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Recording Requested by:

97 SEP 17 P3:32

WHEN RECORDED MAIL TO:

CCFLCA

P.O. BOX 1340  
 ARROYO GRANDE, CA 93421  
 Attn: TRACEY PAGE

MTC 42046-LW

Space Above This Line For Recorder's Use

Loan Number: 0500550700

# **DEED OF TRUST AND ASSIGNMENT OF RENTS**

THIS DEED OF TRUST, made this 19th day of August, 1997 between  
Scott L. Runels, also known as and who acquired title as Scott Lee Runels, and  
Margie B. Runels, husband and wife

as Trustor, AmeriTitle, as Trustee, and Central Coast Federal Land Bank Association, FLCA  
as Trustee and Beneficiary, a corporation, existing and operating under  
the Farm Credit Act of 1971, as amended, having its principal place of business in Arroyo Grande, California

WITNESSETH: That Trustor **IRREVOCABLY GRANTS, CONVEYS AND ASSIGNS** unto said Trustee, in trust,  
 with power of sale together with right of entry and possession the following described real property situated in the County of  
Klamath, State of Oregon:

For description of real property, see Exhibit "A", attached hereto and made a part hereof.

**\*\* RE RECORDED TO CORRECT TRUSTEE \*\***

TOGETHER WITH: all buildings, structures, equipment, fixtures (including, but not limited to, trees, vines and shrubs) and  
 improvements of every kind and description now or hereafter constructed or placed thereon; all standing timber and timber to  
 be cut located thereon; all pumping plants, electrical generators, wind machines, and fencing and storage tanks, now or  
 hereafter used in connection with the property, all of which are hereby declared to be fixtures; all grazing rights, leases, permits  
 and licenses; all oil, gas, and mineral leases, permits and rights used with the property; and all tenements, hereditaments,  
 easements, rights-of-way and appurtenances to the property (collectively the "Property").

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**Water Assets:** The Property shall also include all right, title, and interest at any time of Trustor (or any of its bailees, agents, or instrumentalities), whether now existing or hereafter arising or acquired, whether direct or indirect, whether owned legally, of record, equitably or beneficially, whether constituting real or personal property (or subject to any other characterizations), whether created or authorized under existing or future laws or regulations, and however arising in, including without limitation, the following, which shall collectively be called "Water Assets":

1. All water (including any water inventory in storage), water rights and entitlements, other rights to water and other rights to receive water or water rights of every kind or nature whatsoever including (i) the groundwater on, under, pumped from or otherwise available to the Property, whether as the result of groundwater rights, contractual rights or otherwise, (ii) Trustor's right to remove and extract any such groundwater including any permits, rights or licenses granted by any governmental authority or agency or any rights granted or created by any use, easement, covenant, agreement, or contract with any person or entity, (iii) any rights to which the Property is entitled with respect to surface water, whether such right is appropriative, riparian, prescriptive, decreed or otherwise and whether or not pursuant to permit or other governmental authorization, or the right to store any such water, (iv) any water, water right, water allocation, distribution right, delivery right, water storage right, or other water-related entitlement appurtenant or otherwise applicable to the Property by virtue of the Property being situated within the boundaries of any district, agency, or other governmental entity or within the boundaries of any private water company, mutual water company, or other non-governmental entity;
2. All stock, interest or rights (including any water allocations, voting or decision rights) in any entity, together with any and all rights from any entity or other person to acquire, receive, exchange, sell, lease, or otherwise transfer any Water Assets, to store, deposit or otherwise create water credits in a water bank or similar or other arrangement for allocating water, to transport or deliver water, or otherwise to deal with any Water Asset;
3. All licenses, permits, approvals, contracts, decrees, rights and interests to acquire or appropriate any Water Assets, water bank or other credits evidencing any right to Water Assets, to store, carry, transport or deliver Water Assets, to sell, lease, exchange, or otherwise transfer any Water Asset, or to change the point for diversion of water, the location of any Water Asset, the place of use of any Water Asset, or the purpose of the use of any Water Asset;
4. All rights, claims, causes of action, judgments, awards, and other judicial, arbiter or administrative relief in any way relating to any Water Asset;
5. All storage and treatment rights for any Water Asset, whether on or off the Property or other property of Trustor, together with all storage tanks, and other equipment used or usable in connection with such storage and any water bank deposit credits, deposit accounts or other rights arising on account of the storage or nonuse of any Water Asset;
6. All rights to transport, carry, allocate or otherwise deliver Water Assets by any means wherever located;
7. All irrigation and watering equipment and all systems, ditches, laterals, conduits, and rights-of-way used to convey such water or to drain the Property;
8. All guaranties, warranties, marketing, management or service contracts, indemnity agreements, and water right agreements, other water related contracts and water reallocation rights, all insurance policies regarding or relating to any Water Asset;
9. All rents, issues, profits, proceeds and other accounts, instruments, chattel paper, contract rights, general intangibles, deposit accounts, and other rights to payment arising from or on account of any use, nonuse, sale, lease, transfer or other disposition of any Water Asset.

