

RECORDATION REQUESTED BY:

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South Valley Bank & Trust
P O Box 5210
Klamath Falls, OR 97601

WHEN RECORDED MAIL TO:

South Valley Bank & Trust
P O Box 5210
Klamath Falls, OR 97601

SEND TAX NOTICES TO:

Ernst Brothers LLC
P O Box 637
Glenrich, OR 97737

SPACE ABOVE THIS LINE IS FOR RECORDER'S USE ONLY

K-53325
SUBORDINATION AGREEMENT - DEED OF TRUST

NOTICE: THIS SUBORDINATION AGREEMENT RESULTS IN YOUR SECURITY INTEREST IN THE PROPERTY BECOMING SUBJECT TO AND OF LOWER PRIORITY THAN THE LIEN OF SOME OTHER OR LATER SECURITY INSTRUMENT.

THIS SUBORDINATION AGREEMENT dated December 7, 1998 is entered into among Ernst Brothers LLC, an Oregon limited liability company, an estate in fee simple ("Borrower"), Neil R. Bryant ("Trustee"), Crescent Oil Company ("Beneficiary") and South Valley Bank & Trust ("Lender").

SUBORDINATED INDEBTEDNESS. Beneficiary has extended the following described financial accommodations (the "Subordinated indebtedness") to Ernst Brothers, LLC, an Oregon limited liability company, an estate in fee simple ("Trustor"):

An undisclosed indebtedness.

SUBORDINATED DEED OF TRUST. The Subordinated Indebtedness is secured by a deed of trust dated 06-11-1997 from Trustor to Neil R. Bryant as Trustee in favor of Beneficiary (the "Subordinated Deed of Trust") recorded in Klamath County, State of Oregon as follows:

Recorded June 12, 1997 in Volume M97, page 18144, Official Records, Klamath County, Oregon.

REAL PROPERTY DESCRIPTION. The Subordinated Deed of Trust covers the following described real property (the "Real Property") located in Klamath County, State of Oregon:

See attached Exhibit D

The Real Property or its address is commonly known as Crescent Oil, Crescent, OR 97733.

REQUESTED FINANCIAL ACCOMMODATIONS. Borrower, who may or may not be the same entity as Trustor, and Beneficiary each want Lender to provide financial accommodations to Borrower (the "Superior Indebtedness") in the form of (a) new credit or loan advances, (b) an extension of time to pay or other compromises regarding all or part of Borrower's present indebtedness to Lender, or (c) other benefits to Borrower. Now, therefore, Borrower and Beneficiary each represent and acknowledge to Lender that Beneficiary will benefit as a result of these financial accommodations from Lender to Borrower, and Beneficiary acknowledges receipt of valuable consideration for entering into this Agreement.

LENDER'S LIEN. As a condition to the granting of the requested financial accommodations, Lender has required that its deed of trust or other lien on the Real Property ("Lender's Lien") be and remain superior to the Subordinated Deed of Trust.

NOW THEREFORE THE PARTIES TO THIS AGREEMENT HEREBY AGREE AS FOLLOWS:

SUBORDINATION. The Subordinated Deed of Trust and the Subordinated Indebtedness secured thereby is hereby subordinated in all respects to Lender's Lien and the Superior Indebtedness, and it is hereby agreed that Lender's Lien shall be and remain, at all times, prior and superior to the lien of the Subordinated Deed of Trust. Beneficiary also subordinates to Lender's Lien all other Security Interests in the Real Property held by Beneficiary, whether now existing or hereafter acquired. The words "Security Interest" mean and include without limitation any type of collateral security, whether in the form of a lien, charge, mortgage, deed of trust, assignment, pledge, chattel mortgage, chattel trust, factor's lien, equipment trust, conditional sale, trust receipt, lien or title retention contract, lease or consignment intended as a security device, or any other security or lien interest whatsoever, whether created by law, contract, or otherwise.

