinquishment will take effect thirty (30) calendar days after it is received. After the written notice of relinquishment is received, Lessee will be relieved of liability under the Lease except for the continued obligation of Lessee and its surety to:

14.2.1. Make payment of all accrued rentals and royalties;

14.2.2. Place all wells on the land to be relinquished in condition for suspension of operations or abandonment;

14.2.3. Comply with all Rules of the Commission for plugging of abandoned wells;

14.2.4. Comply with all applicable laws and rules of IDWR; and

14.2.5. Reclaim the surface and natural resources in accordance with this Lease, the Rules, and Rules of the Commission.

14.3. Adjustment of Rental. In the event of a partial relinquishment of the Leased Premises, the subsequent advance annual rental(s) will be reduced proportionately, but not less than a minimum of two hundred fifty dollars (\$250.00).

15. TERMINATION.

15.1. For Cause; Opportunity to Cure. Lessor may terminate this Lease for any violation of this Lease, the Rules, Rules of the Commission, any other applicable law or regulation, or upon failure by Lessee to exercise due diligence and care in the prosecution of Lessee's operations in accordance with this Lease. The Director's termination will be effective ninety (90) calendar days after notice of the cause of termination has been given to Lessee, unless:

15.1.1. The cause of termination has been corrected; or

15.1.2. The cause of termination is one that cannot be corrected within the ninety (90) day notice period and Lessee has in good faith commenced within the notice period to correct the cause of termination and proceeds diligently to complete corrective action within a time period set by Lessor in writing. If sent by certified mail, such notice will be deemed served upon mailing.

15.2. For Cause; No Opportunity to Cure. Failure of Lessee to pay rentals on or before every due date will result in the immediate termination of this Lease without notice or opportunity to cure. Time is of the essence for payment of rentals and it is a material term of this Lease.

15.3. For Cause; Limited Opportunity to Cure. Failure of Lessee to pay Royalties on or before the due dates stated in Section 5, will result in the immediate termination of this Lease if, after receiving notice from Lessor and thirty (30) calendar days opportunity to cure, Lessee has not corrected the cause of termination. Time is of the essence for payment Royalties and it is a material term of this Lease.

15.4. Not for Cause. Termination of this Lease may occur as otherwise provided for in this Lease, including at the end of the Lease Term if there is no Production in Paying Quantities; upon abandonment; or at the end of the approved period of, or continuation of, Suspension of Production under provision 3.5.

15.5. Surrender After Termination. Upon termination of this Lease for any reason, Lessee must quietly and peaceably surrender possession of the Leased Premises to Lessor. Within ninety (90) calendar days of termination Lessee must remove from the Leased Premises all materials, tools, appliances, machinery, and structures. Any equipment subject to removal, but not removed, will be deemed abandoned and, at the option of Lessor, may become property of the State of Idaho; or Lessor may cause the equipment to be removed at Lessee's expense.

15.6. Lessee's Obligations Continue. Upon termination of this Lease for any reason, Lessee's obligation(s) under this Lease, the Rules, the Rules of the Commission, and any other law or agency rule that has accrued prior to the date of termination will continue in full force and effect.

15.7. All Rights Return to Lessor. Upon termination of this Lease for any reason, all rights granted to Lessee will return to Lessor.

16. IMPOSSIBILITY OF PERFORMANCE; EXCEPTION. Whenever, as a result of any act of God, or due to any law, order, or regulation of any governmental agency, it becomes impossible for Lessee to perform or to comply with any express or implied covenant of this Lease; or to conduct Diligent and Continuous Drilling Operations or Reworking Operations, or to Produce Oil or Gas as required under this Lease; or to fulfill all obligations under any applicable statute or rule, Lessor, at Lessor's discretion, may by written order excuse Lessee from damages or forfeiture of this Lease, and Lessee's obligations under this Lease may be suspended and the Lease Term may be extended provided that Lessor finds that good cause exists. Except that Lessee's payment of rentals and Royalties due to Lessor may not be excused or suspended for any reason.

