

KENAI PENINSULA BOROUGH

144 N. BINKLEY • SOLDOTNA, ALASKA • 99669-7599
BUSINESS (907) 262-4441 FAX (907)262-1892

DALE BAGLEY
MAYOR

MEMORANDUM

TO: Gary Superman, Assembly President
Kenai Peninsula Borough Assembly Members

THRU: *DLB* Dale Bagley, Mayor

THRU: *MB* Max Best, Planning Director

FROM: *P.O.* Paul Ostrander, Land Management Officer

DATE: November 10, 2004

SUBJECT: Ordinance 2004 - 37, An ordinance authorizing the negotiated lease at fair market value of Government Lots 5 and 8, Section 34, T1N, R13W, S.M. Alaska containing approximately 10 acres to Marathon Oil Company for a natural gas drilling/production pad

Pursuant to a request by the Assembly during introduction of the subject Ordinance, please find the attached Land Use Permit issued by the Kenai Peninsula Borough to Marathon Oil Company for the purposes of pad construction and the drilling of an exploratory gas well and a water well.

Special conditions of the Permit are listed under Section 8. This Permit will be terminated if a lease agreement is entered with Marathon Oil Company.

LAND USE PERMIT
KPB 17.10.180

The Kenai Peninsula Borough, an Alaska municipal corporation, whose address is 144 N. Binkley, Soldotna, Alaska 99669-7599 (hereinafter called "KPB"), hereby permits Marathon Oil Company, whose address is P.O. Box 196168, Anchorage, AK 99519. (hereinafter called "PERMITTEE") to use the following described real property (hereinafter called "PROPERTY"):

Portion of the S $\frac{1}{2}$ NW $\frac{1}{4}$ NW $\frac{1}{4}$, Section 34, T1N, R13W, S.M. Alaska
Assessor Parcel No. 139-100-38
See Attachment A, attached hereto and incorporated by reference.

for the purpose of : conducting seismic tests
 collecting survey data
 drilling soil test holes
 drilling water test wells
 installing utilities
 constructing facilities
 staging equipment for a construction project
 other; list: Construction of pad and drilling of exploratory gas well and water well.

(hereinafter called "ACTIVITIES") located on the above described PROPERTY.

SUBJECT TO the following terms and conditions:

1. PERMIT:

This permit conveys to PERMITTEE, no interest in the PROPERTY. This permit is revocable for cause with notice. It is issued for authorized purposes to PERMITTEE. The permit represents a non-exclusive privilege authorizing special use of KPB land.

Violation of permit conditions or the conduct of activities not authorized by this permit will result in permit revocation and may result in a claim for damages by KPB and other civil or criminal penalties as applicable under law. PERMITTEE shall remove all chattels or improvements placed on the land by PERMITTEE within 30 days of permit revocation. KPB may, at its option, direct that all activity under this permit stop until a violation of the permit conditions is corrected. Continued activity after notice to stop will be deemed a trespass by KPB.

KPB reserves the right to permit other land use in the permit area, provided KPB determines that such use will not unduly impair the PERMITTEE'S ACTIVITIES. Should circumstances warrant, this permit may be modified or suspended in writing by KPB to protect resources, health, safety, and the environment.

2. PERMIT TERM:

This permit is valid from August 18, 2004 through August 17, 2005. This permit is revocable for cause by KPB. If PERMITTEE wishes to terminate the permit prior to the end of the term, PERMITTEE must provide written notice 14 days prior to termination date and comply with the provisions of Section 13 of this permit prior to the termination date. PERMITTEE is not entitled to a pro rata refund of the permit fee.

3. DEFENSE AND INDEMNIFICATION:

The PERMITTEE shall indemnify, defend, save and hold the borough, its elected and appointed officers, agents and employees, harmless from any and all claims, demands, suits, or liability of any nature, kind or character including costs, expenses, and attorneys fees resulting from PERMITTEE's performance or failure to perform in accord with the terms of this permit in any way whatsoever. The PERMITTEE shall be responsible under this clause for any and all claims of any character resulting from PERMITTEE or PERMITTEE's officers, agents, employees, partners, attorneys, suppliers, and subcontractors performance or failure to perform this agreement in any way whatsoever. This defense and indemnification responsibility includes claims alleging acts or omissions by the borough or its agents which are said to have contributed to the losses, failure, violations, or damage. However, PERMITTEE shall not be responsible for any damages or claims arising from the sole negligence or willful misconduct of the borough, its agents, or employees.

4. LIABILITY INSURANCE

PERMITTEE shall purchase at its own expense and maintain in force at all times during the term of this permit the following insurance policies:

Commercial General Liability and Automobile Insurance. Policy to include bodily injury, personal injury, and property damage with respect to the property and the ACTIVITIES conducted by PERMITTEE in which the coverage shall not be less than \$1,000,000.00 per occurrence or such higher coverage as specified by KPB. The policy purchased shall name KPB as an additional insured with respect to the ACTIVITIES conducted on the property.

Proof of Insurance: PERMITTEE shall deliver to KPB certificates of insurance along with PERMITTEE'S signature on this permit. This insurance shall be primary and exclusive of any other insurance held by KPB. Failure to provide the certificate of insurance as required by this section, or a lapse in coverage, is a material breach of the permit terms entitling KPB to revoke the permit.

5. SURETY BOND:

Pursuant to KPB 17.10.180(D), bond in the amount of \$50,000.00 is required as a condition of issuing this permit. The bond warrants permittee will faithfully observe the terms and conditions of the permit and may be used to partially defray any costs for restoration and rehabilitation of the property, including without limitation environmental damage and clean up. This bond is addition to other bonding that may be required as a condition of this permit.

6. TRANSFER:

This permit may not be transferred or assigned without prior written approval by the KPB Planning Director.

7. ACTIVITIES:

ACTIVITIES allowed under this permit are: Construction of pad and drilling of exploratory gas well and water well.

Development of the site pad will be substantially as shown on the attached "Highway Approach Permit" drawing (Attachment C).

Development of the water well will conform to the attached "Temporary Water Use Permit" (Attachment B).

All ACTIVITIES shall be conducted in a manner that will minimize land disturbance and will not cause a change in the character of the land or damage water courses, shorelines, or natural drainage patterns.

PERMITTEE shall be liable for damage to any KPB owned property resulting from this activity. Damages resulting from the ACTIVITIES shall be repaired or replaced by PERMITTEE at PERMITTEE'S expense; failure to repair damages subjects PERMITTEE to all available remedies KPB has at law or equity. The election of one remedy will not prohibit KPB from pursuing any and all of the available remedies. All ACTIVITIES authorized under this permit shall be conducted in compliance with all applicable federal, state, and local laws and regulations having jurisdiction over

the PROPERTY in effect during the term of this permit. PERMITTEE agrees to obtain the necessary approvals from all third party interests and obtain all permits or written authorization required by the applicable laws, rules, and regulations from governing authorities. PERMITTEE agrees to provide documentation of all applicable licenses and permits as requested by KPB.

In addition to the above, PERMITTEE'S ACTIVITIES shall conform to the following general conditions:

- A. FIREWOOD COLLECTION. Cutting of live trees or vegetation is prohibited for use as firewood. The gathering of wood from dead and down trees on the PROPERTY is allowed within the course of ACTIVITIES listed.
- B. OPEN FIRES. Open fires on the PROPERTY are prohibited.
- C. TEMPORARY STRUCTURES. Only temporary structures may be placed on the PROPERTY and shall be located at least seventy-five (75) feet from the mean high water mark. Temporary structures are defined as being removable within forty-eight (48) hours notice.
- D. SANITATION. The PROPERTY shall be kept in a clean and sanitary condition and every effort shall be made to prevent the pollution of waters. Sanitary facilities shall be in accordance with the State of Alaska, Department of Environmental Conservation regulations.
- E. SAFETY. PERMITTEE is responsible for the safety of all persons conducting ACTIVITIES on the PROPERTY under this permit. PERMITTEE agrees to provide clientele with information regarding rules and regulations and other information pertaining to the PROPERTY and the permit.

8. SPECIAL CONDITIONS:

PERMITTEE'S ACTIVITIES shall conform to the following special conditions pertinent to drilling a gas well and water well on the subject real property:

- A. Land clearing shall be limited to the area of the pad and area necessary for storage of organic overburden, if necessary to be used in reclamation.
- B. At the end of the term of this permit, if the well is abandoned, all equipment, machinery, and substances associated with the activity will be removed from the PROPERTY. At the KPB's discretion:
 - 1. The gravel pad and access road will be removed. Stored organic overburden, if any, will be redistributed, and the pad area

revegetated. The performance bond will be retained until the Planning Director gives final approval of the site reclamation. Reclamation shall be completed within one (1) year from termination of this Land Use Permit.

2. The pad and access road will be retained by the KPB.
 3. PERMITTEE shall decommission the water well pursuant to the requirements of the Alaska Department of Environmental Conservation for such activities.
 4. PERMITTEE shall plug and abandon the exploratory gas well pursuant to the requirements of the Oil and Gas Conservation Commission for such activities.
 5. Permittee shall provide the KPB with an As-built drawing showing the location of the water well and exploratory gas well.
- C. PERMITTEE will provide the Borough Planning Department with copies of all required water and air quality test results. PERMITTEE or its subcontractors will notify the Planning Director within forty-eight (48) hours of any violation of permit stipulations and/or conditions. A separate request will be made of state regulatory agencies to provide the KPB with copies of all reports, field notes and related materials.
- D. All drill muds, liquids associated with drilling operations, completion fluids and produced water, or other waste will be stored in leak free containers. Containers will be removed from the parcel within fourteen (14) days of being filled.
- E. All drilling wastes shall be disposed off site. Reserve pits are prohibited.
- F. Should PERMITTEE'S activities cause a dust problem, PERMITTEE will implement a dust control program.
- G. Use of the existing road by heavy equipment and commercial vehicles may require upgrade and maintenance of the road at PERMITTEE'S expense. PERMITTEE will be responsible for wear and tear to the existing road.
- H. Production operations will require a separate permit/lease application.

- I. Adhere to Kenai Peninsula Borough Coastal Management Program enforceable policies contained in letter dated September 5, 2002 to Nina Brudie, State Division of Oil & Gas from Max Best for Daniel Bevington, KPB Coastal District Coordinator.
- J. The PERMITTEE is responsible for the safety of all persons conducting ACTIVITIES on the PROPERTY under this permit. PERMITTEE agrees to provide KPB with information regarding rules and regulations and other information pertaining to the PROPERTY and permit.

9. PROHIBITIONS: PERMITTEE agrees to the prohibitions:

- A. VEGETATION. There shall be no clearing of trees, shrubs or vegetation outside of the area necessary for pad construction without prior written approval from KPB.
- B. WASTE BURIAL. The burial of waste or trash is prohibited. Waste must be transported off site daily.
- C. STORAGE. Storage of petroleum products is allowed in amounts necessary for activities required on the property only upon condition that PERMITTEE exercise proper care, handling, and safe and proper storage. Fuel may not be placed within 100 feet of any water bodies, lakes, streams, or wetlands. Fuel must be stored in leak proof containers and placed within a secondary containment, impermeable berms and basins capable of retaining 110 percent of storage capacity plus 12 inches of free board to minimize uncontained spills or leaks.
- D. ACCESS. PERMITTEE shall not restrict public access to State waters or KPB owned land except as necessary to protect personal property or public safety.
- E. PUBLIC USE. PERMITTEE may not restrict public use of the shorelines.
- F. SURVEY MONUMENTS. All survey monuments, witness corners, reference monuments, mining claims posts, bearing trees and subdivision monumentation shall be protected against destruction, obliteration or damage. Any damaged or obliterated markers shall be reestablished by PERMITTEE in accordance with accepted survey practice of KPB.
- G. RIGHTS-OF-WAY. Activities within borough rights-of-ways must comply with KPB Title 14.40, and requires a permit from the KPB Roads Service Area.

10. **CULTURAL RESOURCES:**

PERMITTEE shall not disturb historic or prehistoric resources. Should previously undiscovered artifacts or areas of historic, prehistoric or archaeological importance be discovered, the site shall be protected from further disturbance and PERMITTEE shall immediately cease activities and contact KPB and the State Historic Preservation Office.

11. **WILDFIRES:**

PERMITTEE shall take immediate action to suppress uncontrolled fires and report them to the proper authorities as soon as possible.

12. **LOCATION:**

PERMITTEE is responsible for properly locating himself and associated ACTIVITIES on the PROPERTY.

13. **SUITABILITY:**

KPB does not represent or guarantee the safety, suitability, or condition of the PROPERTY for any purpose for which PERMITTEE is using the PROPERTY. It is solely PERMITTEE'S responsibility to determine the value and suitability of the PROPERTY for PERMITTEE'S uses.

14. **INSPECTIONS:**

- A. Authorized agents of KPB shall have access at all times to the PROPERTY.
- B. At times when the PROPERTY is in use, PERMITTEE shall have a representative available to receive, on behalf of PERMITTEE, any notices and instructions given by authorized KPB personnel in regard to performance under this permit and to take such action as required by the terms of this permit.
- C. PERMITTEE shall maintain on file with KPB the name, title, address, and telephone number of an individual with overall authority for ACTIVITIES under this permit, and who shall be the point of contact for routine and emergency notices, information and correspondence, relative to this permit.
- D. Prior to termination of this permit and release of bond, PERMITTEE shall transport authorized Borough agent(s) for required final inspection.

15. EXPIRATION:

On or before the expiration date of the permit, PERMITTEE shall remove all trash, waste, materials, equipment, and other personal property PERMITTEE has placed or caused to be placed on the PROPERTY. If materials, equipment, or personal property are not removed by the expiration date, they may become the property of KPB and may be used or otherwise disposed of by KPB without obligation to PERMITTEE. This permit in no way constitutes a preference to PERMITTEE for sale or lease or permit renewal of this PROPERTY.

16. ENVIRONMENTAL HAZARDS:

PERMITTEE shall properly store hazardous materials and shall not create any environmental hazards for the public or PERMITTEE'S clientele on the PROPERTY. The defense and indemnification clause set forth in Section 3 of this agreement specifically extends to violations of the section.