References to "water" and "water rights" are used herein in the broadest and most comprehensive sense of the term(s). The term "water" includes water rights and rights to water or whatever rights to money, proceeds, property or other benefits are exchanged or received for or on account of any Water Assets or any conservation or other nonuse of water, including whatever rights are achieved by depositing one's share of any Water Assets in any water bank or with any water authority, or any other water reallocation rights.

To the extent that any of the Property, including without limitation any Water Asset, constitutes personal property, this Deed of Trust shall also be deemed to be a security agreement and Trustor does hereby create and grant to Beneficiary a security interest in all such personal property described herein and further grants to Beneficiary all of the rights and remedies of a secured party under the Uniform Commercial Code and other applicable state law, which rights are cumulative.



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TRUSTOR ABSOLUTELY AND UNCONDITIONALLY ASSIGNS, transfers, conveys and sets over to Beneficiary all the rents, royalties, issues, profits, revenue, income and other benefits of the Property arising from the use or enjoyment of all or any portion thereof, including those set forth in Paragraph 9 above, or from any lease, mineral lease, or agreement pertaining to the Property (collectively the "Rents"); SUBJECT, HOWEVER, to the right, power and authority given to and conferred upon Trustor by Paragraph B.3 hereof. This assignment shall be perfected automatically without appointment of a receiver or Beneficiary becoming a mortgagee in possession.

FOR THE PURPOSE OF SECURING: (1) payment of the indebtedness or obligations evidenced by guarantees or by the following promissory note(s) payable by Trustor and/or others to the Beneficiary at the times, in the manner and with interest as therein set forth (notes may contain variable or adjustable interest rate provisions):

Face Amount	Dated	Face Amount	Dated	Face Amount	Dated
\$918,053.00	08/19/97				

(2) the payment of such additional loans or advances, including advances under a revolving line of credit, with interest thereon, as hereafter may be made to Trustor, or Trustor's successors or assigns, evidenced by a promissory note, guaranty or otherwise; PROVIDED HOWEVER, THAT, such additional loans or advances shall be secured by this Deed of Trust only if the promissory note, guaranty, or other document evidencing such loans or advances shall recite that it is to be secured by this Deed of Trust; (3) the payment of any substitute notes, renewals, reamortizations, conversion agreements and extensions of all indebtedness secured by this Deed of Trust; (4) the performance of every obligation and agreement of Trustor whether contained or incorporated by reference in this Deed of Trust, or contained in any loan document or guaranty executed by Trustor in favor of Beneficiary, with respect to any loan or advance secured by this Deed of Trust; and (5) the payment of all sums expended or advanced by Beneficiary under or pursuant to the terms of this Deed of Trust, together with interest thereon as herein provided. The foregoing shall hereinafter be referred to as the "Indebtedness". The continuing validity and priority of this Deed of Trust as security for future loans or advances shall not be impaired by the fact that at certain times hereafter there may exist no outstanding indebtedness from Trustor to Beneficiary or no commitment to make loans or advances.

**A. TO PROTECT THE SECURITY OF THIS DEED OF TRUST, TRUSTOR AGREES:**

1. To use loan proceeds solely for the purposes set forth in the loan application(s).

2. To keep the Property in good condition, working order and repair; care for the Property in accordance with standards of good husbandry and to keep all trees, vines and crops on said land properly cultivated, irrigated, fertilized, sprayed, and fumigated; not to sell, transfer, assign, encumber or convey any water or water right from the Property, or to enter into an agreement for the nonuse of water, without the prior written consent of Beneficiary, not to remove, destroy or suffer the removal or destruction of any building, fence, canal, well or other improvements or fixtures thereon; not to remove, replace or alter any horticultural or viticultural tree, vine or shrub planted thereon without the prior written consent of Beneficiary, except in the ordinary course of business; to complete or restore promptly and in good and workmanlike manner any building which may be constructed, damaged or destroyed thereon; to comply with all laws, covenants and restrictions affecting the Property; not to commit or permit waste thereof; not to commit, suffer or permit any act upon the Property in violation of law; to do all other acts which from the character or use of the Property may be reasonably necessary, the specific enumerations herein not excluding the general; to observe and perform all obligations of Trustor under any lease of the Property.

3. To provide, maintain and deliver to Beneficiary, fire and extended coverage, flood and all other types of insurance in terms and amounts as may be required by law or Beneficiary, with loss payable endorsements solely in favor of Beneficiary. In the event of loss, the insurance proceeds, or any part thereof, may be applied by Beneficiary, at its option, to reduce the indebtedness or restore or repair the property damaged. Failure to obtain, maintain or deliver to Beneficiary the insurance required shall constitute an event of default under this Deed of Trust.

