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Douglas E. Goe
Ater Wynne LLP
222 S.W. Columbia, Suite 1800
Portland, OR 97201

**LEASEHOLD MORTGAGE, SECURITY
AGREEMENT, ASSIGNMENT OF RENTS
AND FIXTURE FILING**

(Second Lien Obligations)

by

CITY OF KLAMATH FALLS, OREGON

as Mortgagor

to and for the benefit of

U.S. BANK TRUST NATIONAL ASSOCIATION

as Trustee

Dated as of April 1, 1999

ATER WYNNE LLP

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LEASEHOLD MORTGAGE, SECURITY AGREEMENT, ASSIGNMENT OF RENTS AND FIXTURE FILING

This Leasehold Mortgage, Security Agreement, Assignment of Rents and Fixture Filing ("Mortgage"), dated as of April 1, 1999, is entered into by the CITY OF KLAMATH FALLS, OREGON, a municipality incorporated under the laws of the State of Oregon, as mortgagor ("Mortgagor"), to and for the benefit of U.S. BANK TRUST NATIONAL ASSOCIATION, a national banking association, as trustee ("Trustee") under the Indenture (as defined below), for the benefit of the Second Lien Bond Holders and all other Second Lien Obligations issued or entered into and to be issued or entered into under or pursuant to the Indenture. This Mortgage secures obligations incurred for the construction of improvements on land and thus constitutes a "Construction Mortgage" as defined in ORS 79.3130.

Unless otherwise defined herein, all capitalized terms used herein but not defined herein which are defined in the Indenture or in the other Collateral Documents shall have the respective meanings defined therein and all terms defined in the UCC (as defined below) shall have the respective meanings given to those terms in the UCC.

W I T N E S S E T H:

WHEREAS, the Mortgagor has entered into an Indenture of Trust, dated as of April 1, 1999 (the "Indenture") by and between the Mortgagor and the Trustee; and

WHEREAS, pursuant to the Indenture, the Mortgagor has issued its Senior Lien Electric Revenue Refunding Bonds, Series 1999 (Klamath Cogeneration Project), \$60,000,000 Taxable Second Lien Electric Revenue Bonds, Series 1999 (Klamath Cogeneration Project) (the bonds, together with any additional bonds issued on parity therewith being herein referred to as the "Second Lien Bonds"); and

WHEREAS, the Second Lien Bonds are being issued to provide a portion of the long-term financing for the Mortgagor's Klamath Cogeneration Project (the "Project" as defined in the Indenture); and

WHEREAS, as a condition to the issuance of the Second Lien Bonds, the Mortgagor's obligations under the Indenture with respect to the Second Lien Bonds are required to be secured by, *inter alia*, the grant of a mortgage lien on the Mortgagor's leasehold interest in the Project Site (as defined below) and the grant of a security interest in, and an assignment of, certain related real and personal property rights and interests of the Mortgagor in favor of the Trustee, as set forth in and subject to the terms and conditions of this Mortgage;

NOW THEREFORE, in consideration of the mutual premises herein contained and to induce the Trustee to enter into the Indenture, and for other good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, and in order to secure:

- (i) the payment of the principal of the Second Lien Obligations and the indebtedness represented thereby and the redemption premium, if any, and interest on such principal amount of the Second Lien Obligations according to their tenor and effect and the performance and observance by the Mortgagor of all of the covenants expressed or implied in the Second Lien Obligations;
- (ii) the payment, performance and observance of all obligations of the Mortgagor under the Indenture, this Mortgage and the other Collateral Documents;
- (iii) the observance and performance by Mortgagor of all other covenants and obligations on the part of Mortgagor to be observed or performed pursuant to (1) if applicable, any assignments by Mortgagor in favor of the Mortgagee of any general contract, architectural and engineering contracts, and other contracts and documents related to the Real Property or the construction of the Facilities thereon, and (2) all other documents now or hereafter executed by Mortgagor, if any, in connection with or to evidence or secure any of the Secured Obligations (as defined below), any interest, costs and other charges associated therewith, or any performance required by any such document;

whether now arising or hereafter arising (all such indebtedness, covenants and obligations described in clauses (i) through (iii) above being collectively referred to herein as the "Secured Obligations"), the Mortgagor does hereby grant, bargain, sell, convey, transfer, mortgage, grant a security interest in, pledge and assign to the Trustee and its successors and assigns, for the benefit and security of the Second Lien Obligations issued or entered into and to be issued or entered into under or pursuant to the Indenture and to secure the Secured Obligations, all of the Mortgagor's right, title and interest in and to the following (the "Mortgaged Property"), whether now existing or hereafter from time to time acquired.