BENEFICIARY'S REPRESENTATIONS AND WARRANTIES. Beneficiary represents and warrants to Lender that: (a) no representations or agreements of any kind have been made to Beneficiary which would limit or qualify in any way the terms of this Agreement; (b) this Agreement is executed at Borrower's request and not at the request of Lender; (c) Lender has made no representation to Beneficiary as to the creditworthiness of Borrower; and (d) Beneficiary has established adequate means of obtaining from Borrower on a continuing basis information regarding Borrower's financial condition. Beneficiary agrees to keep adequately informed from such means of any facts, events, or circumstances which might in any way affect Beneficiary's risks under this Agreement, and Beneficiary further agrees that Lender shall have no obligation to disclose to Beneficiary information or material acquired by Lender in the course of its relationship with Borrower.

BENEFICIARY'S WAIVERS. Beneficiary waives any right to require Lender: (a) to make, extend, renew, or modify any loan to Borrower or to grant any other financial accommodations to Borrower whatsoever; (b) to make any presentment, protest, demand, or notice of any kind, including notice of any nonpayment of any Superior Indebtedness secured by Lender's Lien, or notice of any action or nonaction on the part of Borrower, Lender, any surety, endorser, or other guarantor in connection with the Superior Indebtedness, or in connection with the creation of new or additional indebtedness; (c) to resort for payment or to proceed directly or at once against any person, including Borrower; (d) to proceed directly against or exhaust any collateral held by Lender from Borrower, any other guarantor, or any other person; (e) to give notice of the terms, time, and place of any public or private sale of personal property security held by Lender from Borrower or to comply with any other applicable provisions of the Uniform Commercial Code; (f) to pursue any other remedy within Lender's power; or (g) to commit any act or omission of any kind, at any time, with respect to any matter whatsoever.

LENDER'S RIGHTS. Lender may take or omit any and all actions with respect to Lender's Lien without affecting whatsoever any of Lender's rights under this Agreement. In particular, without limitation, Lender may, without notice of any kind to Beneficiary: (a) make one or more additional secured or unsecured loans to Borrower; (b) repeatedly alter, compromise, renew, extend, accelerate, or otherwise change the time for payment or other terms of the Superior Indebtedness or any part thereof, including increases and decreases of the rate of interest on the Superior Indebtedness; extensions and may be repeated and may be for longer than the original loan term; (c) take and hold collateral for the payment of the Superior Indebtedness, and may be repeated and may be for longer than the original loan term; (d) release, substitute, agree not to sue, or exchange, enforce, waive, and release any such collateral, with or without the substitution of new collateral; (e) determine how, when and deal with any one or more of Borrower's sureties, endorsers, or guarantors on any terms or manner Lender chooses; (f) determine how, when and what application of payments and credits, shall be made on the Superior Indebtedness; (f) apply such security and direct the order or manner of sale thereof, as Lender in its discretion may determine; and (g) assign this Agreement in whole or in part.

DEFAULT BY BORROWER. If Borrower becomes insolvent or bankrupt, this Agreement shall remain in full force and effect. Any default by Borrower under the terms of the Subordinated Indebtedness also shall be a default under the terms of the Superior Indebtedness to Lender.

MISCELLANEOUS PROVISIONS. The following miscellaneous provisions are a part of this Agreement:

Applicable Law. This Agreement has been delivered to Lender and accepted by Lender in the State of Oregon. If there is a lawsuit, Beneficiary and Borrower agree upon Lender's request to submit to the jurisdiction of the courts of Klamath County, State of Oregon. This Agreement shall be governed by and construed in accordance with the laws of the State of Oregon. No provision contained in this Agreement shall be construed (a) as requiring Lender to grant to Borrower or to Beneficiary any financial assistance or other accommodations, or (b) as limiting or precluding

Lender from the exercise of Lender's own judgment and discretion about amounts and times of payment in making loans or extending accommodations to Borrower.

Amendments. This Agreement constitutes the entire understanding and agreement of the parties as to the matters set forth in this Agreement. No alteration of or amendment to this Agreement shall be effective unless made in writing and signed by Lender, Borrower, and Beneficiary.