At least thirty (30) days prior to the expiration of any such policy of insurance, Trustor will deliver a policy renewing or extending such expiring insurance and written evidence demonstrating payment of the premium for such insurance. If any such policy and evidence of payment (or copies of same, if originals cannot be delivered to Beneficiary) are not so delivered to Beneficiary, without notice to or demand upon Trustor and without releasing Trustor from any obligation under this Deed of Trust, Beneficiary may (but is not obligated to), at Trustor's expense, obtain insurance in such types, on such terms and in such amounts as Beneficiary in its sole discretion shall decide, through or from any insurance agency or company acceptable to it. Any insurance obtained by Beneficiary shall be for its sole benefit and to protect the security of this Deed of Trust. The expense and cost of such insurance shall, at Beneficiary's sole option, be payable on demand or added to the indebtedness as provided herein. Neither Trustee nor Beneficiary shall be chargeable with or responsible for the procurement or maintenance of any such insurance, the collection of any proceeds from such insurance, or the insolvency of any insurance company or underwriter.

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4. To appear in and litigate any action or proceeding purporting to affect the security hereof, the title to the Property, or the rights or powers of Beneficiary or Trustee. Beneficiary or Trustee may appear in and litigate any such action or proceedings, including any bankruptcy, partition or condemnation proceeding, affecting the Property, or Beneficiary's interest therein, in which event Trustor agrees to pay all costs and expenses thereof, including attorney's fees and costs of securing evidence of title.

5. To pay on or before the due date all taxes and assessments affecting the Property, including all assessments upon water company stock and all rents, assessments and charges for water, appurtenant to or used in connection with the Property; to pay, when due, all encumbrances, charges, and liens, on the Property or any part thereof, which at any time appear to be prior or superior hereto.

6. In the event that Beneficiary utilizes the services of attorneys, accountants, appraisers, consultants, or other professional or outside assistance, including the services of in-house counsel or any other attorney or professional who is a direct employee of Beneficiary, the reasonable amount of expenses incurred by Beneficiary to utilize such persons in connection with the following shall be payable on demand and Beneficiary may, at its option, add the amount of such expenses to any portion of the Indebtedness, and charge interest on such amount at the interest rate applicable to such portion of the Indebtedness:

(a) The preparation or modification of this Deed of Trust, or any other agreement or document incident to the Indebtedness;

(b) Advising Beneficiary concerning its legal rights and obligations with regard to the Deed of Trust, the other agreements incident to the Indebtedness, or the Property, including advising Beneficiary with regard to the extent of Trustor's rights, if any, under the provisions of the Farm Credit Act, any policy or program of Beneficiary, or any state or federal law;

(c) Any litigation, dispute, proceeding, or action, whether instituted by Beneficiary, Trustor or any other person, relating to the Indebtedness, the Property or Trustor's affairs;

(d) The furtherance of Beneficiary's interest in any bankruptcy, insolvency, or reorganization case or proceeding instituted by or against Trustor, including any steps to (i) modify or terminate the automatic stay, (ii) prohibit or condition Trustor's use of cash collateral, (iii) object to any disclosure statement or plan, (iv) propose or confirm a plan, and (v) prosecute or defend adversary proceedings or contested matters, and take or defend examinations or discovery, whether or not related to any adversary proceeding or contested matter;

(e) The inspection, verification, protection, collection, processing, sale, liquidation, or disposition of the Property, and

(f) Any of the type of expenses referred to in (a) through (e) above incurred by Beneficiary in connection with any guaranty of the Indebtedness.

The fees and costs described herein and elsewhere in this Deed of Trust shall be in addition to those set forth in the loan agreement or any other written agreement between Trustor and Beneficiary.

7. Should Trustor fail to make any payment or to do any act as herein provided, then Beneficiary or Trustee, but without obligation to do so and without notice to or demand upon Trustor and without releasing Trustor from any obligation hereof, may: make or do the same in such manner and to such extent as either may deem necessary to protect the Property, Beneficiary or Trustee being authorized to enter upon the Property for such purposes; commence, appear in and litigate any action or proceeding purporting to affect the Property or the rights or powers of Beneficiary or Trustee, including any bankruptcy proceeding affecting the Property; pay, purchase, contest, or compromise any encumbrance, charge or lien which in the judgment of either appears to be prior or superior hereto; pay such fees, charges, rents or other payments accruing under the grazing permits described in Paragraph 10 below; and in exercising any such powers, incur any liability, expend whatever amounts in its absolute discretion it may deem necessary therefore, including attorney's, accountant's, and appraisal fees, environmental fees and costs of securing evidence of title, and all amounts so expended shall be obligations of Trustor secured by this Deed of Trust. Nothing contained herein shall prohibit Beneficiary from entering the Property, at a reasonable time and upon reasonable notice to Trustor, without incurring or assuming any obligations or liabilities whatsoever, for the sole purpose of inspecting the Property.

8. To pay immediately and without demand all sums expended by Beneficiary or Trustee pursuant to the provisions hereof, with interest from date of expenditure at the same rate as is provided for in the note or notes secured by this Deed of Trust. In the event that such sums are not immediately paid, they shall be added, along with the appropriate amount of capital stock or participation certificates, to the principal balance of the Indebtedness and shall accrue interest as therein set forth. All such sums shall be secured hereby.