17. INDEMNIFICATION.

- 17.1.** Lessee shall indemnify, defend, and save harmless Lessor, the State of Idaho, its officers, agents, employees, and volunteers from and against any and all liability, claims, damages, losses, expenses, actions, settlements, attorneys' fees, and suits whatsoever caused by, arising out of, or in connection with Lessee's acts or omissions under the Lease or Lessee's failure to comply with any applicable state, local, or federal statute, law, regulation, rule or ordinance.
- 17.2.** Upon the receipt by Lessee of Lessor's or the State of Idaho's tender of indemnity and defense, Lessee shall immediately take all reasonable actions necessary, including, but not limited to providing a legal defense for Lessor and the State of Idaho, and to begin fulfilling its obligation to indemnify, defend, and save harmless Lessor and the State of Idaho. Lessee's indemnification and defense liabilities described herein shall apply regardless of any allegations that a claim or suit is attributable in whole or in part to any act or omission of Lessor, the State of Idaho under the Lease. However, if it is determined by a final judgment that Lessor, the State of Idaho's negligent act or omission is the sole proximate cause of a suit or claim, neither Lessor nor the State of Idaho shall be entitled to indemnification from Lessee with respect to such suit or claim, and Lessor and the State of Idaho in its discretion, may reimburse Lessee for reasonable defense costs attributable to the defense provided by any Special Deputy Attorney General appointed pursuant to subsection 17.3
- 17.3.** Any legal defense provided by Lessee to Lessor and the State of Idaho under this section must be free of any conflicts of interest, even if retention of separate legal counsel for Lessee and, Lessor and the State of Idaho, is necessary. Any attorney appointed to represent Lessee, the State of Idaho must first qualify as and be appointed by the Attorney General of the State of Idaho as a Special Deputy Attorney General pursuant to Idaho Code §§ 67-1401(13) and 67-1409(1).

18. TITLE.

- 18.1. No Warranty of Title.** Lessor does not warrant title to the Leased Premises or the Oil and Gas resources that may be discovered in the Leased Premises. This Lease is issued only under such title as the State of Idaho may have as of the Effective Date or as may be subsequently acquired. Lessee is solely responsible for satisfying itself with respect to the ownership of the Leased Premises. If Lessor is subsequently divested of said title, no liability will be incurred by Lessor by virtue of this Lease for any loss or damage to Lessee. Nor will any claim for refund, rents, or Royalties paid to Lessor be made by Lessee, its successors or assignees.
- 18.2. No Warranty of Merchantability or Fitness.** Lessee expressly acknowledges that neither Lessor, nor any agent or representative of Lessor, has made any representation of warranty, either express or implied, with respect to the title, merchantability, or fitness of the Leased Premises for any particular purpose or use, including the uses for which this Lease is granted. Lessee accepts the Leased Premises in an "as is" condition, and relies solely on Lessee's own inspection of the Leased Premises.

19. FINAL BOARD APPROVAL; ORDER OF EXECUTION. Lessee must sign this Lease first and within thirty (30) calendar days from either the mailing date or, if personally delivered by IDL, date of receipt by Lessee. This Lease is approved and becomes operative only after being signed by the Director,

and the Governor and the Secretary of State, on behalf of the Board; and only after approval of this Lease by a majority of the Board.

20. SOVEREIGN IMMUNITY. Nothing contained in this Lease will be deemed to constitute a waiver of the State of Idaho's sovereign immunity, which immunity is hereby expressly reserved.

21. JOINT LIABILITY OF LESSEE. If Lessee consists of more than one person, all such persons will be jointly and severally liable for each term, condition, covenant, duty and obligation of this Lease

22. GOVERNING LAW. This Lease is governed by and must be construed under the laws of the State of Idaho. The Parties consent to the jurisdiction of the state courts of Ada County in the State of Idaho in the event of any dispute regarding or relating to this Lease.

23. LEGAL FEES. In the event either Party initiates and prevails in any action or suit for the enforcement of any of the provisions of this Lease, the prevailing party will be awarded reasonable costs and attorney fees as provided for in Idaho Code § 12-117 or any other applicable law.

24. SEVERABILITY. Each section of this Lease must be interpreted in such a manner as to be valid and enforceable under applicable law, but if any section is or becomes prohibited or invalid under any applicable law, that section will be ineffective only to the extent of such prohibition or invalidity, without invalidating the remainder of that section, any other section, or the Lease as a whole contract.

25. ENTIRE AGREEMENT. This Lease sets forth the entire agreement between the Parties related to the subject matter of this agreement and may not be modified without the written consent of both Parties

26. FORCE MAJEURE. If Lessor or Lessee is delayed, hindered, or prevented from performing any act required hereunder by reason of any act of God; strike; lockout; labor trouble; inability to procure materials; failure of power; restrictive government laws or regulations enacted after the Effective Date, which preclude activities that are the subject of this Lease; riot; insurrection; war; escalation of hostilities; or other reason beyond the Party's control making performance impossible, then performance of that act, and that act only, shall be excused for the reasonable period of the delay upon proper and satisfactory proof presented to Lessor. Lessee shall work diligently to eliminate the delay and immediately notify Lessor when the reason for the force majeure event has ceased. Neither Lessee's financial condition nor the failure of any of Lessee's contractors or subcontractors or any other party with whom Lessee contracts shall be an event of force majeure excusing the performance of any act. The reduction or cessation of production on the Leased Premises is not a force majeure event.