17. NOTICES:

All notices shall be sent to both parties as follows:

KENAI PENINSULA BOROUGH
Planning Director
144 N. Binkley Street
Soldotna AK 99611

PERMITTEE:
Marathon Oil Company
Attention: Chick Underwood
P.O. Box 196168
Anchorage AK 99519-6168
Phone: (907) 564-6435
Fax: (907) 564-6489

18. PERMIT FEES:

An application fee of \$25.00 and a non-refundable land use fee of \$250.00 shall be paid in advance.

19. TAXES:

Any taxes levied due to assessment of land use or activities shall be paid by PERMITTEE.

20. SEVERABILITY:

Any provision or clause of this permit that is deemed invalid by a court or otherwise by law shall not affect the validity of the remainder of the agreement.

21. GOVERNING LAW; JURISDICTION:

This agreement shall be governed by the laws of the State of Alaska. Any legal action brought in court regarding this permit shall be filed with the trial courts of Alaska, Third Judicial District at Kenai.

22. LAWS AND PERMITS:

PERMITTEE shall abide by all applicable federal, state, and borough statutes, ordinances, rules, and regulations. PERMITTEE is responsible for obtaining all federal, state, and local permits applicable to the permittee's activities and keeping such permits in good standing.

23. NO PARTNERSHIP:

No provision of this permit shall be construed to create a partnership or joint venture or any other arrangement between KPB and PERMITTEE where KPB would be in any way responsible for debts, losses, or liabilities of PERMITTEE.

24. WAIVER:

A waiver by KPB of any of the provisions of this permit shall not be construed as a continuing waiver of a provision, or a waiver of any other provisions of the permit. Any waivers of the permit conditions shall be done in writing signed by both parties.

25. ENTIRE PERMIT:

This document sets forth the entire permit granted; no representations or promises not contained in this document have been made by KPB. No modification to this permit is binding unless in writing and executed by both parties.

26. CAPTIONS:

The captions and headings used in this permit are for convenience only and do not alter or construe the text of the section.

27. CONSTRUCTION:

This permit shall be interpreted according to its fair meaning and intent, and not for or against either party.

28. SIGNATURE:

PERMITTEE is signing this permit of PERMITTEE'S own free will after have had the opportunity to review the same with counsel of PERMITTEE'S choice.

This permit is effective upon KPB's receipt of the initial permit fee, proof of insurance, and the fully executed permit containing the original signatures of both parties below.

IN WITNESS WHEREOF, the parties hereto have set their hands the day stated in the acknowledgments below.

KENAI PENINSULA BOROUGH:

Dale L. Bagley
Dale L. Bagley

Mayor

Dated: 7/29/04

PERMITTEE: MARATHON OIL COMPANY

[Signature]
Sign Name

Print Name L. Brock Riddle

Title Attorney In Fact

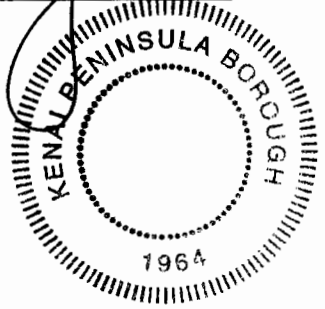
Dated: July 12, 2004

ATTEST:

APPROVED AS TO LEGAL FORM AND SUFFICIENCY:

[Signature]
Linda S. Murphy,
Borough Clerk

[Signature]
Holly B. Montague
Assistant Borough Attorney



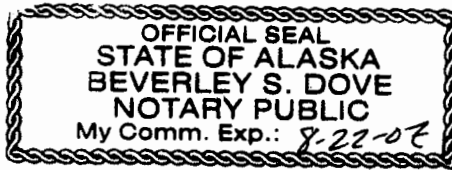
NOTARY ACKNOWLEDGMENT

STATE OF ALASKA)
)ss.
THIRD JUDICIAL DISTRICT)

The foregoing instrument was acknowledged before me this 28th day of July, 2004, by Dale L. Bagley, Mayor of the Kenai Peninsula Borough, an Alaska municipal corporation, on behalf of the corporation.



Beverly S. Dove
Notary Public in and for Alaska
My commission expires: 8-22-07

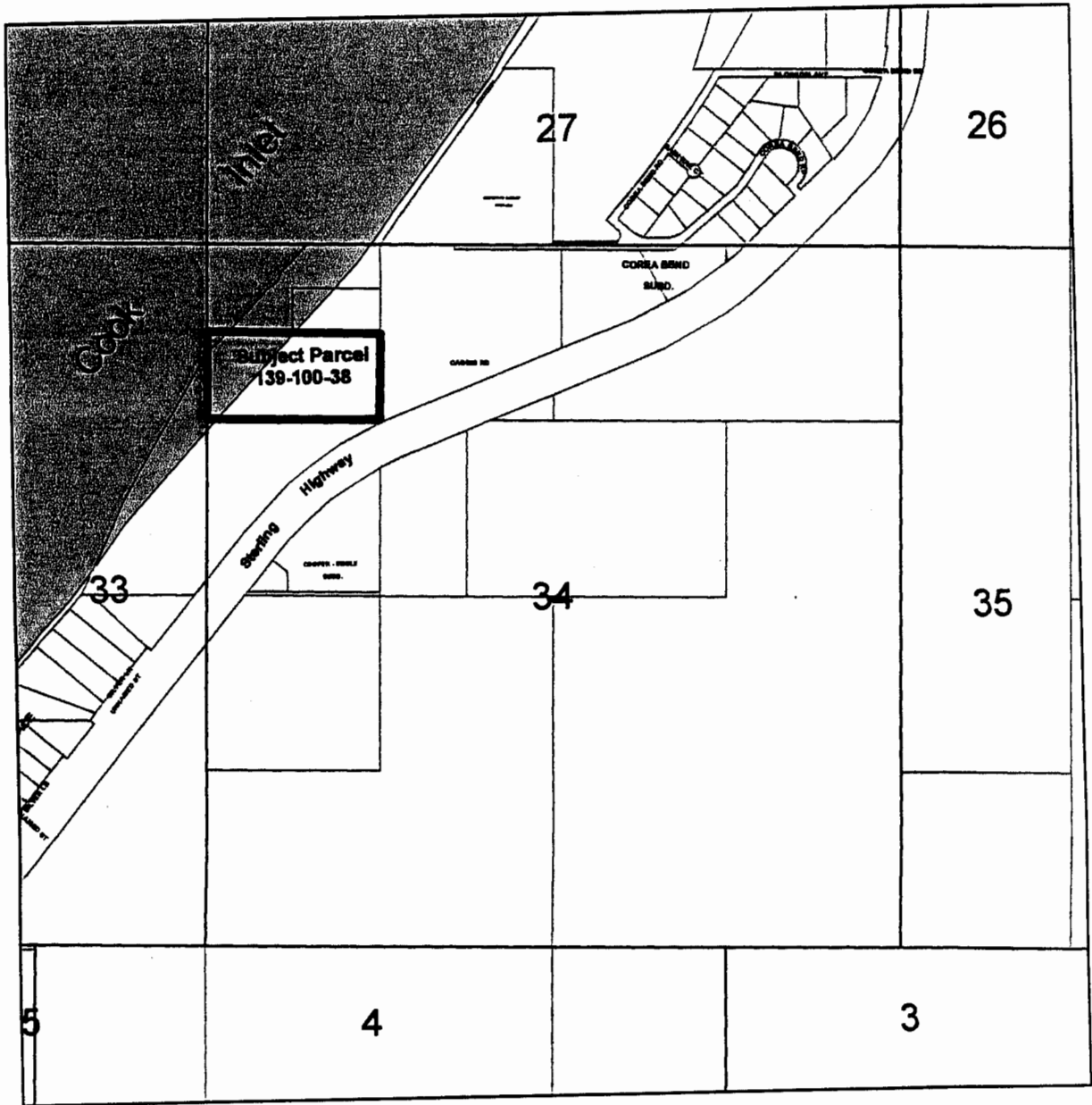


NOTARY ACKNOWLEDGMENT

STATE OF ALASKA)
)ss.
THIRD JUDICIAL DISTRICT)

The foregoing instrument was acknowledged before me this 12 day of July, 2004, by J. Brock Riddle, Attorney in Fact, Marathon Oil Company, on behalf of the company.
(Name)
(Title)

Betty J. Veldhuis
Notary Public in and for Alaska
My commission expires: JUNE 13, 2005



Attachment A

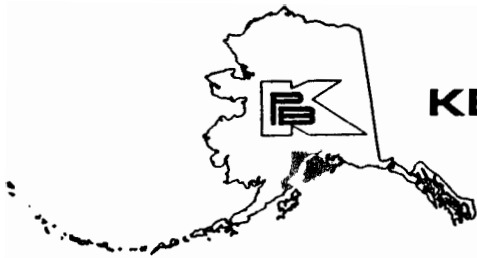
Marathon Oil Company, Marathon, has calculated the approximate maximum daily water use volumes for drilling a new natural gas well, the Ninilchik State No. 1. Water for operations will be provided by a new water well that will be drilled into a deep aquifer that will reduce potential interference with adjacent water wells. The drilling operation utilizes two insulated above-ground tanks dedicated for water use that act as the primary source of water for all operations. The tanks are filled prior to the start of operations to act as a reserve supply and are maintained in this status. When the water levels are reduced the pump is activated to refill the tanks to ensure a sufficient volume for operations. This configuration results in only intermittent operation of the pump during a 24-hour period and minimizes withdrawal from the aquifer.

The start-up of operations uses the greatest volume of water to build the mud system and this is estimated to last a maximum of 5 days with a maximum use rate of 42,000 gallons per day. Drilling is projected to be completed within 45 days and the maximum water use during this period could be 10,000 gallons per day. Well completion operations and testing generally averages 10 days and a maximum use rate during this period is estimated to be 5,000 gallons per day.

Water Use Calculation Table

Activity	Volume (GPD)	Days	Total Volume (Gallons)
Start-up	42,000	5	210,000
Drilling	10,000	45	450,000
Completion	5,000	10	50,000
Camp Use	500	60	30,000
Grand Total		60	710,000

The well will also be used to provide potable water for the temporary camp and support facilities for personnel. The average maximum use rate for this purpose is approximately 500 gallons per day. Domestic wastewater will be held in a tank and removed by a qualified contractor for disposal. No discharges of wastewater will take place nor will there be any discharges of mud or fluids used for drilling operations.



KENAI PENINSULA BOROUGH

144 N. BINKLEY • SOLDOTNA, ALASKA • 99669-7599
BUSINESS (907) 262-4441 FAX (907)262-1892

DALE BAGLEY
MAYOR

MEMORANDUM

TO: Pete Sprague, Assembly President
Kenai Peninsula Borough Assembly Members

THRU: E.O. Dale Bagley, Mayor

THRU: P.O. Max Best, Planning Director
P.O. Paul Ostrander, Land Management Officer

FROM: R.E.D. Roy E. Dudley, Land Management Agent

DATE: October 14, 2004

SUBJECT: Ordinance 2004 - 37 An ordinance authorizing the negotiated lease at fair market value of Government Lots 5 and 8, Section 34, T1N, R13W, S.M. Alaska containing approximately 10 acres to Marathon Oil Company for a natural gas drilling/production pad

Marathon Oil Company ("MOC") has submitted an application to lease the subject 10-acre site in the event commercial quantities of natural gas are discovered. Production facilities will be installed, including but not limited to heater treaters, separators, dehydrators, meters, tanks, generators, safety and control systems lateral pipelines, and wellhead equipment. The lateral pipelines will be buried and the surface equipment will be housed in fit-for-purpose buildings. The cost of the production facilities will be between 2.5 - 4.5 million dollars depending on the size of the discovery and, ultimately, the number of wells drilled on the pad.

MOC, by virtue of its controlling interest in the oil and gas leasehold estate of subject Government Lots 5 and 8 is entitled to use as much of the surface as may be reasonably necessary to exploit the oil and gas, but is liable for damages to the owner of the surface estate, as provided in AS 38.05.130, for all damages sustained by the owner, by reason of entering the land.¹ The Kenai Peninsula Borough (KPB) has issued a Land Use Permit to MOC to enter upon the subject KPB land for the purpose of constructing an access road,

¹ Colette Thompson, Borough Attorney, memorandum titled *Shallow Coal Bed Methane Gas: Split estate issues*, dated 10/15/03.

drilling/production pad and drilling a gas well and water well. Please reference the attached aerial photo and site plan. If MOC does not discover a commercially viable natural gas reservoir, it will abandon the site and, at the KPB's option, the KPB will be left with a gravel pad and water well on its land.