Attorneys' Fees; Expenses. Beneficiary and Borrower agree to pay upon demand all of Lender's costs and expenses, including attorneys' fees and Lender's legal expenses, incurred in connection with the enforcement of this Agreement. Lender may pay someone else to help enforce this Agreement, and Beneficiary and Borrower shall pay the costs and expenses of such enforcement. Costs and expenses include Lender's attorneys' fees and legal expenses whether or not there is a lawsuit, including attorneys' fees and legal expenses for bankruptcy proceedings (and including efforts to modify or vacate any automatic stay or injunction), appeals, and any anticipated post-judgment collection services. Beneficiary and Borrower also shall pay all court costs and such additional fees as may be directed by the court.

Successors. This Agreement shall extend to and bind the respective heirs, personal representatives, successors and assigns of the parties to this Agreement, and the covenants of Borrower and Beneficiary herein in favor of Lender shall extend to, include, and be enforceable by any transferee or endorsee to whom Lender may transfer any or all of the Superior Indebtedness.

Waiver. Lender shall not be deemed to have waived any rights under this Agreement unless such waiver is given in writing and signed by Lender. No delay or omission on the part of Lender in exercising any right shall operate as a waiver of such right or any other right. A waiver by Lender of a provision of this Agreement shall not prejudice or constitute a waiver of Lender's right otherwise to demand strict compliance with that provision or any other provision of this Agreement. No prior waiver by Lender, nor any course of dealing between Lender and Beneficiary, shall constitute a waiver of any of Lender's rights or of any of Beneficiary's obligations as to any future transactions. Whenever the consent of Lender is required under this Agreement, the granting of such consent by Lender in any instance shall not constitute continuing consent to subsequent instances where such consent is required and in all cases such consent may be granted or withheld in the sole discretion of Lender.

NOTICE: THIS SUBORDINATION AGREEMENT CONTAINS A PROVISION WHICH ALLOWS THE PERSON OBLIGATED ON YOUR REAL PROPERTY SECURITY TO OBTAIN A LOAN, A PORTION OF WHICH MAY BE EXPENDED FOR OTHER PURPOSES THAN IMPROVEMENT OF THE LAND.

EACH PARTY TO THIS SUBORDINATION AGREEMENT - DEED OF TRUST ACKNOWLEDGES HAVING READ ALL THE PROVISIONS OF THIS AGREEMENT, AND EACH PARTY AGREES TO ITS TERMS.

BORROWER:

Ernst Brothers LLC

By: Wayne G Ernst
Wayne G Ernst, Manager

TRUSTEE:

Nell R. Bryant

By: Nell R Bryant
Authorized Signer

BENEFICIARY:

Crescent Oil Company

By: Wayne G Ernst, President
Authorized Signer

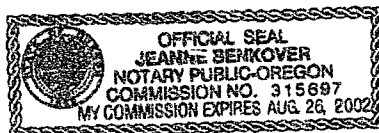
LENDER:

South Valley Bank & Trust

By: [Signature]
Authorized Officer

LIMITED LIABILITY COMPANY ACKNOWLEDGMENT

STATE OF Oregon)
COUNTY OF Klamath) SS



On this 24th day of December, 19 98, before me, the undersigned Notary Public, personally appeared Wayne G Ernst, Member of Ernst Brothers LLC, and known to me to be a member or designated agent of the limited liability company that executed the Subordination Agreement and acknowledged the Agreement to be the free and voluntary act and deed of the limited liability company, by authority of its articles of organization or its operating agreement, for the uses and purposes therein mentioned, and on oath stated that he or she is authorized to execute this Agreement and in fact executed the Agreement on behalf of the limited liability company.

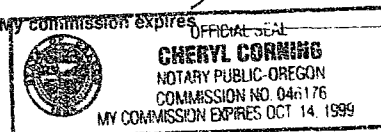
By: Wayne G Ernst Residing at 20 Mazzinichs Gilbert
Notary Public in and for the State of Oregon My commission expires 8-26-2002

CORPORATE ACKNOWLEDGMENT

STATE OF Oregon)
COUNTY OF Marion) SS

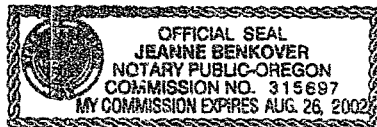
On this 19 day of JAN, 19 99, before me, the undersigned Notary Public, personally appeared Authorized Signer of Nell R. Bryant, and known to me to be authorized agents of the corporation that executed the Subordination Agreement and acknowledged the Agreement to be the free and voluntary act and deed of the corporation, by authority of its Bylaws or by resolution of its board of directors, for the uses and purposes therein mentioned, and on oath stated that they are authorized to execute this Agreement and in fact executed the Agreement on behalf of the corporation.

