

CLERK OF DISTRICT COURT  
BUTTE COUNTY, OREGON  
By: [Signature]  
My Commission Expires: 8-27-90  
FOR COUNTY RECORDING INFORMATION ONLY  
CONTRACT OF SALE  
STATE OF OREGON  
County of Klamath  
Filed for record at [unclear]  
Klamath County Title Co.  
on this 22nd day of April, A.D. 1989  
at 2:00 PM, Clerk [unclear] and duly recorded  
in Vol. 1453 of Mortgages, Page 2470  
Evelyn Stebbins, County Clerk  
By: [Signature]  
Fee: \$25.00  
3-21-89  
CONTRACTING  
DEBRA J  
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98894

K-41155

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LINE OF CREDIT MORTGAGE  
MORTGAGE - OREGON

March 31, 19 89

Chiloquin Forest Products, Inc. Mortgageor  
Box 435, Blocklinger Street, Chiloquin, Oregon 97624 Address  
United States National Bank of Oregon Mortgagee ("Lender")  
321 S. W. Sixth Avenue, Portland, Oregon 97204 Address  
The Lender has loaned money or extended credit to Chiloquin Forest Products, Inc. (Borrower)  
which is repayable with interest according to the terms of the following described promissory note(s): line of credit, and optional advance  
note:  
Note Date Principal Balance Date Final Payment is Due

See "Exhibit A" attached hereto.

The term "Indebtedness" as used in this Mortgage shall mean (a) the principal and interest payable under the note(s) and under any number of extensions and renewals of the note(s), (b) any future amounts, (except any sums owed on a Visa account incurred for a personal, family, or household purpose) together with interest, that the Lender may in its discretion loan to Borrower or Mortgageor and any number of extensions and renewals, whether or not the future advances are related to any indebtedness currently secured by this Mortgage by class or kind, whether or not the future advances are currently contemplated by the parties, or whether or not any note or other evidence of debt states that it is secured hereby, and (c) any sums paid or advanced by the Lender to discharge obligations of Mortgageor as permitted under this Mortgage, with interest. The interest rate, payment terms and balance due under the note(s) may be indexed, adjusted, renewed or renegotiated in accordance with the terms of the note(s) and on account of any extensions and renewals of the note(s).

To secure payment of the Indebtedness and performance of all obligations of Mortgageor under this mortgage, Mortgageor hereby mortgages to the Lender on the terms set out below the following property, Tax Account No. [unclear], located in Klamath County, State of Oregon:

See "Exhibit B" attached hereto.

which has the address of [unclear]

Together with all appurtenances, all existing or subsequently erected or affixed improvements or fixtures, and, unless this Mortgage is being given to secure an extension of consumer credit requiring disclosures under the Federal Truth-in-Lending Act, Mortgageor also hereby grants to Lender a Uniform Commercial Code security interest in all fixtures, equipment, furnishings and other articles of personal property now or subsequently located on or used in connection with the property; all of the foregoing is collectively referred to as the Property. Mortgageor hereby assigns to Lender as additional security for the Indebtedness all present and future rents, leases, and profits from the Property.

1. Maintenance of the Property.

1.1 The Property shall be maintained in good condition at all times. Mortgageor shall promptly make all necessary repairs, replacements and renewals so that the value of the Property shall be maintained, and Mortgageor shall not commit or permit any waste on the Property. Mortgageor shall comply with all laws, ordinances, regulations and private restrictions affecting the Property.

1.2 To the extent that the Property constitutes commercial property, Mortgageor shall operate the Property in such manner as to prevent deterioration of the land and improvements including fences, except for reasonable wear and tear from proper use.