9. Environmental Laws and Hazardous Substances.

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(a) As used in this Paragraph 9:

(i) "Environmental Laws" shall mean all federal, state and local laws, ordinances, rules and regulations now or hereafter in force, as amended from time to time, in any way relating to or regulating human health or safety, industrial hygiene or protection of the environment.

(ii) "Hazardous Substances" shall mean any substance or material that is described, designated or regulated as a toxic or hazardous substance, waste or material or a pollutant or contaminant, or words of similar import, in any of the Environmental Laws.

(iii) "Release" shall mean any spilling, leaking, pumping, pouring, emitting, emptying, discharging, injecting, escaping, leaching, dumping or disposing into the environment, including continuing migration, of Hazardous Substances into, onto or through the soil, surface water or groundwater of the Property, whether or not caused by, contributed to, permitted by, acquiesced to or known to Trustor.

(iv) "User" means any person other than Trustor who occupies, uses or comes onto or has occupied, used or come onto the Property or any part thereof and any agent or contractor of such a person.

(b) Trustor represents and warrants to Beneficiary that as of the date of this Deed of Trust and to the best of Trustor's knowledge, based on due inquiry and investigation:

(i) except as previously disclosed in writing by Trustor to Beneficiary (A) no Hazardous Substances in excess of permitted levels or reportable quantities under applicable Environmental Laws are present in, on or under the Property or any nearby real property which could migrate to the Property, (B) no Release or threatened Release exists or has occurred, (C) neither Trustor nor any User has ever used the Property or any part thereof for the production, manufacture, generation, treatment, handling, storage, transportation or disposal of Hazardous Substances, (D) no underground, surface or elevated storage tanks of any kind, wells (except domestic water wells), septic tanks, pits, ponds or other impoundments ("Tanks") are or ever have been located in or on the Property, and (E) no investigation, claim, demand, action or proceeding of any kind relating to any Release or threatened Release or any past or present violation of any Environmental Laws relating to the Property has been made or commenced, or is pending, or is being threatened by any governmental authority or other person;

(ii) all operations and activities at, and the use and occupancy of, the Property comply with all applicable Environmental Laws;

(iii) Trustor and every User has, and is in strict compliance with, every permit, license and approval required by all applicable Environmental Laws for all activities and operations at, and the use and occupancy of, the Property;

(iv) neither the Property, nor any portion thereof, nor any adjacent property or portion thereof, has been or is proposed to be listed under the Comprehensive Environmental Response, Compensation and Liability Act (42 U.S.C. Section 9601, et seq.), or any analogous state law; and

(v) any written disclosure submitted by or on behalf of Trustor to Beneficiary at Beneficiary's request concerning any Release or threatened Release, past or present compliance by Trustor, User or any other person of any Environmental Laws applicable to the Property, the past and present use and occupancy of the Property, any environmental concerns relating to the Property and the like was true and complete when submitted.

(c) Trustor agrees that:

(i) Except in the ordinary course of business, in a good and husbandlike manner and in strict compliance with all applicable Environmental Laws, Trustor promises that neither Trustor nor any User shall use, produce, manufacture, generate, treat, handle, store, transport, or dispose of any Hazardous Substances in, on or under the Property, or use the Property for any such purposes;

(ii) Trustor shall not cause, contribute to, permit or acquiesce to any Release or threatened Release;

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(iii) Trustor shall comply fully, and shall cause every User to comply fully, with all Environmental Laws applicable to the Property, and all other laws, ordinances and regulations applicable to the use or occupancy thereof, or any operations or activities therein or thereon;

(iv) With respect to any Tanks disclosed in writing to Beneficiary, Trustor shall comply with all Environmental Laws and any requirements of city or county fire departments, applicable to the maintenance and use of such Tanks, including, without limitation, Title 40 of the Code of Federal Regulations part 112;

(v) To facilitate performance of Trustor's obligations under Paragraph 9(c)(i), (ii), (iii) and (iv) of this Deed of Trust, Trustor shall regularly inspect the Property, monitor the activities and operations of every User and confirm that every User has obtained and fully complies with all permits, licenses and approvals required by all applicable Environmental Laws;

(vi) Immediately after Trustor obtains any information indicating any Release or threatened Release, or that Hazardous Substances in, on or under any nearby property could migrate to the Property or a violation of any Environmental Laws may have occurred or could occur regarding the Property, Trustor shall give notice thereof to Beneficiary with a reasonably detailed description of the event, occurrence or condition in question;

(vii) If Beneficiary obtains any information that Beneficiary believes in good faith indicates a reasonable possibility of a Release or threatened Release, or that Hazardous Substances in, on or under any nearby real property could migrate to the Property or any violation of any Environmental Laws may have occurred or could occur regarding the Property, then Trustor shall, at the expense of Trustor, promptly after a request by Beneficiary, or Beneficiary may at Trustor's expense any time prior to completion of a judicial or nonjudicial foreclosure, engage a qualified environmental engineer to conduct a comprehensive environmental assessment of the Property and prepare and submit to Beneficiary a written report containing the findings and conclusions resulting from such investigation. Trustor shall, on demand, pay to Beneficiary all sums expended by Beneficiary in connection with any such comprehensive environmental assessment, together with interest thereon after such demand at the interest rate as set forth in the applicable promissory note(s) evidencing the Indebtedness;

