

after recording, return to:

WILLIAM M. GANONG
ATTORNEY AT LAW
635 MAIN STREET
KLAMATH FALLS, OR 97601

GROUND LEASE

DATED: April 15, 1996

LESSOR: Bogatay Construction, Inc.
Post Office Box 493
Klamath Falls OR 97601

AND

Klamath Pacific Corporation
2918 Edison Avenue
Klamath Falls OR 97601

LESSEE: Klamath Irrigation District
6640 KID Lane
Klamath Falls OR 97603

Lessor leases to Lessee and Lessee leases from Lessor the real property (the Premises) described on Exhibit A attached and incorporated into this Ground Lease by this reference.

The Premises are leased for a term of five (5) irrigation and drainage seasons commencing on the date of this Ground Lease and terminating on November 30, 2000. This Ground Lease shall, thereafter, automatically extend for additional one-year terms, commencing on December 1 and terminating on the following November 30 until either party has given notice of the termination of the Ground Lease. Said notice shall be given not less than 90 days nor more than 180 days prior to the end of the then current lease term.

Lessor and Lessee agree as follows:

1. In consideration for the lease of the Premises, Lessee promises to pay to Lessor the sum of TWO THOUSAND FIVE HUNDRED

DOLLARS (\$2,500) per year. Payment of the first year's rental shall be due and payable within ten (10) days after the execution of this Ground Lease. Rental payments for each year thereafter shall be due and payable on or before the 10th day of June of each year.

2. Lessee agrees to exempt from assessment by Lessee the land subject to this Ground Lease. In addition, Lessee agrees to cooperate with Lessor in Lessor's application to Klamath County for exemption of the Premises from real property taxes and assessments pursuant to state law.

3. Lessor does hereby grant to Lessee an easement for ingress and egress over the existing road located along the right-of-way of the No. 1 Drain and the southern boundary of the Premises.

4. Lessor acknowledges that Lessee has installed through the bank between the Premises and the No. 1 Drain a headgate and pumping equipment which allows Lessee to pump water out of the No. 1 Drain onto the Premises and then allows Lessee to release said water back into the No. 1 Drain pursuant to Lessee's maintenance and operational requirements. Lessor specifically acknowledges that for intermittent periods of time during each irrigation and drainage season, the Premises will be flooded by Lessee pursuant to said operations. Lessee's use of the premises is limited to said uses. Lessor agrees to cooperate with Lessee in restricting access to the Premises by allowing Lessee to construct a gate at the crossing of the access road over the 1-C

Drain and any other crossing which may be installed by Lessee.

5. Lessee agrees that upon the expiration of this Ground Lease, Lessee shall remove the facilities installed by it between the No. 1 Drain and the Premises.

6. Lessee shall not use or occupy or permit or suffer all or any part of the Premises to be used or occupied (1) for any unlawful or illegal business, use, or purpose (2) in any such manner as to constitute a nuisance of any kind, or (3) for any purpose in violation of the legal requirements respecting hazardous substances. The term hazardous substances means hazardous, toxic, or dangerous substances, waste, or material that is the subject of environmental protection legal requirements.

7. At all times during the term of this Ground Lease, Lessee at its expense shall maintain public liability insurance in respect of the Premises and the conduct of Lessee's operations with limits not less than the maximum liability exposure provided by the Oregon Tort Claim Act.

8. During the term of this Ground Lease, Lessor shall have no obligation whatsoever to repair or maintain the Premises or any improvements now located or hereafter constructed thereon.

9. Lessor or the authorized representative of Lessor may enter the Premises and the improvements at all reasonable times for the purpose of inspecting the same and assuring Lessee's compliance with the terms and conditions of this Ground Lease. In addition, Lessor and its officers, employees, agents, and

invited guests, may enter onto the Premises for waterfowl hunting and other recreational purposes and uses. During the time that said uses are being made, Lessor shall be responsible for the acts of users and shall exercise reasonable care to prevent damage to Lessee's equipment arising from said use of the Premises. Lessor shall indemnify and defend Lessee from any and all claims and damages arising from Lessor's use of the Premises. The parties shall cooperate and communicate with each other to prevent unauthorized trespass onto the Premises.

10. Lessee is and shall be in exclusive control of the improvements constructed thereon, and Lessor shall not in any event whatsoever be liable for any injury or damage to any property or to any person happening on, in, or about the Premises or the improvements or any injury or damage to the Premises or the improvements or to any property located thereon arising from Lessee's use of the Premises. Lessee shall indemnify and hold Lessor harmless against and from all liabilities, obligations, damages, penalties, claims, costs, charges, and expenses, including attorney's fees that may be imposed on or incurred by or asserted against Lessor by reason of any occurrence during the term of this Ground Lease on the subject property and arising from Lessee's use or enjoyment thereof, provided, however, that Lessee's said obligation to indemnify and hold Lessor harmless shall be limited to the dollar amounts provided in the Oregon Tort Claim Act.