1.3 Mortgageor shall not demolish or remove any improvements from the Property without the written consent of Lender.

2. Completion of Construction.

If some or all of the proceeds of the loan creating the Indebtedness are to be used to construct or complete construction of any improvement on the Property, Mortgageor agrees:

2.1 To commence construction promptly and in any event within 30 days from the date of this instrument, and complete the same in accordance with any agreements relating to construction and plans and specifications satisfactory to Lender within 8 months of the date of this instrument;

2.2 To allow Lender to inspect the Property at all times during construction;

2.3 To replace any work or materials unsatisfactory to Lender within 15 calendar days after written notice to the Mortgageor of such fact;

2.4 That work shall not cease on the construction of such improvements for any reason whatsoever for a period of 15 consecutive days.

3. Taxes and Liens.

3.1 Mortgageor shall pay before they become delinquent all taxes and assessments levied against or on account of the Property, and shall pay as due all claims for work done on or for services rendered or material furnished to the Property. Special assessments shall be paid currently, without deferral, unless the lien for deferred assessments is subordinate to the interest of Lender under this Mortgage, or Lender gives its prior written consent to the deferral. Mortgageor shall maintain the Property free of any liens having priority over or equal to the interest of the Lender under this Mortgage, except for "Permitted Encumbrances" as defined in 8.1, the lien of

3.3 The assessor or tax collector of the county in which the Property is located is authorized to deliver to the Lender a written statement of the property taxes assessed or owing at any time.

4. Insurance.

4.1 Mortgageor shall carry such insurance as the Lender may reasonably require. This shall include insurance on the Property against fire, additional risks covered by a standard endorsement for extended coverage, and such other risks as may be specified by the Lender, including without limitation flood and war risks. Insurance on the Property shall be carried in companies and under policies approved by the Lender and shall be for an amount equal to the remaining unpaid portion of the Indebtedness or the full insurable value of the Property, whichever is less, and an amount sufficient to comply with any co-insurance provision in any policy.

4.2 All policies of insurance on the Property shall bear an endorsement in a form satisfactory to the Lender making loss payable to the Lender and shall be deposited with the Lender. In the event of loss, Mortgageor shall immediately notify the Lender, who may make proof of loss if it is not made promptly by Mortgageor. Proceeds shall be paid directly to the Lender who may compromise with any insurance company and make a final settlement which shall be binding upon Mortgageor. The Lender may, at its election, apply the proceeds to the reduction of the Indebtedness or the restoration or repair of the Property.

4.3 At least 30 days prior to the expiration of any policy, a satisfactory renewal or substitute policy shall be secured by Mortgageor.

5. Reserves; Mortgage Insurance Premiums.

5.1 If allowed by law, and if Mortgageor and Lender do not otherwise expressly agree in writing, Lender may require Mortgageor to maintain reserves for payment of taxes (including special assessments and other charges against the Property by governmental or quasi-governmental bodies) or premiums on property insurance or both. The reserves shall be created by payment each month to the Lender of an amount determined by the Lender to be sufficient to produce by the date they are due amounts equal to the estimated taxes and insurance premiums to be paid. If at the time that payments are to be made the reserve for either taxes or insurance premiums is insufficient, Mortgageor shall upon demand pay such additional sum as the Lender shall determine to be necessary to cover the required payment.

5.2 If the Lender carries mortgage (default) insurance covering the repayment of all or any part of the Indebtedness, the premiums for such insurance shall be paid by the Mortgageor, and if allowed by law, the Lender may require Mortgageor to maintain a reserve for such purposes in the same manner as for taxes and property insurance, and subject to the same agreements.

5.3 If Mortgageor desires to carry a package plan of insurance that includes coverage in addition to that required under this Mortgage, the Lender, if allowed by law, may at its option establish and administer a reserve for that purpose. In such event the premium attributable to the required insurance coverage shall be quoted

10. **Condition** 10.1 If Lender may commingle reserve funds with other funds of Lender, and them for the benefit of Mortgagor. Mortgagor agrees that Lender reserves, unless applicable statutes require payment

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net proceeds, over and above the Lender's costs, against the Indebtedness. In furtherance of this right the Lender may require any tenant or other user to make payments of rent or use fees directly to the Lender, and payments by such tenant or user to the Lender in response to its demand shall satisfy the obligation for which the payments are made, whether or not any proper grounds for the demand existed.