(viii) Trustor shall permit, or cause any User to permit, Beneficiary or its agents or independent contractors to enter and inspect the Property (including the taking of building materials, soil and groundwater samples) at any reasonable time and after reasonable notice, except in an emergency, whether or not a default has occurred under this Deed of Trust, and including after the commencement of judicial or nonjudicial foreclosure proceedings, for purposes of determining, as Beneficiary deems necessary or desirable: the existence, location or nature of any Hazardous Substances into, onto, or spread beneath or from the Property, that is located or has been spilled, disposed of, discharged or released on, under or about the Property. Trustor acknowledges that all inspections and reviews undertaken by Beneficiary are solely for the benefit and protection of Beneficiary and agrees that Beneficiary shall have no duty to Trustor with respect to Hazardous Substances or Environmental Laws as a result of any such inspections, and such inspections shall not result in a waiver of any default by Trustor. If Trustor or any User fails to comply fully with the terms of this section, Beneficiary may obtain affirmative injunctive relief to compel such compliance; and

(ix) If any Release or threatened Release exists or occurs before this Deed of Trust is reconveyed or foreclosed upon, or if Trustor is in breach of any of its representations, warranties or covenants as set forth in this Section 9, Trustor shall immediately give notice of the condition to Beneficiary, and Trustor shall at its own expense cause all Hazardous Substances to be cleaned up and removed from the Property, and the Property shall be restored, in compliance with all applicable Environmental Laws and other laws, ordinances, rules and regulations (the "Remediation Work"). If requested by Beneficiary, Trustor shall submit to Beneficiary, for Beneficiary's prior approval, complete plans and specifications for all Remediation Work to be done before any Remediation Work is performed, except in an emergency. Alternatively, Beneficiary may cause such Remediation Work to be completed at Trustor's expense.

(d) Beneficiary shall have the right, but not the obligation, to advise appropriate governmental authorities of any environmental condition on or affecting the Property that constitutes or may constitute a breach of Trustor's obligations hereunder.

(e) Trustor and its successors and assigns shall indemnify, defend, protect, and hold harmless Beneficiary, and/or Trustee, its directors, officers, employees, agents, shareholders, successors and assigns and their officers, employees or agents, from and against any and all claims, suits, damages, foreseeable and unforeseeable consequential damages, liens, losses, liabilities, interest, judgments, cleanup costs, demands, actions, causes of action, injuries, administrative proceedings and orders, consent agreements and orders, penalties, costs and expenses (including any fees and expenses incurred in enforcing this indemnity, any out-of-pocket litigation costs, sums paid in settlement of claims, and all consultant, expert and the reasonable fees



and expenses of counsel, including in-house legal services) of any kind whatsoever ("Claims") paid, incurred or suffered by, or asserted against Beneficiary and/or Trustee, including but not limited to Claims arising out of loss of life, injury to persons, trespass or damage to or contamination of property or natural resources, or injury to business, in connection with or arising out of the activities of Trustor on the Property, Trustor's predecessors in interest, third parties who have been invited, permitted or trespassed on the Property, or parties in a contractual relationship with Trustor, or any of them, or which directly or indirectly arise out of or result from or in any way connected with the Property, whether or not caused by Trustor or within the control of Trustor, including without limitation: (i) the presence, use, generation, treatment, storage, disposal, Release, threatened Release, or discharge of any Hazardous Material or Contaminant at or from said Property and/or the cleanup of Hazardous Materials or Contaminants within, on or under said Property; (ii) Trustor's breach of any of the representations, warranties and covenants contained herein; and (iii) Trustor's violation or alleged violation of any applicable Environmental Law, regulation or ordinance.

(f) Trustor's representations, warranties, covenants and indemnities contained herein shall survive the occurrence of any event whatsoever, including without limitation the payoff of the promissory note secured hereby, the reconveyance or foreclosure of this Deed of Trust, the acceptance by Trustee of a deed in lieu of foreclosure, or any transfer or abandonment of the Property.