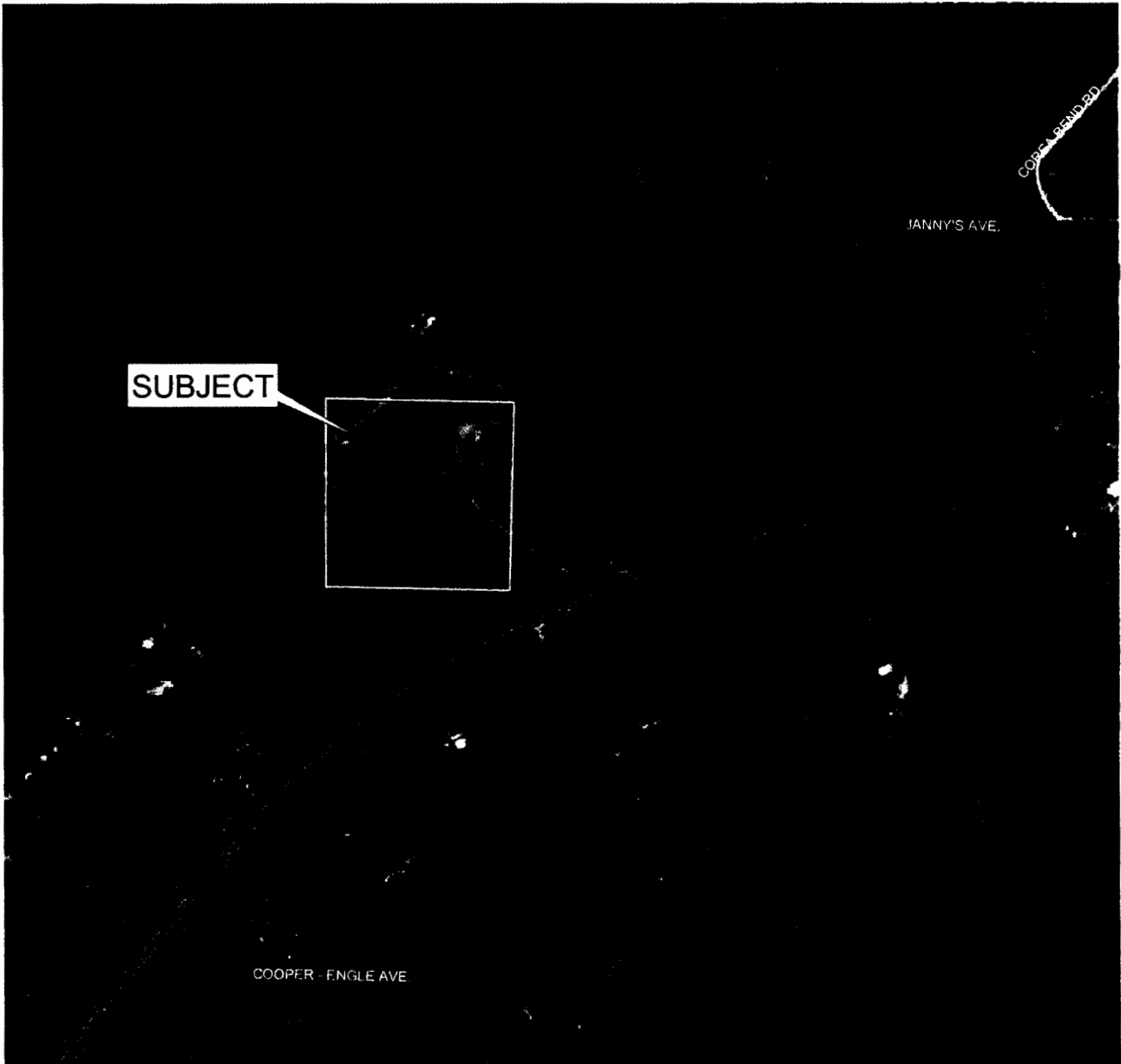
The site is suitable for a drilling/production pad based on good access from the Sterling Highway and no immediately adjacent residential development. MOC will realign the existing beach access road. The KPB has negotiated a fair market value rental rate with MOC.

Construction of the pad is intended to begin within the month. Construction of production facilities will begin as soon as practicable upon the discovery of commercial quantities of natural gas. The subject ordinance gives MOC until July 1, 2005 to sign the lease. This extended time period to execute the lease will allow MOC time to determine if it has a commercially viable gas well.

KPB 17.10.090 requires borough land to be classified prior to transfer. The subject 10-acre site is not classified pursuant to KPB 17.10.080 provisions. The ordinance requests exception to the classification of the 10 acres. This is a sole source lease to MOC due to its right to develop its mineral estate interest. Use of the land will be governed by the lease terms that include a development plan. Classification will not serve a useful purpose at this point in the decision making process.

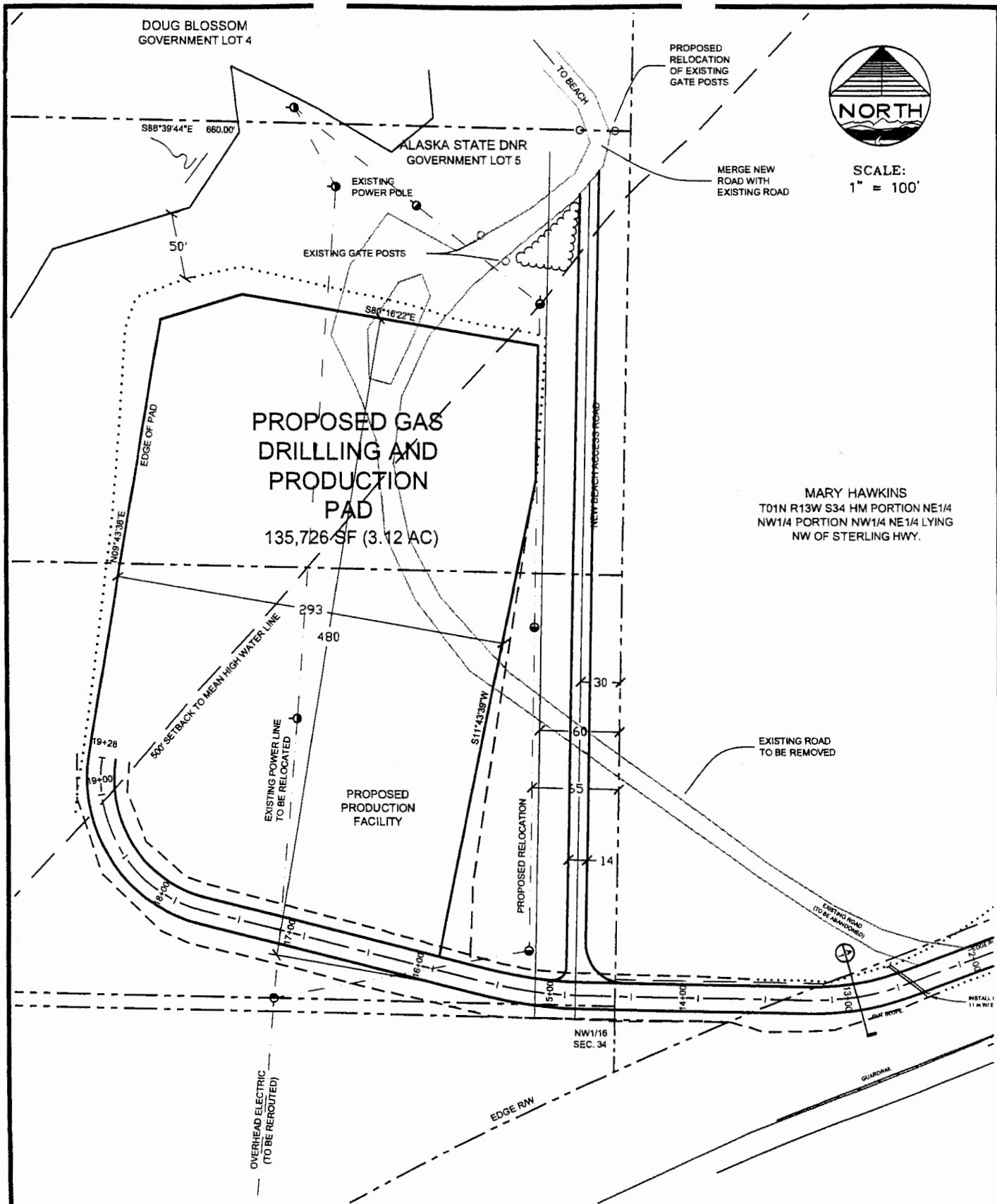
The KPB Planning Commission will consider this ordinance at its regularly scheduled meeting of November 22, 2004, and the action taken will be reported to the assembly.

Marathon Oil Company Lease Site Gov't Lots 5 & 8, Sec. 34, T1N, R13W, S.M., Alaska



0 475 950 1,900 Feet

The information depicted hereon is for a graphical representation only of best available sources. The Kenai Peninsula Borough assumes no responsibility for any errors on this map.



SCALE:
1" = 100'

MARY HAWKINS
T01N R13W S34 HM PORTION NE1/4
NW1/4 PORTION NW1/4 NE1/4 LYING
NW OF STERLING HWY.

P.O. BOX 468 SOLDOTNA, AK 99669



CONSULTING GROUP
TESTING

TEL 907.283.4218 FAX 907.283.3265

PROJECT

MARATHON OIL COMPANY
GAS EXP. & PROD. PAD

REVISION

LOCATION

STERLING HIGHWAY MP 126.4

PROJECT/DRWG.

023033RE

DRAWN BY

DATE

CHECKED BY

DATE

SHEET NO. OF

S.A.M.

10/20/03

1 1

**KENAI PENINSULA BOROUGH
REAL PROPERTY LEASE**

This LEASE (hereinafter "LEASE"), for good and valuable consideration, and pursuant to Ordinance _____, enacted _____, is made and entered into by and between the KENAI PENINSULA BOROUGH, an Alaska municipal corporation whose address is 144 North Binkley Street, Soldotna, Alaska 99669, (hereinafter called "KPB"), and MARATHON OIL COMPANY, INC., an Ohio corporation, whose address is P.O. Box 196168, Anchorage, Alaska 99519-6168 (hereinafter called "LESSEE").

I. PURPOSE OF LEASE

This lease grants LESSEE use of the real property described in Section II below for a drilling/production pad for natural gas well(s) as further described in Section III (3), Development Plan.

II. DESCRIPTION OF PROPERTY AFFECTED

The following parcel of real property situated in the Homer Recording District, Third Judicial District, State of Alaska, is described as:

Government Lots 5 and 8, Section 34, T1N, R13W, S.M., Alaska, containing 10 acres more or less.

**III. TERMS AND CONDITIONS SPECIFIC
TO LEASE BETWEEN KPB AND MARATHON OIL COMPANY**

1. Lease Term. This lease is for an initial term of 6 years commencing _____, 2005 and terminating _____, 2011. There shall also be five additional renewal option terms of five years each, which may be exercised at LESSEE'S option. LESSEE shall notify KPB in writing of LESSEE'S desire to exercise the next available renewal option term at least 180 days prior to current lease term expiration.
2. Lease Rental. The annual lease rental for the first six years of this lease is \$12,200.00, which is based on the appraised fair market value of this property. The annual lease rental for each of the five-year renewal option terms shall also be determined by a fair market value appraisal. KPB Assessing Department

shall appraise the property for the purpose of establishing the rental rate for each of the renewal option terms. Should the LESSEE dispute the value of KPB's fair market value appraisal, then both parties agree to equally share in the cost to perform a second fair market value appraisal of subject site by an independent fee appraiser that is acceptable to both parties. The value determined by this appraiser shall be binding on KPB and LESSEE. These appraisals will be performed on the subject site only, not to include any structures that are classified as "improvements." The first lease payment shall be due within 30 days of the execution of this lease agreement and each payment thereafter due on the anniversary date of this lease.

3. Development Plan. The LESSEE shall operate a natural gas well pursuant to the following development plan.

a. Development Plan - KPB 17.10.140 (B)(1).

Use

Drilling/Production pad for natural gas well(s).

See plat map, Attachment A.

Nature of Improvements

Initially, construction of the drilling/production pad and access road and the drilling of a water well. In the event commercial quantities of natural gas are discovered, production facilities will be installed, including but not limited to heater treaters, separators, dehydrators, meters, tanks, generators, safety and control systems, lateral pipelines and wellhead equipment. The lateral pipelines will be buried and the surface equipment will be housed in fit for purpose buildings. In the event natural gas is not discovered, LESSEE will begin discussions with the KPB on abandoning the location.

Estimate of Value of Improvements

The cost of the production facilities will be between \$2.5 million and \$4.5 million depending on the size of the discovery and, ultimately, the number of wells drilled on the pad.

Development and Construction Time Table

Construction of the pad is intended to begin November 2004.

Construction of production facilities will begin as soon as practicable upon the discovery of commercial quantities of natural gas.

- b. Commencement of Activities. The Development Plan shall be implemented according to its schedule; however, a natural gas well shall not be operated on the Property until:
 - 1. Issuance of all required state and federal permits.
 - 2. Insurance as outlined in V(5)(b) is established.
 - c. Survey. LESSEE, at its sole cost, shall survey and have a subdivision plat recorded of the Property. The KPB shall issue survey instructions for the Property. The subdivision plat will provide dedicated public access as shown on the plat map, Attachment A.
4. Site Closure. Notwithstanding KPB 17.10.240, prior to termination of lease the KPB reserves the right, at KPB's sole option, to require LESSEE to restore site to a natural condition, free of contamination, to leave the site in a condition suitable for use by another, or any combination thereof.
- A. Restoration to a Natural Condition. Any or all of the following may be required by the KPB.
 - 1. Removal of Improvements. LESSEE shall remove all improvements including surface structures, pad, and access road.
 - 2. Gas Well. LESSEE shall permanently close gas well.
 - 4. Testing. At LESSEE'S sole expense, site shall be sampled and analyzed in accordance with Alaska Department of Environmental Conservation (ADEC) regulations at the time of closure of the well.
 - 5. Remediation. At LESSEE'S sole expense, cleanup and remediation of environmental contamination shall be accomplished to ADEC standards prior to termination of lease.
 - 6. Reclamation. Site shall be reclaimed by adding organic material to bring site to the same topographic level as adjacent land and then planted with local plant species.
 - 7. Post-closure Inspection. KPB and LESSEE will jointly inspect site to confirm site is left in a condition acceptable to KPB.
 - B. Restoration to a Condition Suitable for Use by Another:
 - 1. Pre-closure Inspection. KPB and LESSEE will jointly inspect site for the purpose of KPB determining the condition that site will be left in prior to termination of lease. KPB and LESSEE shall agree in writing

the condition that site will be left in prior to termination of lease. KPB, at its sole discretion, may require LESSEE to take any or all of the actions listed in paragraphs 2 through 6 of this section.

2. Removal of Improvements. LESSEE shall remove such improvements as directed by the KPB, which may include surface structures, pad, and access road.
3. Gas Well. LESSEE shall permanently close gas well.
4. Testing. At LESSEE'S sole expense, site shall be tested for environmental contamination at the time of closure of the well.
5. Remediation. At LESSEE'S sole expense, cleanup and remediation of environmental contamination shall be accomplished to Alaska Department of Environmental Conservation standards prior to termination of lease.
6. Post-closure Inspection. KPB and LESSEE will jointly inspect site to confirm site is left in a condition acceptable to KPB.