By: Cheryl Corning Residing at Oregon
Notary Public in and for the State of Oregon My commission expires 10.14.99



CORPORATE ACKNOWLEDGMENT

STATE OF Oregon)
COUNTY OF Klamath) SS



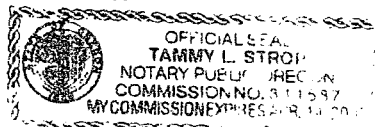
On this 24th day of December, 19 98, before me, the undersigned Notary Public, personally appeared Authorized Signer of Crescent Oil Company, and known to me to be authorized agents of the corporation that executed the Subordination Agreement and acknowledged the Agreement to be the free and voluntary act and deed of the corporation, by authority of its Bylaws or by resolution of its board of directors, for the uses and purposes therein mentioned, and on oath stated that they are authorized to execute this Agreement and in fact executed the Agreement on behalf of the corporation.

By Jeanne Benkover
Notary Public in and for the State of Oregon

Residing at *20 Manzmita Gilchrist
My commission expires 8-26-2002

LENDER ACKNOWLEDGMENT

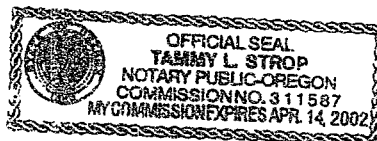
STATE OF Oregon)
COUNTY OF Klamath) SS



On this 11th day of January, 19 99, before me, the undersigned Notary Public, personally appeared Rita B. Bick and known to me to be the Lending Officer, authorized agent for the Lender, that executed the within and foregoing instrument and acknowledged said instrument to be the free and voluntary act and deed of the said Lender, duly authorized by the Lender through its board of directors or otherwise, for the uses and purposes therein mentioned, and on oath stated that he or she is authorized to execute this said instrument and that the seal affixed is the corporate seal of said Lender.

By Tammy L. Strop
Notary Public in and for the State of Oregon

Residing at 803 Main Street
My commission expires April 14 2002



DESCRIPTION OF PROPERTY

Parcel One:

A parcel of land the same containing portions of the SW $\frac{1}{4}$ SW $\frac{1}{4}$ and the SE $\frac{1}{4}$ SW $\frac{1}{4}$ of Section 30, Township 24 South, Range 9 East of the Willamette meridian, in the County of Klamath, State of Oregon, the said parcel of land being described as follows:

Beginning at a point on the East line of the said SW $\frac{1}{4}$ SW $\frac{1}{4}$ of said Section 30, which point is marked by a 30 inch steel bar monument and which point is located South $0^{\circ}17'46''$ West a distance of 331.74 feet from the Northeast corner of the said SW $\frac{1}{4}$ SW $\frac{1}{4}$ of Section 30 (said corner being also marked by a 30 inch steel bar monument); thence South $89^{\circ}10'03''$ East for 77.42 feet along the South line of the N $\frac{1}{2}$ of the NW $\frac{1}{4}$ of the SE $\frac{1}{4}$ of the SW $\frac{1}{4}$ to an intersection with the Westerly boundary of the right of way of The Dalles-California State Highway, said right of way having a total width of 60 feet, to a 30 inch steel bar monument, thence in a Southwesterly direction along the curved Westerly boundary of said right of way, the said curve having a radius of 1940.00 feet, for a distance of 145.10 feet (the chord of said portion of said curve bearing South $32^{\circ}35'42''$ West for a distance of 145.06 feet) to a 30 inch steel bar monument located on the East boundary of the said SW $\frac{1}{4}$ of Section 30; thence North $0^{\circ}17'46''$ East along the said subdivision line for a distance of 38.66 feet to a steel bar monument, which point is further located South $0^{\circ}17'46''$ West a distance of 84.72 feet from the point of beginning above described; thence South $39^{\circ}33'20''$ West for 157.82 feet to a 30 inch steel bar monument; thence North $50^{\circ}26'40''$ West for 154.53 feet to a 30 inch steel bar monument located on the Southeasterly boundary of the right of way of the Gilchrist Lumber Company Railroad, said right of way having a width of 100 feet; thence North $39^{\circ}37'00''$ East along said right of way boundary for a distance of 346.42 feet to a 30 inch steel bar monument located on the East line of the said SW $\frac{1}{4}$ of the SW $\frac{1}{4}$ of Section 30, which point is also located South $0^{\circ}17'46''$ West, a distance of 172.90 feet from the Northeast corner of the said SW $\frac{1}{4}$ SW $\frac{1}{4}$ of said Section 30; thence along said subdivision line South $0^{\circ}17'46''$ West, a distance of 158.84 feet to the point of beginning.