10. Grazing Rights. If any portion of the Property described in this Deed of Trust is used by Trustor as the basis for obtaining grazing permits or other grazing rights issued by any governmental agency, including without limitation the Forest Service, U.S. Department of Agriculture or the Bureau of Land Management, U.S. Department of Interior, Trustor covenants and agrees as follows:

(a) Said grazing permits or other rights are in good standing and have not been modified, reduced or limited in any other respect, except as fully disclosed in writing to Beneficiary;

(b) Trustor will perform all obligations imposed as a requirement of exercise of said grazing permits or other rights and will comply with all laws, rules and regulations applicable thereto;

(c) Trustor will take such timely action as may be required to cause the renewal or reissuance of said grazing permits or other rights from time to time as they expire during the term thereof. Trustor agrees and acknowledges that the failure to renew or cause the reissuance of any said permits for any reason, whether the result of an act or omission of Trustor or for reasons beyond Trustor's control, is an event of default hereunder and Beneficiary shall have the right to exercise the rights set forth in this Deed of Trust; and

(d) Trustor agrees to pay all fees, charges, rents or other payments accruing under said permits or any renewals thereof prior to delinquency. In the event Trustor fails to pay any such payment, the amount unpaid shall become a part of the indebtedness and shall be immediately due and payable.

11. Water Rights. All water used on, or water rights arising from or related to the Property is deemed to be real property and is not personal property. Trustor represents that Trustor is not in the business of transferring water and, therefore, any sale or transfer of any water or water rights is not a transfer of goods in the ordinary course of business. Trustor further agrees that in no event will any water or water rights be goods identified to a contract. Trustor hereby acknowledges that any severance of water or water rights from the Property would materially harm the Property.

12. Trustor shall furnish Beneficiary as soon as possible, but in no event later than 120 days after each fiscal year end, financial reports for each of the undersigned, including a balance sheet and a profit and loss statement.

#### B. IT IS MUTUALLY AGREED THAT:

1. Any award of damages in connection with any taking or condemnation or injury to the Property by reason of public use, or for damages resulting from private trespass or injury to the Property, is absolutely and unconditionally assigned and shall be paid to Beneficiary, under the terms and conditions of this Deed of Trust pertaining to Rents. Upon receipt of such money Beneficiary may apply the same on the Indebtedness. Trustor agrees to execute such further documents as may be required to effect the assignments herein made as Beneficiary or Trustee may require.

2. At any time, without affecting the liability of any person for the payment of the Indebtedness, and without otherwise affecting the security hereof, Trustee may (a) consent to or join in the making of any map or plat of the Property; (b) grant any easement or create any restriction thereof; (c) subordinate this Deed of Trust; (d) extend or modify the term of the loan or loans secured hereby; and (e) reconvey without warranty, all or any part of the Property. Trustor agrees to pay reasonable Trustee's fees for any of the foregoing services.

3. Prior to any default by Trustor in the payment, observance, performance and discharge of any condition, obligation, covenant, or agreement of Trustor contained herein, Trustor may, as the agent and fiduciary representative of Beneficiary for collection and distribution purposes only, collect and receive the Rents as they come due and payable; the Rents are to be applied by Trustor to the payment of the principal and interest and all other sums due or payable on any promissory note or guaranty secured by this Deed of Trust and to the payment of all other sums payable under this Deed of Trust and, thereafter, so long as aforesaid has occurred, the balance shall be distributed to the account of Trustor. However, Beneficiary shall have the right before or after the occurrence of any default to notify any account debtor to pay all amounts owing with respect to Rents directly to Beneficiary. Upon any such default, Beneficiary may at any time without notice, either in person, by agent, or by a receiver to be appointed by a court, and without regard to the adequacy of any security for the Indebtedness, enter upon and take possession of the Property or any part thereof, in his own name, sue for or otherwise collect such Rents, including those past due and unpaid, and apply the same, less costs and expenses of operation and collection, including reasonable attorney's fees, upon any Indebtedness, and in such order as Beneficiary may determine; also perform such acts of repair, cultivation, irrigation or protection, as may be necessary or proper to conserve the value of the Property; also lease the same or any part thereof for such rental, term, and upon such conditions as its judgment may dictate; also prepare for harvest, remove, and sell any crops that may be growing upon the Property, and apply the proceeds thereof upon the Indebtedness.

4. The entering upon and taking possession of the Property, the collection of such Rents, or the proceeds of fire and other insurance policies, or compensation or awards for any taking of or damage to the Property, and the application or release thereof as aforesaid, shall not cure or waive any default or notice of default hereunder or invalidate any act done pursuant to such notice.

