

SUBORDINATION AGREEMENT

PARTIES:

SOUTH VALLEY STATE BANK, an Oregon banking corporation, 5215 South Sixth Street, Klamath Falls, Oregon
(Bank)

CENTRAL OREGON INTERGOVERNMENTAL COUNCIL, P.O. Box 575, Redmond, Oregon 97756
(Council)

SYCAN FOREST PRODUCTS, INC., P.O. Box 164, Dairy, Oregon 97625, and WALTER and SALLY McGEE, P.O. Box 164, Dairy, Oregon 97625
(Debtor)

PURPOSE OF AGREEMENT: Bank is a secured creditor of Walter and Sally McGee and Sycan Forest Products, Inc. As Creditors, Bank and Council hold security interests in all of the assets of Debtor, which interests are evidenced by certain filings including, but not limited to, the following financing statements:

<u>File No.</u>	<u>Date</u>
K84763	1-27-87
K06569	9-6-85
M04820	5-13-87
M01777	4-28-87
J47130	8-27-84
N15939	3-2-89

In addition, Council holds a mortgage on that real property described in Exhibit "A" attached hereto by instrument dated February 28, 1989 and recorded at Volume M89, Page 4300, Mortgage Records of Klamath County, Oregon.

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LAW OFFICES OF
MERRILL & O'SULLIVAN, P.C.
A PROFESSIONAL CORPORATION
424 N.E. KEARNEY
BEND, OREGON 97701

789 JUN 1 AM 11 53

Council has provided financing to Debtor in the sum of \$45,000 for the purchase and installation of equipment as well as in construction of offices. A condition of Council's loan to Debtor was the subordination of Bank's lien on those items of equipment listed on Exhibit "B" attached hereto and incorporated herein by reference to the interest of Council.

Bank now wishes to provide new financing to Borrower Sycan Forest Products, Inc. in the sum of \$210,000, which will result in an indebtedness to Bank of \$514,362.. To facilitate credit, Council has agreed to subordinate certain lien rights.

In consideration of the extension of credit to Debtor by Bank,

IT IS, THEREFORE, AGREED AS FOLLOWS:

1. SUBORDINATION: Council hereby agrees that Council's lien on the equipment of Sycan Forest Products, Inc. other than those items of equipment listed on Exhibit "B" attached hereto and incorporated herein by reference is subordinate to the security interest of Bank.

Council hereby subordinates the lien of its mortgage as recorded at Volume M89, Page 4300, Mortgage Records of Klamath County, Oregon to the existing mortgage, Trust Deeds and Assignments of Bank and additional financing to be provided by Bank in the sum of \$210,000.

2. LIMIT ON DEBT: This Subordination Agreement shall apply only to Debtor's obligation to Bank in the sum of

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\$514,362 plus accrued interest thereon and costs of enforcement incurred by Council. This Subordination Agreement shall not apply to Borrower's revolving line with Bank.

3. NO BENEFIT TO THIRD PARTIES: This agreement is not intended to benefit any creditor of Debtor other than Bank. Council expressly reserves all rights as it may have against other Creditors.

4. NOTICE: In the event of default by Debtor on Debtor's obligation to Bank, Bank shall give Council ten days' written notice prior to moving against those items of collateral described in Exhibit "B" or the real property described on Exhibit "A."

DATED this 24th day of May, 1989.

SOUTH VALLEY STATE BANK, an
Oregon banking corporation

CENTRAL OREGON
INTERGOVERNMENTAL COUNCIL

By Terris L. Niercher
SYCAN FOREST PRODUCTS, INC.

By [Signature]

By Walter M. Mc
President

By Sally M. See
Secretary

APPROVAL BY GUARANTORS

THE UNDERSIGNED Guarantors of the obligation of Sycan Forest Products, Inc. to Council approve and ratify the foregoing Subordination Agreement.

DATED this 24 day of May, 1989.

Walter M. Mc

Sally M. See

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A tract of land situated in the SE1/4 NE1/4 of Section 33, Township 38 South, Range 11 1/2 East of the Willamette Meridian, Klamath County, being more particularly described as follows:

Beginning at a point on the East line of said SE1/4 NE1/4 from which point the Northeast corner of said SE1/4 NE1/4 bears North 00 degrees 02' 28" East 300.00 feet; thence South 00 degrees 02' 28" West, on said East line, 173.96 feet; thence South 71 degrees 11' 50" West, 582.82 feet; thence South 80 degrees 57' 06" West 776.32 feet to a point on the West line of said SE1/4 NE1/4; thence North 00 degrees 13' 13" East on said West line, 137.61 feet to the Easterly line of a tract of land described in Deed Volume 47 at page 593, Klamath County Deed Records; thence Northeast along said Easterly line to a point on the North line of said SE1/4 NE1/4; thence North 89 degrees 29' 53" East on said North line, 591.88 feet to the Northwest corner of a tract of land described in Deed Volume M78, page 3585, Klamath County Deed Records; thence South 00 degrees 02' 28" West on the West line of the last mentioned tract of land, 300.00 feet to the Southwest corner thereof; thence North 89 degrees 29' 53" East on the South line of the last mentioned tract of land, 300.00 feet to the point of beginning of this description.

TOGETHER WITH a tract of land situated in the SE1/4 NE1/4 of Section 33, Township 38 South, Range 11 1/2 East of the Willamette Meridian, Klamath County, Oregon, being more particularly described as follows:

Beginning at the Northwest corner of said SE1/4 NE1/4; thence North 89 degrees 29' 53" East along the North line of said SE1/4 NE1/4; 316.66 feet to the Westerly line of a tract of land described in Deed Volume 47 at page 593, Klamath County Deed Records; thence Southwesterly along said Westerly line to the West line of said SE1/4 NE1/4; thence North 00 degrees 13' 13" East along the West line of said SE1/4 NE1/4, 508.39 feet to the point of beginning.

EXHIBIT A

- (1) 25 ft long 24" belt conveyor (Trim ends)
trimmer to processor infeed to main conveyor

VALUE \$ 5,000

- (1) 20 ft long 18" belt conveyor
processor to main conveyor (Block conveyor)

VALUE 2,500

- (1) 75 ft long trough conveyor (Main mill conveyor)
complete, including all hoppers

VALUE 10,000

- (1) 43 ft long 30" belt conveyor (Hog Conveyor)
complete, including MDI metal detector unit

VALUE 10,000

- (1) 48 ft long trough conveyor (Sawdust conveyor)
complete, hog to truck

VALUE 5,000

- (1) Sumner 35 knife hog, complete with upper and
lower hoppers, base, stand, decking and handrails,
motor and belts

VALUE 30,000

- (1) Processor unit (firewood)
complete with delivery and removal table,
motor and saw

VALUE 7,500

TOTAL VALUE

\$70,000

STATE OF OREGON: COUNTY OF KLAMATH: ss.

Filed for record at request of South Valley State Bank the 1st day
of June A.D., 19 89 at 11:53 o'clock AM., and duly recorded in Vol. M89,
of Mortgages on Page 9590.

Evelyn Biehn County Clerk

By D. Aulini Muckendore

FEE \$28.00

EXHIBIT B