IV. TERMS AND CONDITIONS CONTAINED IN KPB CODE SECTION 17.10.240

1. Assignments. LESSEE may assign this Lease only if approved in advance by KPB. Applications for assignment shall be made in writing on a form provided by the Land Management Division. The assignment shall be approved if it is found that all interests of KPB are fully protected. The assignee shall be subject to and governed by the provisions of this agreement and laws and regulations applicable thereto.
2. Termination. Upon termination of this Lease, LESSEE covenants and agrees to return the property to KPB in a neat, clean and sanitary condition, and to immediately remove all items of personal property subject to the terms and conditions of III.4. Site Closure. All terms and conditions set out herein are considered to be material and applicable to the use of the property under this Lease. Subject to the following, in the event of LESSEE's default in the performance or observance of any of the LEASE terms, conditions, covenants and stipulations thereto, and such default continues thirty (30) calendar days after written notice of the default, KPB may cancel this lease, or take any legal action for damages or recovery of the property. No improvements may be removed during the time in which the LEASE is in default.

In the event LESSEE breaches any provisions prohibiting the release of hazardous chemicals, hazardous materials or hazardous waste upon the property, and fails to immediately terminate the operation causing such release upon notice from KPB, then KPB may immediately terminate this lease without further notice to LESSEE.

3. Cancellation. At any time that this Lease is in good standing it may be canceled in whole or in part upon mutual written agreement by the LESSEE and either the KPB Mayor or Planning Director. This Lease is subject to cancellation in whole or in part if improperly issued through error in procedure or with respect to material facts.
4. Entry or Re-Entry. In the event that the Lease is terminated, canceled or forfeited, or in the event that the demised lands, or any part thereof, should be abandoned by the LESSEE during the agreement term, KPB or its agents, servants or representative, may immediately or any time thereafter, enter or re-enter and resume possession of said lands or such part thereof, and remove all persons and property therefrom either without judicial action where appropriate, by summary proceedings or by a suitable action or proceeding at law or equity without being liable for any damages therefore. Entry or re-entry by KPB shall not be deemed an acceptance of surrender of the contract.
5. Fire Protection. LESSEE shall take all reasonable precautions to prevent, and take all reasonable actions to suppress destructive and uncontrolled grass, brush, and forest fires on the land under agreement, and comply with all laws, regulations and rules promulgated and enforced by the protection agency responsible for forest protection within the area wherein the demised premises are located.
6. Hazardous Materials and Hazardous Waste. Storage, handling and disposal of hazardous waste shall not be allowed on lands under lease from KPB per KPB 17.10.240(H).

LESSEE shall comply with all applicable laws and regulations concerning hazardous chemicals and other hazardous materials, and shall properly store, transfer and use all hazardous chemicals and other hazardous materials and not create any environmental hazards on the lands leased herein. In no event may LESSEE utilize underground storage tanks for the storage or use of hazardous chemicals or other hazardous materials.

Should any hazardous chemicals or hazardous materials of any kind or nature whatsoever, or hazardous wastes be released upon the subject lands during the term of this lease, LESSEE shall IMMEDIATELY report such release to the KPB Planning Director and to any other agency as may be required by law, and LESSEE shall, at its own cost, assess, contain and clean up such spilled materials in the most expedient manner allowable by law.

As used herein, "hazardous chemical" means a chemical that is a physical hazard or a health hazard.

As used herein, "hazardous material" means a material or substance, as defined in 49 C.F.R. 171.8, and any other substance determined by the federal government, the state of Alaska or KPB, to pose a significant health and safety hazard.

As used herein, "hazardous waste" means a hazardous waste as identified by the Environmental Protection Agency under 40 C.F.R. 261.3, and any other hazardous waste as defined by the federal government, the state of Alaska or KPB.

The covenants and obligations described in this article shall survive the termination of this lease.

7. Full and Final Agreement. This LEASE constitutes the full and final agreement of the parties hereto and supersedes any prior or contemporaneous agreements. This LEASE may not be modified orally, or in any manner other than by an agreement in writing and signed by both parties or their respective successors in interest. LESSEE avers and warrants that no representations not contained within this agreement have been made with the intention of inducing execution of this agreement.
8. Notice. Any notice or demand, which under the terms of this Lease must be given or made by the parties hereto, shall be in writing, and be given or made by registered or certified mail, addressed to the other party at the address shown in this section. However, either party may designate in writing such other address to which such notice of demand shall thereafter be so given, made or mailed. A notice given hereunder shall be deemed received when deposited in a U.S. general or branch post office by the addressor.

All notices shall be sent to both parties as follows:

LESSOR
KENAI PENINSULA BOROUGH
Planning Director
144 N. Binkley St.
Soldotna, AK 99669-7599

LESSEE
MARATHON OIL COMPANY
J. Brock Riddle, Land Manager
P.O. Box 196168
Anchorage, Alaska 99519-6168

9. Notice of Default. Notice of the default, where required, will be in writing and as provided in the Notice provision of this agreement.
10. Resale. In the event that this Lease should be terminated, canceled, forfeited or abandoned, KPB may offer said lands for sale, lease or other appropriate disposal pursuant to the provisions of KPB Code, Chapter 17.10 or other applicable regulations. If said land is not immediately disposed of, then said land shall return to the Land Bank.
11. Responsibility of Location. It shall be the responsibility of the LESSEE to properly locate itself and its improvements on the leased lands.
12. Liens and Mortgages. LESSEE shall not cause or allow any liens of any kind or nature whatsoever to attach to the property during the term of this lease, except in

connection with financing transactions as discussed below. In the event that any prohibited lien is placed against the property, LESSEE shall immediately cause the lien to be released. LESSEE shall immediately refund to KPB any monies that KPB may, at its sole discretion, pay in order to discharge any such lien, including all related costs and a reasonable sum for attorneys fees.

For the purpose of interim or permanent financing of improvements to be placed upon the leased property, and for no other purpose, LESSEE, after giving written notice thereof to KPB, may encumber by mortgage, deed of trust, assignment or other appropriate instrument, LESSEE's interest in the leased premises and in and to this Lease, provided such encumbrance pertains only to such leasehold interest and does not pertain to or create any interest in KPB's title to or interest in the leased property. Any such encumbrance shall be entirely subordinate to KPB's rights and interest in the leased property.

A leasehold mortgagee, beneficiary of a deed of trust or security assignee shall have and be subrogated to any and all rights of the LESSEE with respect to the curing of any default hereunder by LESSEE.

In the event of cancellation or forfeiture of this Lease for cause, the holder of a properly recorded mortgage, deed of trust, or assignment will have the option to acquire the Lease for the unexpired term thereof, subject to the same terms and conditions as in the original instrument.

13. Easements and Rights-of-Way. This Lease is subject to all easements, rights-of-way, covenants and restrictions of which LESSEE has actual or constructive notice. KPB reserves and retains the right to grant additional easements for utility and public access purposes across the property and nothing herein contained shall prevent KPB from specifically reserving or granting such additional easements and rights-of-way across the property as may be deemed reasonable and necessary. All trails or roads existing at the time this Lease is executed shall be considered an easement for public use.

As the parties agree that this is a reserved right which is reflected in the annual lease rental, in the event that KPB grants future additional easements or rights-of-way across the property, it is agreed and understood that LESSEE shall receive no damages for such grant.

As established by AS 38.05, KPB lands sold or leased may be subject to a minimum fifty-foot public access easement landward from the ordinary high water mark or mean high water mark.

14. Sanitation. LESSEE shall comply with all laws, regulations or ordinances promulgated for the promotion of sanitation. The subject property shall be kept in a clean and sanitary condition and every effort shall be made to prevent pollution of the waters and lands.

15. Subleasing. No LESSEE may sublease lands or any part thereof without written permission of the mayor when applicable. A sublease shall be in writing and subject to the terms and conditions of the original lease.
16. Violation. Violation of any of the terms of this lease may expose LESSEE to appropriate legal action including forfeiture of lease/purchase interest, termination, or cancellation of its interest in accordance with state law.
17. Non-Waiver Provision. The receipt of payment by KPB, regardless of KPB's knowledge of any breach by LESSEE, or of any default on the part of the LESSEE in observance or performance of any of the conditions or covenants of this LEASE, shall not be deemed to be a waiver of any provision of the LEASE. Failure of KPB to enforce any covenant or provision herein contained shall not discharge or invalidate such covenant or provision or affect the right of KPB to enforce the same in the event of any subsequent breach or default. The receipt by KPB of any payment of any other sum of money after notice of termination or after the termination of the agreement for any reason, shall not reinstate, continue or extend the agreement, nor shall it destroy or in any manner impair the efficacy of any such notice of termination unless the sole reason for the notice was nonpayment of money due and the payment fully satisfies the breach.

V. GENERAL TERMS AND CONDITIONS

1. Waste. LESSEE shall not commit waste or injury upon the lands leased herein.
2. Safety. LESSEE shall be solely responsible for maintaining the premises in a safe and fit condition, including without limitation snow and ice removal from all improvements and areas on the land developed or used for pedestrian traffic.
3. Compliance With Laws. The LESSEE agrees to comply with all applicable federal, state, borough and local laws and regulations.
4. Inspections. LESSEE shall allow KPB, through its duly authorized representative, to enter and inspect the leased premises at any reasonable time, with or without advance notice to LESSEE, to ensure compliance with the terms and conditions of this lease. KPB's right to enter and inspect shall be exercised at KPB's sole discretion and the reservation or exercise of this right, and any related action or inaction by KPB, shall not in any way impose any obligation whatsoever upon KPB, and shall not be construed as a waiver of any rights of KPB under this agreement.
5. Indemnification and Liability Insurance.
 - a. Indemnification and Hold Harmless. The LESSEE shall indemnify, defend, save and hold the borough, its elected and appointed officers, agents and

employees, harmless from any and all claims, demands, suits, or liability of any nature, kind or character including costs, expenses, and attorneys fees resulting from LESSEE'S performance or failure to perform in accord with the terms of this lease in any way whatsoever. The LESSEE shall be responsible under this clause for any and all claims of any character resulting from LESSEE or LESSEE'S officers, agents, employees, partners, attorneys, suppliers, and subcontractors performance or failure to perform this agreement in any way whatsoever. This defense and indemnification responsibility includes claims alleging acts or omissions by the borough or its agents, which are said to have contributed to the losses, failure, violations, or damage. However, LESSEE shall not be responsible for any damages or claims arising from the sole negligence or willful misconduct of the borough, its agents, or employees.

- b. Liability Insurance. LESSEE shall purchase at its own expense and maintain in force at all times during the term of this Lease Comprehensive General Liability Insurance, which shall include bodily injury, personal injury, and property damage with respect to the property and the activities conducted by the LESSEE in which the coverage shall not be less than \$1,000,000 per occurrence. The policy purchased shall name LESSEE as the insured and KPB as an additional insured, and shall also require the insurer to provide KPB with thirty (30) days or more advance written notice of any pending cancellation or change in coverage.
 - c. Proof of Insurance. At the time of executing this LEASE, and at the time of each renewal of insurance, LESSEE shall deliver to the KPB Planning Director certificates of insurance meeting the above criteria.
6. Property Taxes. LESSEE shall timely pay all real property taxes, assessments and other debts or obligations owed to KPB. Pursuant to KPB 17.10.120(F) this agreement will terminate automatically should LESSEE become delinquent in the payment of any such obligations.
 7. Jurisdiction. Any suits filed in connection with the terms and conditions of this Lease, and of the rights and duties of the parties, shall be filed at Kenai, Alaska and shall be governed by Alaska law.
 8. Savings Clause. Should any provision of this Lease fail or be declared null or void in any respect, or otherwise unenforceable, it shall not affect the validity of any other provision of this Lease or constitute any cause of action in favor of either party as against the other.
 9. Binding Effect. It is agreed that all covenants, terms and conditions of this LEASE shall be binding upon the successors, heirs and assigns of the original parties hereto.

- 10. No Third-Party Beneficiary. This agreement is intended solely for the benefit of each party hereto. Nothing contained herein shall be construed or deemed to confer any benefit or right upon any third party.
- 11. Authorization to Sign. LESSEE warrants that the person executing this agreement is authorized to do so on behalf of MARATHON OIL COMPANY.

MARATHON OIL COMPANY

KENAI PENINSULA BOROUGH

 J. Brock Riddle
 Land Manager

 Dale L. Bagley
 Mayor

Dated: _____

Dated: _____

ATTEST:

APPROVED AS TO FORM
 AND LEGAL SUFFICIENCY:

 Linda S. Murphy
 Borough Clerk

 Holly B. Montague
 Assistant Borough Attorney

NOTARY ACKNOWLEDGMENT

STATE OF ALASKA)
)ss.
 THIRD JUDICIAL DISTRICT)

The foregoing instrument was acknowledged before me this ____ day of _____, 2004, by Dale L. Bagley, Mayor of the Kenai Peninsula Borough, an Alaska municipal corporation, for and on behalf of the corporation.