11. Lessee on paying the rent and observing and keeping

all covenants, agreements, and conditions of this Ground Lease on its part to be kept shall, subject to the provisions of Section 9., quietly have and enjoy the Premises during the term without hindrance or molestation by anyone claiming by, through, or under Lessor.

12. Except as otherwise provided, Lessee on the last day of the term shall surrender and deliver up the Premises to the possession and use of Lessor without delay, free and clear of all lettings and occupancies other than those presently existing or created or suffered by Lessor.

13. Lessee acknowledges that it has examined the Premises, and no representations as to the condition of the Premises have been made by Lessor or any agent or person acting for Lessor.

14. Any notice required or permitted by the terms of this Ground Lease shall be deemed given if delivered personally to an officer of the party to be notified or sent by United States Certified Mail, postage prepaid, return receipt requested, and addressed to the Lessor or the Lessee at the address first written hereinabove. Except as otherwise provided in this Ground Lease, every notice, demand, request, or other communication shall be deemed to have been given or served upon actual receipt or upon the refusal of receipt by the addressee.

15. The parties agree that during the period of June 1, 2000 to November 30, 2000, at the request of either party, the parties shall meet to discuss the long-term use and/or improvement of the Premises and to work together to achieve the

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goals and needs of both parties for the use of the Premises.

16. This Ground Lease contains the entire agreement between the parties and except as otherwise provided can be changed, modified, amended, or terminated only by instrument in writing executed by the parties.

17. This Ground Lease shall be governed by and construed in accordance with the laws of the state of Oregon.

IN WITNESS WHEREOF, Lessee and Lessor have caused this Ground Lease to be executed in duplicate by their duly authorized officers.

LESSOR:

BOGATAY CONSTRUCTION, INC.

By: Robert Bogatay
President

KLAMATH PACIFIC CORPORATION

By: Robert Bogatay
President

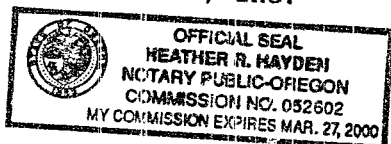
LESSEE:

KLAMATH IRRIGATION DISTRICT

By: DA Salem
Manager

STATE OF OREGON, County of Klamath) ss.

SUBSCRIBED AND SWORN to before me this 25th day of April, 1996, by Robert Bogatay as President of Bogatay Construction, Inc.



Heather R. Hayden
Notary Public for Oregon
My Commission Expires: 3-27-2000

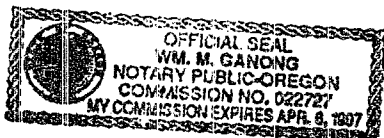
STATE OF OREGON, County of Klamath) ss.

SUBSCRIBED AND SWORN to before me this _____ day of _____, 1996 by _____ as President of Klamath Pacific Corporation.

Notary Public for Oregon
My Commission Expires: _____

STATE OF OREGON, County of Klamath) ss.

SUBSCRIBED AND SWORN to before me this 26th day of April, 1996 by David A. Solem, Manager of the Klamath Irrigation District.



Wm M Ganong
Notary Public for Oregon
My Commission Expires: 4-6-97

EXHIBIT A

BOGATAY CONSTRUCTION, INC. PROPERTY

A three-year exclusive lease of the following-described land:

That portion of the N $\frac{1}{2}$ SE $\frac{1}{4}$ of Section 26, Township 39 South, Range 9 East of the Willamette Meridian, Klamath County, Oregon lying west of the easterly right-of-way line of the 1-C Drain, a part of which is described in Deed Book M66 at page 6438 of the Deed Records of Klamath County, Oregon; but EXCEPTING THEREFROM the tract dedeed to the City of Klamath Falls in Deed Book 272 at page 295; together with a non-exclusive easement for ingress and egress over the road currently located along the southerly right-of-way of the No. 1 Drain and between Homedale Road and the above-described parcel.

STATE OF OREGON: COUNTY OF KLAMATH : ss.

Filed for record at request of William M Ganong the 1st day of May A.D., 19 96 at 10:01 o'clock AM., and duly recorded in Vol. M96 of Deeds on Page 12206.

FEE \$65.00

By Bernetha G. Letsch, County Clerk