27. NOTICE. All notices between the Parties in connection with the Lease shall be in accordance with terms of the Lease. All notices allowed or required herein shall be given by registered or certified mail, deposited in the United States mails with postage prepaid; or by depositing the same with FedEx, UPS, or similar shipping service with shipping fees prepaid. If such service is used, tracking information shall be provided to the other Party. The notices shall be sent to the addresses stated on the Summary Page. Either Party may change the place for giving notice by written notice to the other Party.

28. LIEN ON PRODUCTION. Lessee hereby grants to Lessor, and Lessor will have a first lien, as additional security interest, upon all Oil and Gas Produced from the Leased Premises in order to secure the payment of all rentals and Royalties, together with any and all other sums of money that may become due under the terms of this Lease.

29. HEADINGS. All headings in this Lease are for convenience only and do not affect the meaning of any provision in this Lease.

30. NO WAIVER. The failure by Lessor to require performance of any provision will not affect Lessor's right to require performance at any time thereafter; nor will a waiver of any breach of default of this Lease constitute a waiver of any subsequent breach, default, or a waiver of the provision itself.

31. PUBLIC RECORDS. Pursuant to I.C. §§ 74-101 through 74-127, any information or documents received from Lessee may be open to public inspection and copying unless specifically exempt from disclosure. Lessee must clearly designate individual documents as "exempt" on each page of such documents and must indicate the basis for such exemption. Lessor will not accept the marking of an entire document as exempt. In addition, Lessor will not accept a legend or statement on one (1) page that all, or substantially all, of the document is exempt from disclosure. Lessee will indemnify and defend Lessor against all liability, claims, damages, losses, expenses, actions, attorney fees and suits whatsoever for honoring any designation by Lessee, or for Lessee's failure to designate individual documents as exempt. Lessee's failure to designate as exempt any document or portion of a document that is released by Lessor will constitute a complete waiver of any and all claims for damages caused by any such release.

32. PROMOTION. Except as allowed with the prior written approval of the Director, Lessee, including any successor or assign, may not use the name of Lessor, the Board, IDL, the State of Idaho, or any agency of the State of Idaho; or the fact that any of Lessee's operations are conducted, in whole or in part, on State Lands in any advertisement by Lessee or in any prospectus promoting the sale of stock. The inclusion of this Lease as an asset of Lessee in Lessee's accounting and financial records and statements will not be a breach of this provision or this Lease.

33. WRITTEN MODIFICATION. Except as provided herein, no modification, extension, assignment, release, discharge, change, or waiver of any provision of this Lease shall be of any force, effect, or value unless signed in writing by Lessor, or its duly authorized agent.

34. COUNTERPARTS. This Lease may be executed in any number of counterparts, each of which shall be deemed to be an original, but all of which together shall constitute but one and the same instrument.

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ATTACHMENT A
SPECIAL TERMS AND CONDITIONS

1. This tract contains navigable riverbeds. No surface occupancy is allowed within the bed of the navigable river, abandoned channels, or on islands and accretions.
2. In addition, upon completion of a successful well, where river title is disputed, the Lessee will file an interpleaded action under Rule 22 of Idaho Rules of Civil Procedure in the local District Court, or other court having jurisdiction, in which the leased lands are located for all acreage within the lease in which the title is disputed. The Lessee shall name all potential royalty claimants as defendants.

ATTACHMENT B
EXISTING CONDITIONS

The following Lessor-authorized instrument(s) affecting all or any portion of the Leased Premises, include but are not limited to, the following:

Insert OR Delete

ATTACHMENT C
LEGAL DESCRIPTION OF LEASED PREMISES

The following described parcels more particularly described as:

Payette River in and adjacent to Government Lots 1-7 located in Section 24, Township 8 North, Range 5 West, Boise Meridian, in Payette County, Idaho.

Contains 53.61 acres, more or less.

The following tables are for Idaho Department of Lands' internal purposes only and are not intended to be part of the legal description:

Instrument Number	Township	Range	Section	Legal Description	County	Endowment	Acres
O600643	08N	05W	24	Payette River in and adjacent to Gov Lots 1-7	Payette	ND	53.61

Mineral Owner	Surface Owner	Sage Grouse IMHA	Sage Grouse PMHA
State	State	0	0

ATTACHMENT D
SITE MAPS