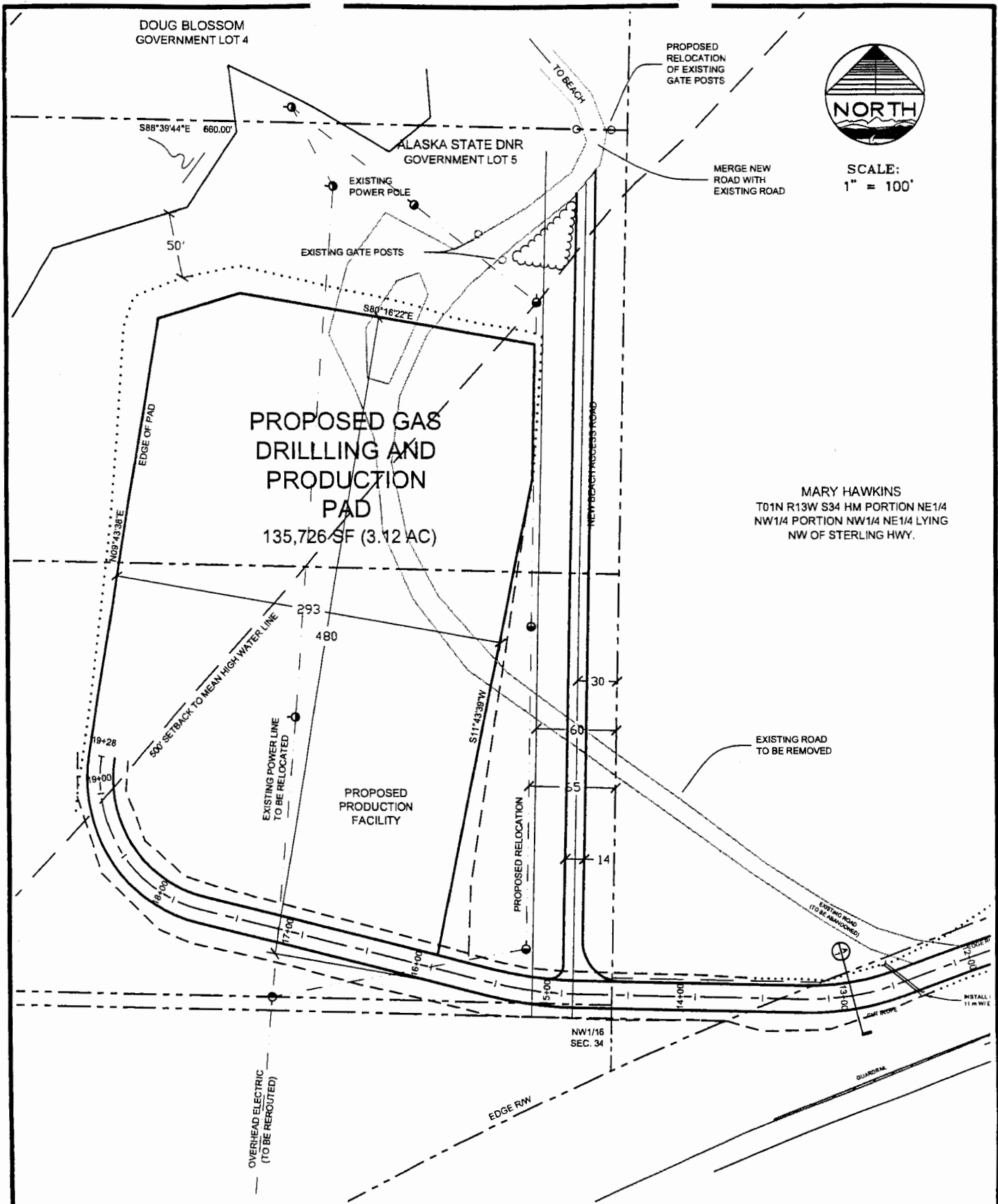
 Notary Public in and for Alaska
 My commission expires: _____

NOTARY ACKNOWLEDGMENT

STATE OF ALASKA)
)ss.
THIRD JUDICIAL DISTRICT)

The foregoing instrument was acknowledged before me this _____ day of _____, by J. Brock Riddle, Land Manager and attorney-in-fact for Marathon Oil Company, an Ohio corporation, for and on behalf of the corporation.

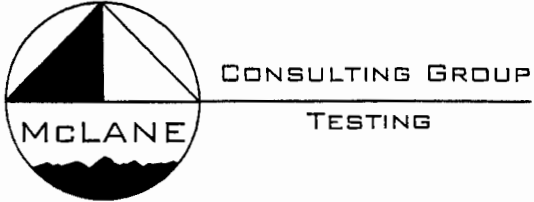
Notary Public in and for Alaska
My commission expires: _____



SCALE:
1" = 100'

MARY HAWKINS
T01N R13W S34 HM PORTION NE1/4
NW1/4 PORTION NW1/4 NE1/4 LYING
NW OF STERLING HWY.

Plat Map, Attachment A

P.O. Box 468 SOLDOTNA, AK 99669		PROJECT		REVISION	
		MARATHON OIL COMPANY			
		GAS EXP. & PROD. PAD			
		LOCATION		PROJECT/DRWG.	
		STERLING HIGHWAY MP 126.4		023033RE	
DRAWN BY	DATE	CHECKED BY	DATE	SHEET NO.	OF
S.A.M.	10/20/03			1	1

TEL 907.283.4218 FAX 907.283.3265



KENAI PENINSULA BOROUGH

144 N. BINKLEY • SOLDOTNA, ALASKA • 99669-7599
BUSINESS (907) 262-4441 FAX (907) 262-1892

DALE BAGLEY
MAYOR

MEMORANDUM

DATE: September 28, 2004
TO: Roy E. Dudley, Land Management Agent
THRU: *Sh* Shane Horan, Director of Assessing
FROM: *PK* Paul Knight, Lead Appraiser
SUBJECT: **Determination of Market Value for 10 Acre Portion of
Parcel 139-100-38 - Government Lots 5 & 8
Proposed Marathon Oil Company Production Pad**

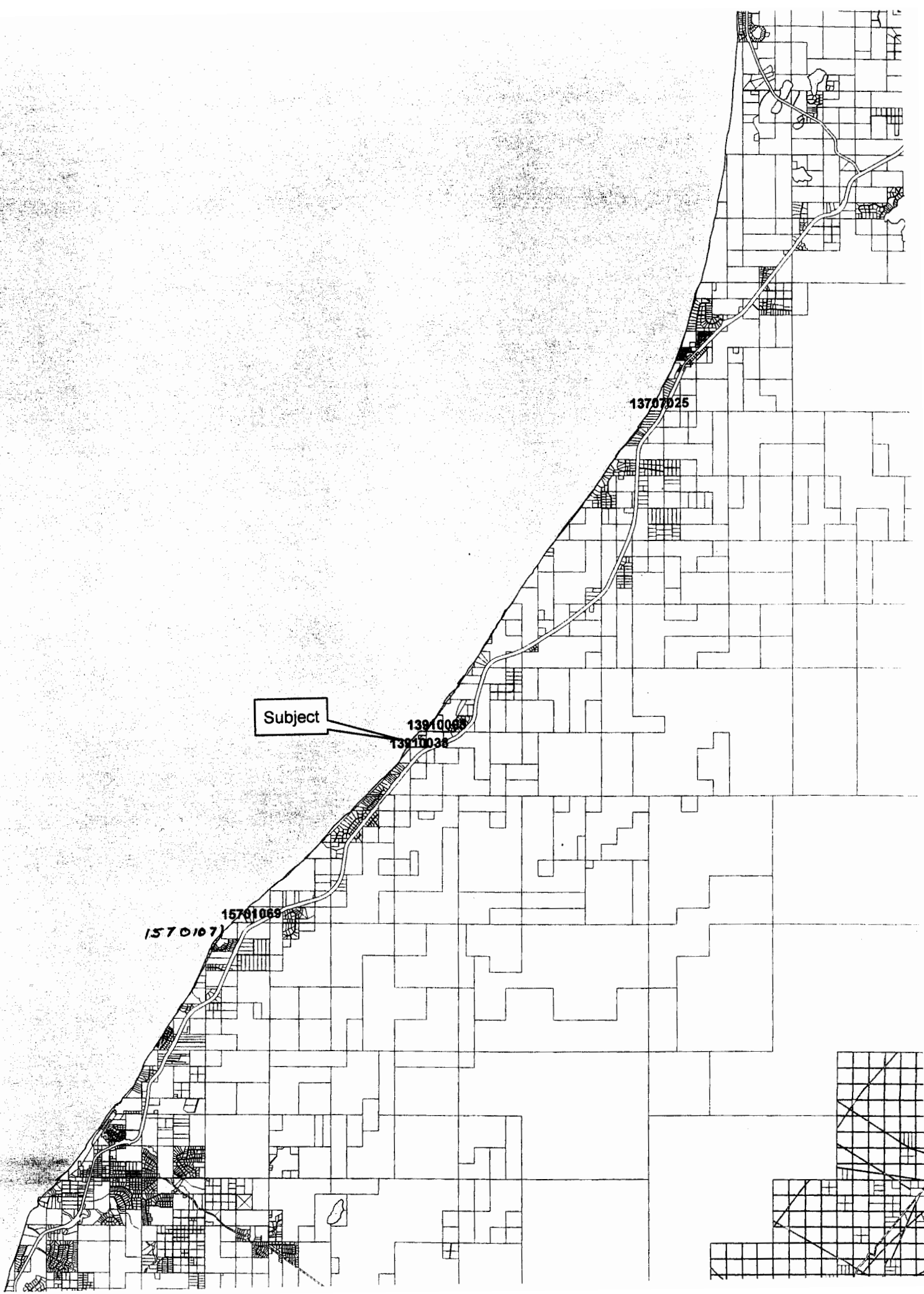
In accordance with your request dated September 1, 2004, a review of sales was conducted in the vicinity of the subject parcel to determine its fair market value. This review found four sales of comparable property.

Upon investigation and analysis of the above referenced property, it is estimated that the fair market value of the subject property as of September 1, 2004 is as follows:

10.0 Acres x \$12,200 per Acre =

\$122,000

(One Hundred Twenty Two Thousand Dollars)



Subject

13707025

1391002
1391003

1570105

1570107

SAMPLE SIZE CHART AT 70% / 30% RATIO

SALE #2

Ratio 70% / 30%

Acres	\$ Per Acre	Value
1.00	\$34,312	\$34,300
2.00	\$24,019	\$48,000
4.00	\$16,813	\$67,252
8.00	\$11,769	\$94,153
9.00	\$11,328	\$102,000
10.00	\$10,888	\$108,900
11.00	\$10,445	\$114,900
12.00	\$10,000	\$120,000
24.00	\$7,000	\$168,000

Sale # 2 (acreage rounded)

				Price		Size Adjusted	Price per Acre
			Sale Price	Per Acre	D.O.T.	TO 10 Acres	for 10 Acres
Sale # 1	15701071	11.22	\$143,300	\$12,800	\$129,000	\$135,800	\$13,600
Sale # 2	15701069	11.70	\$120,000	\$10,300		\$108,900*	\$10,900
Sale # 3	13910003	25.80	\$217,800	\$8,400	\$196,000	\$136,200*	\$13,600
Sale # 4	13707025	28.00	\$100,000	\$3,500		\$60,900	\$6,100

*Median \$122,300.00 divided by 10 Acres = \$12,230

Notes:

No physical inspection was made of the subject property.
 Subject parcel is 29.63 acres. Estimated value is based on 10 acres.
 Sale prices on sales 1 and 3 are estimated assuming 10% down based on recorded Deeds of Trust (D.O.T.).
 Acreage on size chart is rounded to the nearest whole after 8 acres.



P.O. Box 196168
Anchorage, AK 99519-6168
Telephone 907/561-5311
Fax 907/564-6489

July 21, 2004

Mr. Paul Ostrander
Kenai Peninsula Borough
144 N. Binkley
Soldotna, AK 99669-7599

RE: Application for Negotiated Lease
Assessors Parcel Number 139038
Kenai Peninsula Borough, Alaska

Dear Paul:

Enclosed please find the referenced application which has been fully executed on behalf of Marathon Oil Company.

Please call me at 564-6428 if you need anything further.

Best regards,

A handwritten signature in black ink, appearing to read 'J. Brock Riddle', written over a horizontal line.

J. Brock Riddle
Land Manager

**KENAI PENINSULA BOROUGH
RESOURCE PLANNING DEPARTMENT
LAND MANAGEMENT DIVISION**

144 North Binkley Street
Soldotna, Alaska 99669

**APPLICATION TO REQUEST THE NEGOTIATED PURCHASE, LEASE, OR
EXCHANGE OF BOROUGH OWNED LAND**

A \$200 FEE MUST BE SUBMITTED WITH THIS APPLICATION. THE \$200 IS NOT APPLIED TO THE PURCHASE PRICE AND IS REFUNDED ONLY IF THE APPLICATION IS NOT FOUND TO BE IN THE PUBLIC'S BEST INTEREST. IF APPROVED BY THE BOROUGH ASSEMBLY, A \$1,000 EARNEST MONEY PAYMENT MUST BE SUBMITTED WITHIN SEVEN DAYS OF AFFIRMATIVE ASSEMBLY ACTION.

THIS FORM IS TO BE COMPLETED BY INDIVIDUAL(S) OR ORGANIZATION'S WISHING TO PURCHASE, LEASE OR EXCHANGE BOROUGH LAND PURSUANT TO KP.B 17.10.100(C) or (I). IT IS TO BE COMPLETED, IN FULL, TO THE BEST OF KNOWLEDGE OF THE INDIVIDUAL OR AUTHORIZED REPRESENTATIVE. IF REQUESTED, PROPRIETARY AND FINANCIAL INFORMATION OF APPLICANTS THAT IS SO MARKED, WILL BE KEPT CONFIDENTIAL. THE ASSEMBLY MUST APPROVE, BY ORDINANCE, ANY DISPOSITION OF BOROUGH LAND.

ATTACH SEPARATE SHEETS IF MORE SPACE IS NEEDED FOR EXPLANATION. IF A SECTION (or, portion thereof) IS NOT APPLICABLE, MARK WITH THE ABBREVIATION "N/A". ASK KP.B LAND MANAGEMENT STAFF IF YOU HAVE ANY QUESTIONS ABOUT THE INFORMATION REQUESTED. PLEASE TYPE OR PRINT.

1. NAME OF INDIVIDUAL COMPLETING APPLICATION FORM:

Name J. Brock Riddle Phone # (907) 564-6428

Mailing Address P.O. Box 196168, Anchorage, Alaska, 99519-6168

Physical Address 3201 C. Street, Suite 800, Anchorage, Alaska 99503-3934

2. OTHER INDIVIDUAL(S) OR ORGANIZATION(S) PARTY TO THIS APPLICATION:

a) Name _____ Phone # () _____

Mailing Address _____

Physical Address _____

Relationship to applicant(s) _____

b) Organization name Marathon Oil Company

Mailing Address P.O. Box 196168, Anchorage, Alaska, 99519-6168

Physical Address 3201 C. Street, Suite 800, Anchorage, Alaska 99503-3934

Primary Contact: J. Brock Riddle Title: Attorney-In-Fact

Phone # (907) 564-6428

3. TYPE OF ORGANIZATION: (CHECK ONE)

Individual	<input type="checkbox"/>	Sole Proprietorship	<input type="checkbox"/>
General Partnership	<input type="checkbox"/>	Non-Profit Corporation	<input type="checkbox"/>
Limited Partnership	<input type="checkbox"/>	Non-Profit Association	<input type="checkbox"/>
Other _____		Corporation	<input checked="" type="checkbox"/>

Note: Please submit, as appropriate, the following items with this application: 1) current Alaska business license; 2) designation of signatory authority to act for organization or individuals. If non-profit, has IRS Tax Exempt Status been obtained? Yes No If yes, attach letter of determination. If no, please attach certificate, articles of incorporation, by-laws, or other appropriate documentation.