(e) The right to have a receiver appointed to take possession of any or all of the Property, with the power to protect and preserve the Property and to operate the Property preceding foreclosure or sale and apply the proceeds, over and above cost of the receivership, against the Indebtedness. The receiver may serve without bond if permitted by law. The Lender's right to the appointment of a receiver shall exist whether or not apparent value of the Property exceeds the Indebtedness by a substantial amount.

(f) The right to obtain a deficiency judgment in the event the net sale proceeds of any foreclosure sale are insufficient to pay the entire unpaid Indebtedness.

(g) Any other right or remedy provided in this Mortgage, the promissory notes evidencing the Indebtedness, any construction loan agreement, any other security document, or under the law.

16.2 In exercising its rights and remedies, Lender shall be free to sell all or any part of the Property together or separately or to sell certain portions of the Property and refrain from selling other portions. The Lender shall be entitled to bid at any public sale on all or any portion of the Property.

16.3 The Lender shall give Mortgagor reasonable notice of the time and place of any public sale of any personal property or of the time after which any private sale or other intended disposition of the Property is to be made. Reasonable notice shall mean notice given at least ten days before the time of the sale or disposition.

16.4 A waiver by either party of a breach of a provision of this agreement shall not constitute a waiver of or prejudice the party's right otherwise to demand strict compliance with that provision or any other provision. Election by the Lender to pursue any remedy shall not exclude pursuit of any other remedy, and an election to make expenditures or take action to perform an obligation of Mortgagor under this Mortgage after failure of Mortgagor to perform shall not affect the Lender's right to declare a default and exercise its remedies under this paragraph 16.

16.5 In the event suit or action is instituted to enforce any of the terms of this Mortgage the Lender shall be entitled to recover from Mortgagor such sum as the court may adjudge reasonable as attorney's fees at trial and on any appeal. All reasonable expenses incurred by the Lender that are necessary at any time in the Lender's opinion for the protection of its interest or the enforcement of its rights, including without limitation, the cost of searching records, obtaining title reports, surveyors' reports, attorneys' opinions or title insurance, whether or not any court action is involved, shall become a part of the Indebtedness payable on demand and shall bear interest at the highest rate as provided in any note from the date of expenditure until paid.

#### 17. Notice.

Any notice under this Mortgage shall be in writing and shall be effective when actually delivered or, if mailed, when deposited as registered or certified mail directed to the address stated in this Mortgage. Either party may change the address for notices by written notice to the other party.

#### 18. Succession; Terms.

18.1 Subject to the limitations stated in this Mortgage on transfer of Mortgagor's interest, this Mortgage shall be binding upon and inure to the benefit of the parties, their successors and assigns.

18.2 In construing this Mortgage the term Mortgage shall encompass the term security agreement when the instrument is being construed with respect to any personal property.

18.3 Attorneys' fees. "Attorneys' fees," as that term is used in the note and in this Mortgage, shall include attorneys' fees, if any, which may be awarded by an appellate court.

Richard E. Gervais Pres.

#### INDIVIDUAL ACKNOWLEDGEMENT

STATE OF OREGON )  
 ) ss. \_\_\_\_\_, 19\_\_\_\_  
County of \_\_\_\_\_ )  
Personally appeared the above-named \_\_\_\_\_ and acknowledged the foregoing instrument to be \_\_\_\_\_ voluntary act.

Before me:

Notary Public for Oregon  
My commission expires:

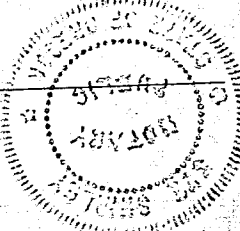
#### CORPORATE ACKNOWLEDGEMENT

STATE OF OREGON )  
 ) ss. \_\_\_\_\_, 1989  
County of Deschutes )  
Personally appeared Richard E. Gervais and  
stated that he, the said Richard E. Gervais is a  
President and he, the said  
\_\_\_\_\_ is a \_\_\_\_\_

of Mortgagor corporation and that the seal affixed hereto is its seal and that this Mortgage was voluntarily signed and sealed in behalf of the corporation by Authority of its Board of Directors.