5. Upon default by Trustor in payment of all or a portion of the Indebtedness or in performance of any agreement hereunder, all sums secured hereby shall immediately become due and payable at the option of the Beneficiary and in accordance with applicable state law. In the event of default, Beneficiary may employ counsel to enforce payment of the Indebtedness, may cause the Trustee to sell the Property in accordance with the power of sale granted herein and the applicable state law, and may exercise such other rights and remedies granted under this Deed of Trust or by law and equity, including, but not limited to, California Code of Civil Procedure Sections 726.5 and 736, or similar state law, which rights and remedies shall be cumulative and not exclusive. Trustee may sell the Property either as a whole or in separate parcels, and in such order as it may determine. The purchase price shall be payable in lawful money of the United States at the time of the sale. In exercising the power of sale contained herein, Trustee may hold one or more sales of all or any portion of the Property by public announcement at the time and place of sale set forth in the notice thereof, and from time to time thereafter may postpone such sale or sales of all or any portion of the Property to the same or separate days by public announcement at such time fixed by the preceding postponement. Any person, including Trustee or Beneficiary, may purchase at such sale. Beneficiary may credit bid at any such sale, and if Beneficiary is the successful purchaser, it may apply any of the outstanding Indebtedness in settlement of the purchase price. Beneficiary may resort to and realize upon the security hereunder and any other real or personal property security now or hereafter held by Beneficiary for the obligations secured hereby in such order and manner as Beneficiary may, in its sole discretion, determine; or may resort to any or all such security may be taken concurrently or successively and in one or several consolidated or independent judicial actions or lawful nonjudicial proceedings, or both. If the Indebtedness is also secured by personal property, fixtures or crops, Beneficiary may enforce its security interest in the personal property, fixtures and crops and its lien under this Deed of Trust in any manner and in any order or sequence permitted by applicable law. All remedies are cumulative and none are exclusive; no election by Beneficiary to pursue one remedy or item of collateral shall be deemed to be a release or waiver of any other item of collateral or a release or modification of the liability of Trustor or any guarantor to pay all Indebtedness or perform in full all obligations to Beneficiary. The procedures governing the enforcement by Beneficiary of its foreclosure and provisional remedies against Trustor shall be governed by the laws of the state in which the Property is located. Nothing contained herein shall be construed to provide that the substantive law of the state in which the Property is located shall apply to the Beneficiary's rights and the Trustor's obligations hereunder or under the promissory note(s), which are and shall continue to be governed by the substantive law of the state in which the promissory note was executed.

6. The failure on the part of the Beneficiary to promptly enforce any right hereunder shall not operate as a waiver of such right and the waiver by Beneficiary of any default shall not constitute a waiver of any other or subsequent defaults. Subsequent acceptance of any payment by the holder hereof shall not be deemed a waiver of any default by Trustor, or of Beneficiary's rights hereunder as the result of any sale, agreement to sell, conveyance, or alienation, regardless of holder's knowledge of such default, sale, agreement to sell, conveyance, or alienation at the time of acceptance of such payment.

7. This Deed of Trust applies to, inures to the benefit of, and binds all parties hereto, their heirs, legatees, devisees, administrators, executors, successors and assigns. The term Beneficiary shall mean the holder and owner of any note secured hereby; or, if the note has been pledged, the pledgee thereof. In this Deed of Trust, whenever the context so requires, the masculine gender includes the feminine and/or neuter, and the singular number includes the plural. All obligations of Trustor hereunder are joint and several.



8. Trustee is not obligated to notify any party hereto of pending sale under any other Deed of Trust or of any action or proceeding in which Trustor, Beneficiary or Trustee shall be a party unless brought by Trustee.

9. Beneficiary may, from time to time or at any time, substitute a Trustee or Trustees to execute the trust hereby created, and when any such substitution has been filed for record in the office of the Recorder of the county in which the Property herein described is situated, it shall be conclusive evidence of the appointment of such Trustee or Trustees, and such new Trustee or Trustees shall succeed to all of the powers and duties of the Trustee or Trustees named herein.

10. (a) In the event the herein-described Property, or any part thereof, or any interest therein, is sold, agreed to be sold, conveyed, alienated or further encumbered or transferred, including any water transfer as defined in subsection (b) below, by Trustor, or by operation of law or otherwise, without Beneficiary's prior written consent, all Indebtedness, irrespective of the maturity dates, at the option of the holder hereof, and without demand or notice, shall immediately become due and payable. Failure to exercise such option shall not constitute a waiver of the right to exercise this option in the event of subsequent sale, agreement to sell, conveyance or alienation.

(b) A water transfer is any transfer, assignment, sale, agreement to sell, conveyance, exchange, gift, encumbrance, pledge, hypothecation, alienation, grant of option to purchase, or other disposition of, directly, indirectly or in trust, voluntarily or involuntarily, by operation of law or otherwise, or the entry into a binding agreement to do any of the foregoing with respect to all or any part of any existing or hereafter created or acquired Water Assets.

11. If Trustor is an entity other than a natural person (such as a corporation or other organization), then all Indebtedness, irrespective of the maturity date, at the option of Beneficiary, and without demand or notice, shall become immediately due and payable if: (a) a beneficial interest in Trustor is sold or transferred; (b) there is a change in either the identity or number of the managing members or managers of Trustor if Trustor is a partnership or similar entity; or (c) there is a change in ownership of more than 25% of the voting stock of Trustor if Trustor is a corporation or similar entity.

12. In the event any one or more of the provisions contained in this Deed of Trust or in any promissory note or guaranty hereby secured shall for any reason be held to be invalid, illegal or unenforceable in any respect, such invalidity, illegality or unenforceability shall not affect any other provision of this Deed of Trust or said promissory note or guaranty, but this Deed of Trust and said promissory notes or guaranties shall be construed as if such invalid, illegal or unenforceable provision had never been contained herein or therein.