4. LEGAL DESCRIPTION:

Township IN, Range 13W, Section 34, Seward Meridian

Lot/Block/Subdivision Gov't Lots 548

Plat Number _____ Recording District Kenai

Assessors Parcel Number(s) 1390038 ^{Ptn. 139-100-38} Size/Acreage +/- 5 acres ^{10 Acres}

Other description See attached plats

5. THIS APPLICATION IS BEING MADE FOR THE FOLLOWING: (CHECK ONE)

Purchase Lease Exchange

Other (specify): _____

6. PROPOSAL:

a) Purchase Price: Fair Market Value

b) Down Payment Amount (Minimum 10% of Purchase Price): _____

c) Payment Terms (Maximum 10 years; except for agricultural land where maximum is 20 years) :

d) Interest Rate (Minimum: prime plus 2%): _____

OTHER TERMS AND CONDITIONS: _____

Appraisal for Annual Rental. Re-appraise every 5 years for redetermination of Annual Rental.

ARE THERE ANY CONTINGENCIES TO THIS TRANSACTION: YES NO IF YES, LIST:
Discovery of Natural Gas in commerical quantities from surface pad on property.

7. PLEASE DESCRIBE ALL SPECIAL CIRCUMSTANCES AND ANY OTHER REASONS YOU BELIEVE THE BOROUGH SHOULD SELL THIS LAND TO YOU ON YOUR PROPOSED TERMS. BE SPECIFIC.

N/A

8. IF PROPOSAL IS OTHER THAN FAIR MARKET VALUE, PLEASE STATE WHY IT WOULD BE IN THE "BEST PUBLIC INTEREST" TO APPROVE THIS PROPOSAL. INCLUDE ALL SUPPORTING FACTS AND DOCUMENTS.

N/A

9. LAND STATUS: DESCRIBE ANY EXISTING IMPROVEMENTS; PROVIDE PHOTOGRAPHS IF AVAILABLE.

10. ATTACH SITE PLAN DEPICTING THE PROPOSED USE OF THE PROPERTY.

11. LIST THREE (3) CREDIT REFERENCES. IN ADDITION, AN ACTUAL CREDIT REPORT FROM A LOCAL PROVIDER IS REQUESTED IF BALANCE TO BE FINANCED BY THE BOROUGH EXCEEDS \$50,000.

NAME	ADDRESS	PHONE #
N/A		()
		()
		()

12. HAS APPLICANT OR AFFILIATED ENTITY PREVIOUSLY PURCHASED OR LEASED BOROUGH OWNED LAND OR RESOURCES ? YES NO IF YES, PROVIDE LEGAL DESCRIPTION; TYPE OF PURCHASE OR LEASE; AND CURRENT STATUS:

13. HAS APPLICANT, OR AFFILIATED ENTITY, EVER FILED A PETITION FOR BANKRUPTCY, BEEN ADJUDGED BANKRUPT OR MADE AN ASSIGNMENT FOR THE BENEFIT OF CREDITORS ? YES NO IF YES , EXPLAIN, INCLUDING DATES:

14. IS APPLICANT, OR AFFILIATED ENTITY, NOW IN DEFAULT ON ANY OBLIGATION TO, OR SUBJECT TO ANY UNSATISFIED JUDGEMENT OR LIEN ? YES NO IF YES EXPLAIN:

15. COMPLETE THE FOLLOWING APPLICANT QUALIFICATION STATEMENT FOR EACH INDIVIDUAL APPLICANT OR ORGANIZATION. ATTACH ADDITIONAL STATEMENTS AS NECESSARY.

APPLICANT/BIDDER QUALIFICATION STATEMENT

I J. Brock Riddle
(printed name)

of P.O. Box 196168
(address)

Anchorage, Alaska
(city, state)

do hereby swear and affirm

I am eighteen years of age or older; and

I am a citizen of the United States; a permanent resident; or a representative of a group, association or corporation which is authorized to conduct business under the laws of Alaska; and

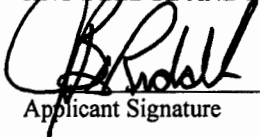
I am not delinquent on any deposit or payment of any obligation to the Borough; and

I am not in breach or default on any contract or lease involving land in which the Borough has an interest; and

I have not failed to perform under a contract or lease involving Borough land in the previous five years and the Borough has not acted to terminate the contract or lease or to initiate legal action.

Unless agreed otherwise in writing and signed by the Borough Mayor, I agree to pay recording fees, closing fees, escrow setup fees, annual escrow fees, collection fees, surveying fees, and acquisition of title insurance. If my proposal is to lease the land, I agree to provide a performance bond, general liability insurance, provide a damage deposit, and pay for remote site inspection, if applicable.

I HEREBY CERTIFY THAT THE INFORMATION CONTAINED HEREIN IS TRUE TO THE BEST OF MY KNOWLEDGE AND BELIEF.

 7/21/04
Applicant Signature /Date

Applicant Signature /Date

J. BROCK RIDOLE
Print name

Print name

i:\roy\applicat.frm - rev 11/96



KENAI PENINSULA BOROUGH

144 N. BINKLEY • SOLDOTNA, ALASKA • 99669-7599
BUSINESS (907) 262-4441 FAX (907)262-1892

DALE BAGLEY
MAYOR

MEMORANDUM

TO: Gary Superman, Assembly President
Kenai Peninsula Borough Assembly Members

THRU: *DLB* Dale L. Bagley, Borough Mayor

FROM: *MB* Max J. Best, Planning Director

DATE: November 23, 2004

SUBJECT: Ordinance 2004-37

The Planning Commission reviewed the subject ordinance during their regularly scheduled November 22, 2004 meeting. A motion to recommend enactment of the ordinance passed by unanimous consent.

Draft, unapproved minutes of the subject portion of the meeting are attached.

VOTE: The motion passed by unanimous consent.

BRYSON YES	CLARK ABSENT	FOSTER YES	GROSS ABSENT	HOHL YES	HUTCHINSON YES	ISHAM YES
JOHNSON YES	MARTIN YES	MASSION YES	PETERSEN ABSENT	TAURIAINEN YES	TROEGER YES	11 YES 2 ABSENT

AGENDA ITEM F. PUBLIC HEARINGS

4. Ordinance 2004-37, An ordinance authorizing the negotiated lease at fair market value of Government Lots 5 and 8, Section 34, T1N, R13W, S.M. Alaska containing approximately 10 acres to Marathon Oil Company for a natural gas drilling/production pad

Memorandum as read by Paul Ostrander

PC Meeting: 11/22/04

MOC has submitted an application to lease the subject 10-acre site in the event commercial quantities of natural gas are discovered. Production facilities will be installed, including but not limited to heater treaters, separators, dehydrators, meters, tanks, generators, safety and control systems lateral pipelines, and wellhead equipment. The lateral pipelines will be buried and the surface equipment will be housed in fit-for-purpose buildings. The cost of the production facilities will be between 2.5 - 4.5 million dollars depending on the size of the discovery and, ultimately, the number of wells drilled on the pad.

Marathon Oil Company (MOC), by virtue of its controlling interest in the oil and gas leasehold estate of subject Government Lots 5 and 8 is entitled to use as much of the surface as may be reasonably necessary to exploit the oil and gas, but is liable for damages to the owner of the surface estate, as provided in AS 38.05.130, for all damages sustained by the owner, by reason of entering the land. The Kenai Peninsula Borough (KPB) has issued a Land Use Permit to MOC to enter upon the subject KPB land for the purpose of constructing an access road, drilling/production pad and drilling a gas well and water well. Please reference the attached aerial photo and site plan. If MOC does not discover a commercially viable natural gas reservoir, at the KPB's option, it will abandon the site and the KPB will be left with a gravel pad and water well on its land.

The site is suitable for a drilling/production pad based on good access from the Sterling Highway and no immediately adjacent residential development. MOC will realign the existing beach access road. The KPB has negotiated a fair market value rental rate with MOC.

Construction of the pad is intended to begin within the month. Construction of production facilities will begin as soon as practicable upon the discovery of commercial quantities of natural gas. The subject ordinance gives MOC until July 1, 2005 to sign the lease. This extended time period to execute the lease will allow MOC time to determine if it has a commercially viable gas well.

KPB 17.10.090 requires borough land to be classified prior to transfer. The subject 10-acre site is not classified pursuant to KPB 17.10.080 provisions. The subject ordinance requests exception to the classification of the 10 acres. This is a sole source lease to MOC due to its right to develop its mineral estate interest. Use of the land will be governed by the lease terms that include a development plan. Classification will not serve a useful purpose at this point in the decision making process.

The KPB Planning Commission will consider this ordinance at its regularly scheduled meeting of November 22, 2004, and the action taken will be reported to the assembly.

END OF MEMORANDUM

Chairman Bryson opened the meeting for public comment. Seeing and hearing no one wishing to speak, Chairman Bryson closed the public comment and opened the discussion among the Commission.

MOTION: Commissioner Tauriainen moved, seconded by Commissioner Troeger to recommend to the Assembly adoption of KPB Ordinance 2004-37.

Commissioner Foster referred to the statement that states there are no adjacent residential properties yet there are subdivided lots to the south. He asked how far away are these lots and would this production cause adverse affects to property values? Mr. Ostrander commented he is not sure what the distance is to the south to those residential properties. He stated that once they enter production, the facility would be similar to many other facilities in the area. Mr. Ostrander gave the example on K-Beach Road where the Kenai Gas field area is located. The most invasive part of production will be the drilling, which will occur in the next month or two. Once the facility is in place it should not detract from property values.

Commissioner Johnson questioned whether he should abstain from discussion and voting. He and his wife have mineral rights and Marathon sent \$68 to pay for a lot in that area because of a lease underneath it. Commissioner Johnson assumes he will get more money as they hit more gas so he is directly involved. The other thing is that his sister-in-law owns a gravel pit in this area and Marathon is buying gravel from her for this deal.

Chairman Bryson thanked Commissioner Johnson for the information and they will honor the request to abstain.

Commissioner Hohl assumes the State leased the oil rights so anywhere the State chooses to lease the oil then we give the oil company the right to the land above it, if we own it. She asked if that is what is being said with the findings and justifications? Commissioner Hohl asked if this is what will happen in the future, like Marathon Oil Company owning the underlying mineral estates and has the right to develop its interest.

Mr. Ostrander stated that State Statute (38.05.130), which specifically says the oil and gas leaseholder is entitled to use as much of the surface as they need to extract those materials; however they need to compensate the surface owner. He commented this is actually more favorable now than it has been in the past since the surface owner has more rights now than they did 20 years ago. Mr. Ostrander believes this is moving in the right direction.

Commissioner Hohl made comments regarding Section 3A, where the property owners in the area do not have the necessary controlling interests in the oil and gas lease but hold estate to enter into a lease. She finds it interesting when they support a sole source lease because no one else would be interested yet there are some people who would be interested in getting an 8% return on their money. The property owners lease it again which is called a sandwich lease. Commissioner Hohl asked if there are restrictions in the lease for what could be done on the land?

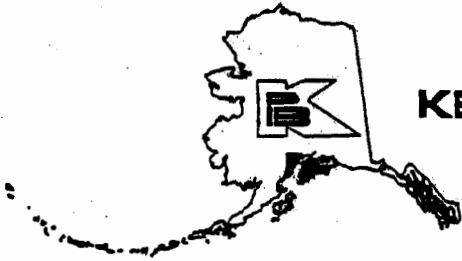
Mr. Ostrander commented a development plan will be required as part of the lease agreement. The development plan is not completed as of yet. When the lease is entered into, the Borough will have a development plan and any development on that property will be restricted to what is in the development plan unless they come to the Borough and ask for a change.

Commissioner Hohl asked if the development plan would include removal of any improvements on the land that the Borough wanted removed? Mr. Ostrander answered yes.

There being no further discussion, the Commission proceeded to vote.

VOTE: The motion passed by unanimous consent.

BRYSON YES	CLARK ABSENT	FOSTER YES	GROSS ABSENT	HOHL YES	HUTCHINSON YES	ISHAM YES
JOHNSON ABSTAIN	MARTIN YES	MASSION YES	PETERSEN ABSENT	TAURIAINEN YES	TROEGER YES	9 YES 1 ABSTAIN 3 ABSENT



KENAI PENINSULA BOROUGH

144 N. BINKLEY • SOLDOTNA, ALASKA • 99669-7599
BUSINESS (907) 262-4441 FAX (907) 262-1892

DALE BAGLEY
MAYOR

MEMORANDUM

DATE: September 28, 2004
TO: Roy E. Dudley, Land Management Agent
THRU: *Sh* Shane Horan, Director of Assessing
FROM: *PK* Paul Knight, Lead Appraiser
SUBJECT: **Determination of Market Value for 10 Acre Portion of
Parcel 139-100-38 - Government Lots 5 & 8
Proposed Marathon Oil Company Production Pad**