Before me:

Joe Shirley  
Notary Public for Oregon  
My commission expires: 12-11-92



#### PARTNERSHIP ACKNOWLEDGEMENT

STATE OF OREGON )  
 ) ss. \_\_\_\_\_, 19\_\_\_\_, personally appeared before me, the undersigned, a Notary Public in and for said County  
County of \_\_\_\_\_ )  
THIS CERTIFIES that on this \_\_\_\_\_ day of \_\_\_\_\_, 19\_\_\_\_, personally appeared before me, the undersigned, a Notary Public in and for said County and State, the within named \_\_\_\_\_ known to me to be the person \_\_\_\_\_ named in and who executed the foregoing instrument and who \_\_\_\_\_ known to me to be \_\_\_\_\_ member of the partnership of \_\_\_\_\_ acknowledged to me that he executed said instrument freely and voluntarily for the purposes and use therein mentioned, on behalf of said partnership.  
IN TESTIMONY WHEREOF, I have hereunto set my hand and notarial seal the day and year last above written.

Before me:

Notary Public for Oregon  
My commission expires:



"EXHIBIT A"  
TO  
LINE OF CREDIT MORTGAGE - OREGON

- (1) Loan and Security Agreement dated March 31, 1989, under which the maximum indebtedness is \$950,000, and which is due on demand, or if no demand, on July 31, 1990;
- (2) Optional Advance Note dated March 31, 1989, under which the maximum principal balance is \$250,000, and which is due on demand, or if no demand, on July 31, 1990;
- (3) Promissory note dated March 31, 1989, in the principal amount of \$134,238.05, under which payment in full is due on January 23, 1991;
- (4) Promissory note dated March 31, 1989, in the principal amount of \$1,359,336.53, under which payment in full is due on March 23, 1995; and
- (5) Any and all extensions or renewals of (1) through (4) above.

"EXHIBIT B"  
TO  
LINE OF CREDIT MORTGAGE - OREGON

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PARCEL 1: That portion of Lot 2, Section 3, Township 35 South, Range 7 East of the Willamette Meridian, described as follows: Commencing at the Northwest corner of Lot 2 described above; thence South 356.9 feet; thence East 270.0 feet; thence North 160.0 feet; thence East 160.0 feet; thence North 196.9 feet; thence West 430.0 feet to the point of beginning. All points marked with iron rod.

EXCEPTING Railroad Right-of-way.

PARCEL 2: That part of Lot 2, Section 3, Township 35 South, Range 7 East of the Willamette Meridian, Klamath County, Oregon, particularly described as follows: Beginning at the Southwest corner of said Lot 2, thence East 430.0 feet to a point; thence North 303.1 feet to a point; thence West 430.0 feet to a point due North of the point of beginning; thence South 303.1 feet to the place of beginning.

PARCEL 3: All of Lot 12, and that portion of Lots 3 and 7 lying East of the Southern Pacific Company's right-of-way, in Section 3, Township 35 South, Range 7 East of the Willamette Meridian, together with the easement for road purposes over and along the existing road which is an extension of Second Avenue and which runs through Lots 11 and 16 in a South and Westerly direction to the East line of said Lot 12, for ingress to and egress from the above property.

STATE OF OREGON,  
County of Klamath ss.

Filed for record at request of:

Return: Transamerica Title Co.  
555 S.W. Oak  
Portland, Or. 97204

Klamath County Title Co.  
on this 7th day of April A.D., 19 89  
at 3:01 o'clock P.M. and duly recorded  
in Vol. M89 of Mortgages Page 5975  
Evelyn Biehn County Clerk  
By Pauline Muckelbauer

Fee, \$28.00

Deputy.