Parcel Two:

That portion of Lot 4, (SW $\frac{1}{4}$ SW $\frac{1}{4}$) of Section 30, Township 24 South, Range 9 East of the Willamette Meridian, in the County of Klamath, State of Oregon, described as follows:

Beginning at a point on the East side of said Lot 4, which is South $0^{\circ}17'46''$ West, a distance of 430.76 feet from the Northeast corner of said Lot 4, which point is also the intersection of the relocated Westerly right of way line of The Dalles-California Highway with the Easterly line of said Lot 4; thence North $0^{\circ}17'46''$ East a distance of 14.3 feet to a point; thence South $39^{\circ}33'20''$ West along the Easterly line of property conveyed to Standard Oil Company of California by Deed recorded in Volume 125 at page 318, Deed Records of Klamath County, Oregon, a distance of 132.82 feet, thence South $50^{\circ}26'40''$ East a distance of 34.0 feet, more or less, to the relocated Westerly right of way line of The Dalles-California Highway; thence Northeasterly along said Westerly right of way line to the point of beginning.

EXCEPTING THEREFROM that portion of the SW $\frac{1}{4}$ of the SW $\frac{1}{4}$ of Section 30, Township 24 South, Range 9 East of the Willamette Meridian, in the County of Klamath, State of Oregon, described as follows:

Beginning at a point which is South $0^{\circ}17'46''$ West, a distance of 416.46 feet, and South $39^{\circ}33'20''$ West, a distance of 132.82 feet from the Northeast corner of said SW $\frac{1}{4}$ of the SW $\frac{1}{4}$ of Section 30; thence South

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 39°33'20" West, a distance of 25 feet to a point; thence North 50°26'40" West, a distance of 154.53 feet to a point; thence North 39°37' East, a distance of 25 feet to a point; thence South 50°26'40" East, a distance of 154.53 feet, more or less, to the point of beginning.

EXCEPT from above described Parcel 1 that portion conveyed to the State of Oregon, by and through its State Highway Commission by Bargain and Sale Deed recorded December 11, 1943, in Volume 160 page 405, Deed Records of Klamath County, Oregon.

PARCEL THREE:

Lots 5 and 6 in Block 1 of Chemult, according to the official plat thereof on file in the office of the County Clerk of Klamath County, Oregon.

Together with, A nonexclusive perpetual easement over and across Lot 4 of Block 1, for the following purposes:
 Access to said Lots 5 and 6 from U. S. Highway 97, and parking of vehicles

STATE OF OREGON : COUNTY OF KLAMATH: ss. _____ the 17th day
 Filed for record at request of First American Title _____
 of February A.D. 1999 at 11:16 o'clock A. M., and duly recorded in Vol. M99
 of Mortgages on Page 5440
 by Kathleen Ross Linda Smith, County Clerk

FEE \$30.00

This report is for the exclusive use of the parties herein shown and is preliminary to the issuance of a title insurance policy and shall become void unless a policy is issued, and the full premium paid.