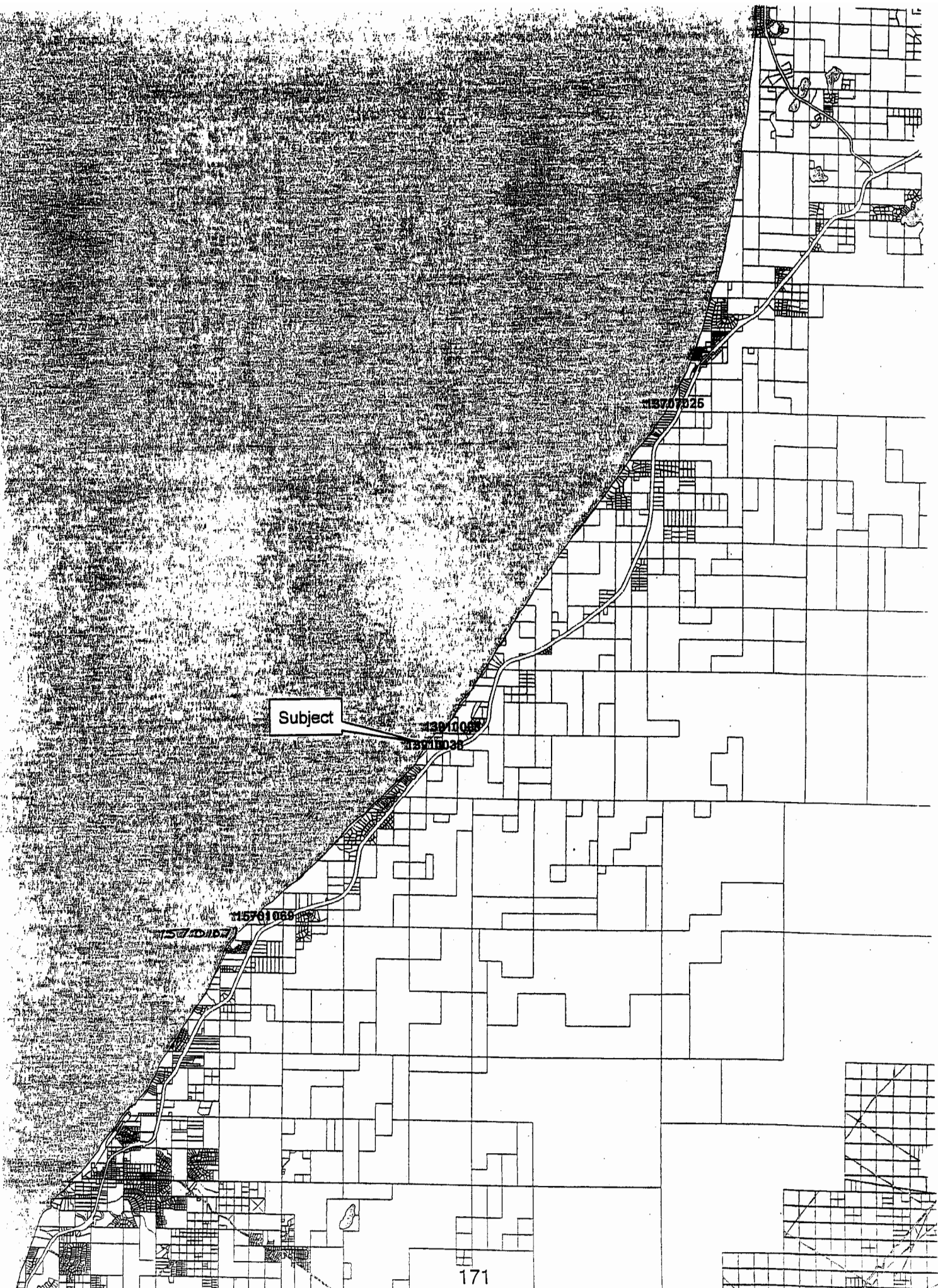
In accordance with your request dated September 1, 2004, a review of sales was conducted in the vicinity of the subject parcel to determine its fair market value. This review found four sales of comparable property.

Upon investigation and analysis of the above referenced property, it is estimated that the fair market value of the subject property as of September 1, 2004 is as follows:

10.0 Acres x \$12,200 per Acre =

\$122,000

(One Hundred Twenty Two Thousand Dollars)



Subject

15701067

15701069

1391038
1391039

13707025

171

SAMPLE SIZE CHART AT 70% / 30% RATIO

SALE #2

Ratio

Acres	\$ Per Acre	Value
1.00	\$34,312	\$34,300
2.00	\$24,019	\$48,000
4.00	\$16,813	\$67,252
8.00	\$11,789	\$94,153
9.00	\$11,328	\$102,000
11.00	\$10,445	\$114,900
24.00	\$7,000	\$168,000

Sale # 2 (acreage rounded)

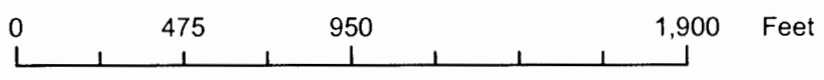
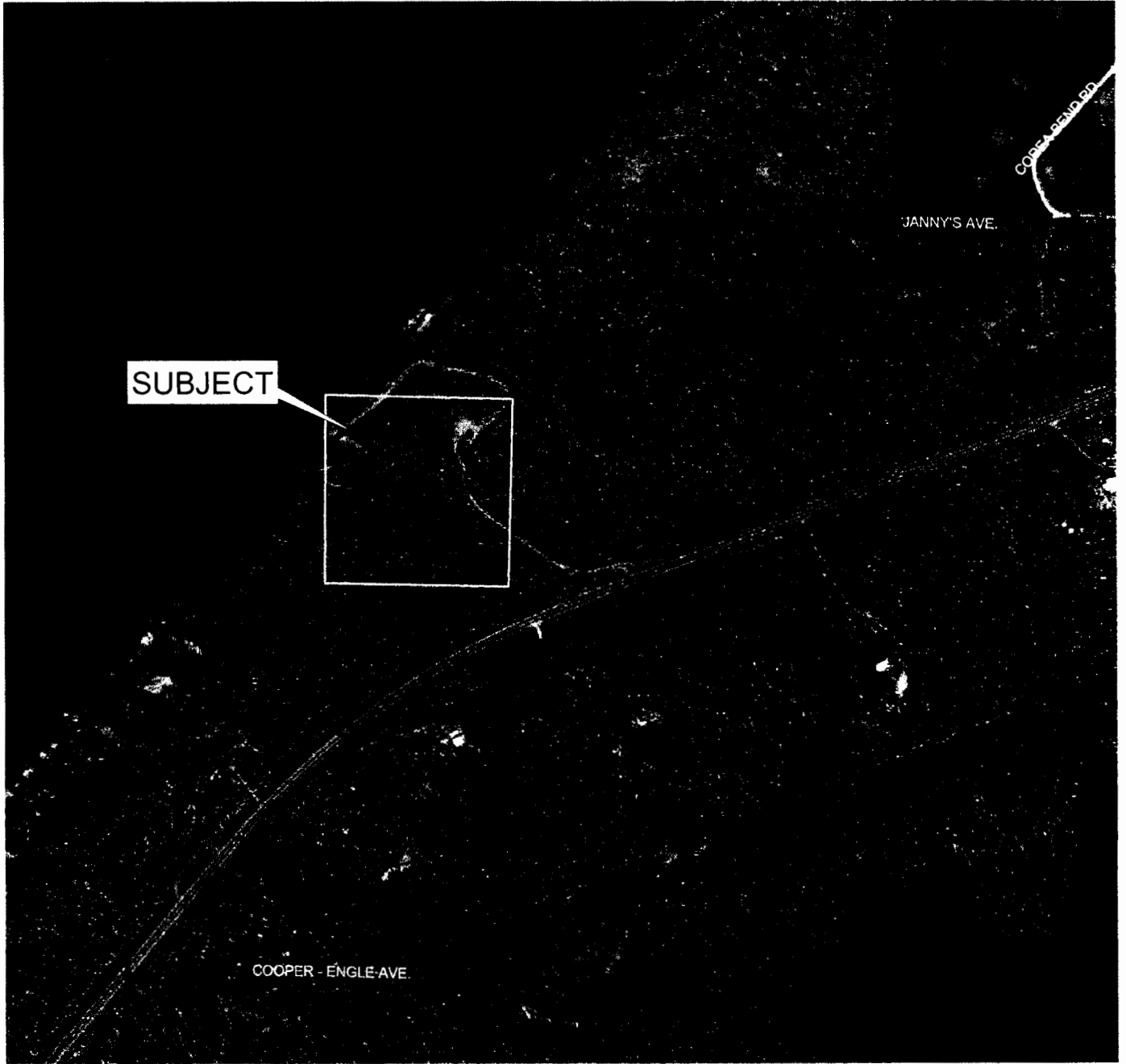
			Price	Size Adjusted	Price per Acre	
	Sale Price	Per Acre	D.O.T.	TO 10 Acres	for 10 Acres	
Sale # 1 15701071	11.22	\$143,300	\$12,800	\$129,000	\$135,800	\$13,600
Sale # 2 15701069	11.70	\$120,000	\$10,300		\$108,900*	\$10,900
Sale # 3 13910003	25.80	\$217,800	\$8,400	\$196,000	\$136,200*	\$13,600
Sale # 4 13707025	28.00	\$100,000	\$3,500		\$60,900	\$6,100

*Median \$122,300.00 divided by 10 Acres = \$12,230

Notes:

No physical inspection was made of the subject property.
 Subject parcel is 29.63 acres. Estimated value is based on 10 acres.
 Sale prices on sales 1 and 3 are estimated assuming 10% down based on recorded Deeds of Trust (D.O.T.).
 Acreage on size chart is rounded to the nearest whole after 8 acres.

Marathon Oil Company Lease Site Gov't Lots 5 & 8, Sec. 34, T1N, R13W, S.M., Alaska



The information depicted hereon is for a graphical representation only of best available sources. The Kenai Peninsula Borough assumes no responsibility for any errors on this map.

**KENAI PENINSULA BOROUGH
REAL PROPERTY LEASE**

This LEASE (hereinafter "LEASE"), for good and valuable consideration, and pursuant to Ordinance _____, enacted _____, is made and entered into by and between the KENAI PENINSULA BOROUGH, an Alaska municipal corporation whose address is 144 North Binkley Street, Soldotna, Alaska 99669, (hereinafter called "KPB"), and MARATHON OIL COMPANY, INC., an Ohio corporation, whose address is P.O. Box 196168, Anchorage, Alaska 99519-6168 (hereinafter called "LESSEE").

I. PURPOSE OF LEASE

This lease grants LESSEE use of the real property described in Section II below for a drilling/production pad for natural gas well(s) as further described in Section III (3). Development Plan.

II. DESCRIPTION OF PROPERTY AFFECTED

The following parcel of real property situated in the Homer Recording District, Third Judicial District, State of Alaska, is described as:

Government Lots 5 and 8, Section 34, T1N, R13W, S.M., Alaska, containing 10 acres more or less.

**III. TERMS AND CONDITIONS SPECIFIC
TO LEASE BETWEEN KPB AND MARATHON OIL COMPANY**

1. Lease Term. This lease is for an initial term of 6 years commencing _____, 2005 and terminating _____, 2011. There shall also be an additional five renewal option terms, which may be exercised at LESSEE'S option. These renewal periods shall be for a term of five years each. LESSEE shall notify KPB in writing of LESSEE'S desire to exercise the next available renewal option term at least 180 days prior to current lease term expiration.

2. Lease Rental. The annual lease rental for the first six years of this lease is \$12,200.00, which is based on the appraised fair market value of this property. The annual lease rental for each of the five-year renewal option terms shall be determined by a fair market value appraisal as well. KPB Assessing Department shall appraise the property for the purpose of establishing the rental rate for each of the renewal option terms. Should the LESSEE dispute the value of KPB's fair market value appraisal, then both parties agree to equally share in the cost to perform a second fair market value appraisal of subject site by an independent fee appraiser that is acceptable to both parties. The value determined by this appraiser shall be binding on KPB and LESSEE. These appraisals will be performed on the subject site only, not to include any physical structures that are classified as "improvements." The first lease payment shall be due within 30 days of the execution of this lease agreement and each payment thereafter due on the anniversary date of this lease.

3. Development Plan. The LESSEE shall operate a natural gas well pursuant to the following development plan.

a. Development Plan - KPB 17.10.140 (B)(1).

Use

Drilling/Production pad for natural gas well(s).

See plat map, Attachment A.

Nature of Improvements

Initially, construction of the drilling/production pad and access road and the drilling of a water well. In the event commercial quantities of natural gas are discovered, production facilities will be installed, including but not limited to heater treaters, separators, dehydrators, meters, tanks, generators, safety and control systems, lateral pipelines and wellhead equipment. The lateral pipelines will be buried and the surface equipment will be housed in fit for purpose buildings. In the event natural gas is not discovered, Marathon will begin discussions with the Borough on abandoning the location.

Estimate of Value of Improvements

The cost of the production facilities will be between \$2.5 million and \$4.5 million depending on the size of the discovery and, ultimately, the number of wells drilled on the pad.

Development and Construction Time Table

Construction of the pad is intended to begin November 2004.
Construction of production facilities will begin as soon as practicable upon the discovery of commercial quantities of natural gas.

- b. Commencement of Activities. The Development Plan shall be implemented according to its schedule; however, a natural gas well shall not be operated on the Property until:
 - 1. Issuance of all required state and federal permits.
 - 2. Insurance as outlined in V(5)(b) is established.
 - b. Survey. LESSEE, at its sole cost, shall survey and have a subdivision plat recorded of the Property. The KPB shall issue survey instructions for the Property. The subdivision plat will provide dedicated public access as shown on the plat map, Attachment A.
4. Site Closure. Notwithstanding KPB Code Section 17.10.240 provisions, prior to termination of lease the KPB reserves the right, at KPB's sole option, to require LESSEE to restore site to a natural condition, free of contamination, to leave the site in a condition suitable for use by another, or any combination thereof.
- A. Restoration to a Natural Condition. Any or all of the following may be required by the KPB.
 - 1. Removal of Improvements. LESSEE shall remove all improvements including surface structures, pad, and access road.
 - 2. Gas Well. LESSEE shall permanently close gas well.
 - 4. Testing. At LESSEE'S sole expense, site shall be sampled and analyzed in accordance with Alaska Department of Environmental Conservation (ADEC) regulations at the time of closure of the well.
 - 5. Remediation. At LESSEE'S sole expense, cleanup and remediation of environmental contamination shall be accomplished to ADEC standards prior to termination of lease.
 - 6. Reclamation. Site shall be reclaimed by adding organic material to

bring site to the same topographic level as adjacent land and then planted with local plant species.

7. Post-closure Inspection. KPB and LESSEE will jointly inspect site to confirm site is left in a condition acceptable to KPB.

B. Restoration to a Condition Suitable for Use by Another:

1. Pre-closure Inspection. KPB and LESSEE will jointly inspect site for the purpose of KPB determining the condition that site will be left in prior to termination of lease. KPB and LESSEE shall agree in writing the condition that site will be left in prior to termination of lease. KPB, at its sole discretion, may require LESSEE to take any or all of the actions listed in paragraphs 2 through 6 of this section.
2. Removal of Improvements. LESSEE shall remove such improvements as directed by the KPB, which may include surface structures, pad, and access road.
3. Gas Well. LESSEE shall permanently close gas well.
4. Testing. At LESSEE'S sole expense, site shall be tested for environmental contamination at the time of closure of the well.
5. Remediation. At LESSEE'S sole expense, cleanup and remediation of environmental contamination shall be accomplished to Alaska Department of Environmental Conservation standards prior to termination of lease.
6. Post-closure Inspection. KPB and LESSEE will jointly inspect site to confirm site is left in a condition acceptable to KPB.