13. The undersigned Trustor agrees that he/she is entitled only to those notices required by applicable law and requests that a copy of any notice of default and of any notice of sale hereunder be mailed to Trustor at the address set forth below.

HC 63 Box 305  
Chiloquin, OR 97624

HC 63 Box 305  
Chiloquin, OR 97624

*Scott L. Runels*  
Scott L. Runels

*Margie B. Runels*  
Margie B. Runels

STATE OF OREGON,

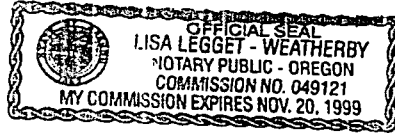
County of Deschutes } ss.

FORM No. 23—ACKNOWLEDGMENT.  
Stevens-Ness Law Publishing Co. NIL  
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BE IT REMEMBERED, That on this 27th day of August, 1997, before me, the undersigned, a Notary Public in and for the State of Oregon, personally appeared the within named Scott L. Runels and Margie B. Runels

known to me to be the identical individual..... described in and who executed the within instrument and acknowledged to me that they..... executed the same freely and voluntarily.

IN TESTIMONY WHEREOF, I have hereunto set my hand and affixed my official seal the day and year last above written.



*Lisa Legget-Weatherby*  
Notary Public for Oregon  
My commission expires 11/20/99

Loan Designation: Scott L. Runels  
Loan Number: 0500550700  
Deed of Trust and Assignment of Rents  
(with Water Rights)

38579 30513  
Klamath County, Oregon  
Page 1 of 2  
August 19, 1997

Exhibit "A"

PARCEL 1:

Government Lots 1, 6, 7 and 8 of Section 32, Township 30 South, Range 8 East of the Willamette Meridian, Klamath County, Oregon, and the NE1/4 of Section 5, and the N1/2 of Section 6, Township 31 South, Range 8 East of the Willamette Meridian, Klamath County, Oregon.

PARCEL 2:

The SE1/4 and the E1/2 SW1/4, and Government Lots 3 and 4, in Section 7, Township 31 South, Range 8 East of the Willamette Meridian, EXCEPT that part lying in the Railroad right of way, in Klamath County, Oregon.

PARCEL 3:

The W1/2 of the NE1/4 of Section 9, Township 31 South, Range 8 East of the Willamette Meridian, Klamath County, Oregon.

The E1/2 of the NE1/4 of Section 9, Township 31 South, Range 8 East of the Willamette Meridian, Klamath County, Oregon.

The SE1/4 of Section 9; and the SW1/4 of Section 10, all in Township 31 South, Range 8 East of the Willamette Meridian, Klamath County, Oregon.

PARCEL 4:

Township 31 South, Range 7 East of the Willamette Meridian, Klamath County, Oregon.

Section 13: N1/2 SE1/4

Township 31 South, Range 8 East of the Willamette Meridian, Klamath County, Oregon.

Section 6: S1/2

Section 8: All

Section 9: W1/2

Section 10: SE1/4

Section 15: N1/2

Section 16: All, EXCEPT that portion of the S1/2 SE1/4 of Section 16, lying Southerly of the Silver Lake Road

Section 17: SE1/4

Section 18: All

Section 19: All, EXCEPT that portion of the S1/2 of Section 19 lying Southerly of the Silver Lake Road

Section 21: N1/2 N1/2, EXCEPT that portion lying Southerly of the Silver Lake Road

SAVING AND EXCEPTING from the above described parcels any portion thereof lying within the right of way of the Southern Pacific Company Railroad.

ALSO EXCEPTING that portion conveyed to Klamath County by Deed recorded June 19, 1987 in Volume M87, page 10661, Microfilm Records of Klamath County, Oregon.



38580

30514

Loan Designation: Scott L. Runels  
Loan Number: 0500550700  
Deed of Trust and Assignments of Rents  
(with Water Rights)

Klamath County, Oregon  
Page 2 of 2  
August 19, 1997

Exhibit "A"

An easement for vehicular and foot traffic as recorded in Agreement recorded July 2, 1985 in Volume M85, page 10178; recorded July 2, 1985 in Volume M85, page 10181 and recorded July 18, 1985 in Volume M85, page 11391, Microfilm Records of Klamath County, Oregon. An easement for road as recorded July 2, 1985 in Volume M85, page 10184, Microfilm Records of Klamath County.

STATE OF OREGON: COUNTY OF KLAMATH: ss.

Filed for record at request of Amerititle the 17th day  
of Sept. A.D., 19 97 at 3:32 o'clock P. M., and duly recorded in Vol. M97  
of Mortgages on Page 30502

FEE \$60.00

**INDEXED**  
**D L**

By

Bernetha G. Letsch, County Clerk

STATE OF OREGON: COUNTY OF KLAMATH: ss.

Filed for record at request of Amerititle the 24th day  
of November A.D., 19 97 at 11:07 o'clock A. M., and duly recorded in Vol. M97  
of Mortgages on Page 38570

FEE \$55.00 Re-record

By

Bernetha G. Letsch, County Clerk