IV. TERMS AND CONDITIONS CONTAINED IN KPB CODE SECTION 17.10.240

1. Assignments. LESSEE may assign this Lease only if approved in advance by KPB. Applications for assignment shall be made in writing on a form provided by the Land Management Division. The assignment shall be approved if it is found that all interests of KPB are fully protected. The assignee shall be subject to and governed by the provisions of this agreement and laws and regulations applicable thereto.

2. Termination. Upon termination of this Lease, LESSEE covenants and agrees to return the property to KPB in a neat, clean and sanitary condition, and to immediately remove all items of personal property subject to the terms and conditions of III.4. Site Closure. All terms and conditions set out herein are considered to be material and applicable to the use of the property under this Lease. Subject to the following, in the event of LESSEE's default in the performance or observance of any of the LEASE terms, conditions, covenants and stipulations thereto, and such default continues thirty (30) calendar days after written notice of the default, KPB may cancel this lease, or take any legal action for damages or recovery of the property. No improvements may be removed during the time in which the LEASE is in default.

In the event LESSEE breaches any provisions prohibiting the release of hazardous chemicals, hazardous materials or hazardous waste upon the property, and fails to immediately terminate the operation causing such release upon notice from KPB, then KPB may immediately terminate this lease without further notice to LESSEE.

3. Cancellation. At any time that this Lease is in good standing it may be canceled in whole or in part upon mutual written agreement by the LESSEE and either the KPB Mayor or Planning Director. This Lease is subject to cancellation in whole or in part if improperly issued through error in procedure or with respect to material facts.
4. Conditional Contract. This lease is issued on a conditional basis and shall be canceled in whole or in part in the event the borough is denied title to said lands. Payment made by the lessee on the land to which title is denied the borough shall be refunded in whole or in part to the agreement holder of record and any properly recorded lienholder, if any, jointly. However, the borough shall in no way be liable for any damage that may be done to the land by the lessee or liable for any claim of any third party, or to any claim that may arise from ownership. In the event the borough does receive title to the land under agreement, the conditional agreement shall then have the same standing, force and effect as non-conditional agreements issued under any regulations of KPB 17.10.
5. Entry or Re-Entry. In the event that the Lease is terminated, canceled or forfeited, or in the event that the demised lands, or any part thereof, should be abandoned by the LESSEE during the agreement term, KPB or its agents, servants or representative, may immediately or any time thereafter, enter or re-enter and resume possession of said lands or such part thereof, and remove all persons and property therefrom either without judicial action where appropriate, by summary proceedings or by a suitable action or proceeding at law or equity without being liable for any damages therefore. Entry or re-entry by KPB shall not be deemed an acceptance of surrender of the contract.

6. Fire Protection. LESSEE shall take all reasonable precautions to prevent, and take all reasonable actions to suppress destructive and uncontrolled grass, brush, and forest fires on the land under agreement, and comply with all laws, regulations and rules promulgated and enforced by the protection agency responsible for forest protection within the area wherein the demised premises are located.
7. Hazardous Materials and Hazardous Waste. Storage, handling and disposal of hazardous waste shall not be allowed on lands under lease from KPB per KPB Code, Section 17.10.240(H).

LESSEE shall comply with all applicable laws and regulations concerning hazardous chemicals and other hazardous materials, and shall properly store, transfer and use all hazardous chemicals and other hazardous materials and not create any environmental hazards on the lands leased herein. In no event may LESSEE utilize underground storage tanks for the storage or use of hazardous chemicals or other hazardous materials.

Should any hazardous chemicals or hazardous materials of any kind or nature whatsoever, or hazardous wastes be released upon the subject lands during the term of this lease, LESSEE shall IMMEDIATELY report such release to the KPB Planning Director and to any other agency as may be required by law, and LESSEE shall, at its own cost, assess, contain and clean up such spilled materials in the most expedient manner allowable by law.

As used herein, "hazardous chemical" means a chemical that is a physical hazard or a health hazard.

As used herein, "hazardous material" means a material or substance, as defined in 49 C.F.R. 171.8, and any other substance determined by the federal government, the state of Alaska or KPB, to pose a significant health and safety hazard.

As used herein, "hazardous waste" means a hazardous waste as identified by the Environmental Protection Agency under 40 C.F.R. 261.3, and any other hazardous waste as defined by the federal government, the state of Alaska or KPB.

The covenants and obligations described in this article shall survive the termination of this lease.

8. Full and Final Agreement. This LEASE constitutes the full and final agreement of the parties hereto and supersedes any prior or contemporaneous agreements. This LEASE may not be modified orally, or in any manner other than by an agreement in

writing and signed by both parties or their respective successors in interest. LESSEE avers and warrants that no representations not contained within this agreement have been made with the intention of inducing execution of this agreement.

9. Notice. Any notice or demand, which under the terms of this Lease must be given or made by the parties hereto, shall be in writing, and be given or made by registered or certified mail, addressed to the other party at the address shown in this section. However, either party may designate in writing such other address to which such notice of demand shall thereafter be so given, made or mailed. A notice given hereunder shall be deemed received when deposited in a U.S. general or branch post office by the addressor.

All notices shall be sent to both parties as follows:

LESSOR
KENAI PENINSULA BOROUGH
Planning Director
144 N. Binkley St.
Soldotna, AK 99669-7599

LESSEE
MARATHON OIL COMPANY
J. Brock Riddle, Land Manager
P.O. Box 196168
Anchorage, Alaska 99519-6168

10. Notice of Default. Notice of the default, where required, will be in writing and as provided in the Notice provision of this agreement.
11. Resale. In the event that this Lease should be terminated, canceled, forfeited or abandoned, KPB may offer said lands for sale, lease or other appropriate disposal pursuant to the provisions of KPB Code, Chapter 17.10 or other applicable regulations. If said land is not immediately disposed of, then said land shall return to the Land Bank.
12. Responsibility of Location. It shall be the responsibility of the LESSEE to properly locate itself and its improvements on the leased lands.
13. Liens and Mortgages. LESSEE shall not cause or allow any liens of any kind or nature whatsoever to attach to the property during the term of this lease, except in connection with financing transactions as discussed below. In the event that any prohibited lien is placed against the property, LESSEE shall immediately cause the lien to be released. LESSEE shall immediately refund to KPB any monies that KPB may, at its sole discretion, pay in order to discharge any such lien, including all related costs and a reasonable sum for attorneys fees.

For the purpose of interim or permanent financing of improvements to be placed upon the leased property, and for no other purpose, LESSEE, after giving written notice thereof to KPB, may encumber by mortgage, deed of trust, assignment or other appropriate instrument, LESSEE's interest in the leased premises and in and to this Lease, provided such encumbrance pertains only to such leasehold interest and does not pertain to or create any interest in KPB's title to or interest in the leased property. Any such encumbrance shall be entirely subordinate to KPB's rights and interest in the leased property.

A leasehold mortgagee, beneficiary of a deed of trust or security assignee shall have and be subrogated to any and all rights of the LESSEE with respect to the curing of any default hereunder by LESSEE.

In the event of cancellation or forfeiture of this Lease for cause, the holder of a properly recorded mortgage, deed of trust, or assignment will have the option to acquire the Lease for the unexpired term thereof, subject to the same terms and conditions as in the original instrument.

14. Easements and Rights-of-Way. This Lease is subject to all easements, rights-of-way, covenants and restrictions of which LESSEE has actual or constructive notice. KPB reserves and retains the right to grant additional easements for utility and public access purposes across the property and nothing herein contained shall prevent KPB from specifically reserving or granting such additional easements and rights-of-way across the property as may be deemed reasonable and necessary. All trails or roads existing at the time this Lease is executed shall be considered an easement for public use.

As the parties agree that this is a reserved right which is reflected in the annual lease rental, in the event that KPB grants future additional easements or rights-of-way across the property, it is agreed and understood that LESSEE shall receive no damages for such grant.

As established by AS 38.05, KPB lands sold or leased may be subject to a minimum fifty-foot public access easement landward from the ordinary high water mark or mean high water mark.

15. Sanitation. LESSEE shall comply with all laws, regulations or ordinances promulgated for the promotion of sanitation. The subject property shall be kept in a clean and sanitary condition and every effort shall be made to prevent pollution of the waters and lands.

16. Subleasing. No LESSEE may sublease lands or any part thereof without written permission of the mayor when applicable. A sublease shall be in writing and subject to the terms and conditions of the original lease.
17. Violation. Violation of any of the terms of this lease may expose LESSEE to appropriate legal action including forfeiture of lease/purchase interest, termination, or cancellation of its interest in accordance with state law.
18. Non-Waiver Provision. The receipt of payment by KPB, regardless of KPB's knowledge of any breach by LESSEE, or of any default on the part of the LESSEE in observance or performance of any of the conditions or covenants of this LEASE, shall not be deemed to be a waiver of any provision of the LEASE. Failure of KPB to enforce any covenant or provision herein contained shall not discharge or invalidate such covenant or provision or affect the right of KPB to enforce the same in the event of any subsequent breach or default. The receipt by KPB of any payment of any other sum of money after notice of termination or after the termination of the agreement for any reason, shall not reinstate, continue or extend the agreement, nor shall it destroy or in any manner impair the efficacy of any such notice of termination unless the sole reason for the notice was nonpayment of money due and the payment fully satisfies the breach.

V. GENERAL TERMS AND CONDITIONS

1. Waste. LESSEE shall not commit waste or injury upon the lands leased herein.
2. Safety. LESSEE shall be solely responsible for maintaining the premises in a safe and fit condition, including without limitation snow and ice removal from all improvements and areas on the land developed or used for pedestrian traffic.
3. Compliance With Laws. The LESSEE agrees to comply with all applicable federal, state, borough and local laws and regulations.
4. Inspections. LESSEE shall allow KPB, through its duly authorized representative, to enter and inspect the leased premises at any reasonable time, with or without advance notice to LESSEE, to ensure compliance with the terms and conditions of this lease. KPB's right to enter and inspect shall be exercised at KPB's sole discretion and the reservation or exercise of this right, and any related action or inaction by KPB, shall not in any way impose any obligation whatsoever upon KPB, and shall not be construed as a waiver of any rights of KPB under this agreement.

5. Indemnification and Liability Insurance.
- a. Indemnification and Hold Harmless. The LESSEE shall indemnify, defend, save and hold the borough, its elected and appointed officers, agents and employees, harmless from any and all claims, demands, suits, or liability of any nature, kind or character including costs, expenses, and attorneys fees resulting from LESSEE'S performance or failure to perform in accord with the terms of this lease in any way whatsoever. The LESSEE shall be responsible under this clause for any and all claims of any character resulting from LESSEE or LESSEE'S officers, agents, employees, partners, attorneys, suppliers, and subcontractors performance or failure to perform this agreement in any way whatsoever. This defense and indemnification responsibility includes claims alleging acts or omissions by the borough or its agents, which are said to have contributed to the losses, failure, violations, or damage. However, LESSEE shall not be responsible for any damages or claims arising from the sole negligence or willful misconduct of the borough, its agents, or employees.
 - b. Liability Insurance. LESSEE shall purchase at its own expense and maintain in force at all times during the term of this Lease Comprehensive General Liability Insurance, which shall include bodily injury, personal injury, and property damage with respect to the property and the activities conducted by the LESSEE in which the coverage shall not be less than \$1,000,000 per occurrence. The policy purchased shall name LESSEE as the insured and KPB as an additional insured, and shall also require the insurer to provide KPB with thirty (30) days or more advance written notice of any pending cancellation or change in coverage.
 - c. Proof of Insurance. At the time of executing this LEASE, and at the time of each renewal of insurance, LESSEE shall deliver to the KPB Planning Director certificates of insurance meeting the above criteria.
6. Property Taxes. LESSEE shall timely pay all real property taxes, assessments and other debts or obligations owed to KPB. Pursuant to KPB Code, Section 17.10.120(F) this agreement will terminate automatically should LESSEE become delinquent in the payment of any such obligations.
7. Jurisdiction. Any suits filed in connection with the terms and conditions of this Lease, and of the rights and duties of the parties, shall be filed at Kenai, Alaska and shall be governed by Alaska law.

- 8. Savings Clause. Should any provision of this Lease fail or be declared null or void in any respect, or otherwise unenforceable, it shall not affect the validity of any other provision of this Lease or constitute any cause of action in favor of either party as against the other.
- 9. Binding Effect. It is agreed that all covenants, terms and conditions of this LEASE shall be binding upon the successors, heirs and assigns of the original parties hereto.
- 10. Authorization to Sign. LESSEE warrants that the person executing this agreement is authorized to do so on behalf of MARATHON OIL COMPANY.

MARATHON OIL COMPANY

KENAI PENINSULA BOROUGH

J. Brock Riddle
Land Manager

Dale L. Bagley
Mayor

Dated: _____

Dated: _____

ATTEST:

APPROVED AS TO LEGAL FORM
AND SUFFICIENCY:

Linda S. Murphy
Borough Clerk

Holly B. Montague
Assistant Borough Attorney

NOTARY ACKNOWLEDGMENT

STATE OF ALASKA)
)ss.
THIRD JUDICIAL DISTRICT)

The foregoing instrument was acknowledged before me this ____ day of _____, 2004, by Dale L. Bagley, Mayor of the Kenai Peninsula Borough, an Alaska municipal corporation, for and on behalf of the corporation.

Notary Public in and for Alaska
My commission expires: _____

NOTARY ACKNOWLEDGMENT

STATE OF ALASKA)
)ss.
THIRD JUDICIAL DISTRICT)

The foregoing instrument was acknowledged before me this ____ day of _____, by J. Brock Riddle, Land Manager and attorney-in-fact for Marathon Oil Company, an Ohio corporation, for and on behalf of the corporation.

Notary Public in and for Alaska
My commission expires: _____