ARTICLE I. GRANTING CLAUSES

The following constitutes the Mortgaged Property:

Section 1.1. Real Property. That certain leasehold estate of the Mortgagor in the real property located in Klamath County, Oregon, more particularly described on Exhibit A hereto (the "Project Site") created by the Lease between Collins Products, LLC, an Oregon limited liability company ("Collins") and the Mortgagor dated as of April 1, 1999, together with all other leases and/or subleases covering the Project Site, all easements, rights of way, privileges, tenements, hereditament and appurtenances and all other rights now or hereafter made appurtenant to the Project Site, the other property subject of such agreements as more particularly described on Exhibit B hereto (the "Easements"); and all additions, accretions, modifications, supplements, restatements and replacements thereto and substitutions therefor, to the leasehold estate of the Mortgagor in the Project Site created by the Lease, and the Easements are collectively referred to herein as the "Real Property";

Section 1.2. Improvements. All buildings, structures, substations, foundations, slabs and other improvements, goods, building materials, machinery, apparatus, equipment, fittings, fixtures, supplies, work in progress and other personal property of every kind and nature whatsoever owned by Mortgagor, or in which Mortgagor has or may hereafter have or acquire an interest, which are now or hereafter affixed to, placed upon or used in connection with the Real Property or any appurtenances thereto (collectively, the "Improvements");

Section 1.3. Rents, Issues and Profits. All the income, rents, security or similar deposits, revenues, issues, royalties, profits, earnings, products and proceeds from any and all of the Real Property including any leases or subleases thereof, and all royalties, production payments, other similar payments and all rents, issues and profits (collectively, the "Rents, Issues and Profits"), together with the right to collect and apply the same to the payment of the Secured Obligations, subject, however, to the rights of the Mortgagor under the Indenture and the Collateral Documents in and to such Rents, Issues and Profits as long as Mortgagor is not in Default (as defined below) hereunder;

Section 1.4. Other Rights in Real Property. All other rights, in law or in equity, which Mortgagor now has or may hereafter acquire in the Real Property, including without limitation, all rights, licenses, permits, consents and authorizations obtained by Mortgagor from any national, state or local government (whether domestic or foreign), any political subdivision thereof or any other governmental or quasi-governmental, judicial, public or statutory instrumentality, authority, body, agency, bureau or entity or any arbitrator with authority to bind a party at law (individually or collectively, a "Governmental Authority"), Utility (as defined below) or any other company, entity or individual related to the Real Property including without limitation, to cross or encroach upon any right-of-way, mining claim or other right of use or possession of property within or in the general area of the Real Property, except those which by their terms or by operation of law would become void solely by virtue of a security interest being granted therein, and all of Mortgagor's right, title and interest in and to any and all monies deposited by Mortgagor with any such entity or person to obtain such rights;

Section 1.5. Equipment. All machinery, apparatus, equipment, fittings, fixtures and other personal property of every kind and nature whatsoever owned by Mortgagor, or in which Mortgagor has or may hereafter have or acquire an interest, now or hereafter located at or upon the Real Property, the Improvements or any other Mortgaged Property, or any appurtenance thereto, and used or usable in connection with the present or future construction, operation and occupancy of all or any part of the Project or the Mortgaged Property, and all building equipment, materials and supplies of any nature whatsoever owned by Mortgagor, or in which Mortgagor has or may hereafter have or acquire an interest, now or hereafter located at or upon the Real Property or any other Mortgaged Property, including, without limitation, electrical generation equipment, energy transmission equipment, turbine generators, power blocks and plants, waste water treatment equipment, injection systems, gas lines, steam lines, power lines, control and monitoring equipment, generators, valves and valve stations, skids, vaporizers, pumps, tanks, air receivers, cooling towers, clarifiers, cables, pipelines, wells, compressors and instrumentation, all of which, including replacements and additions thereto, shall, to the fullest extent permitted by law and for the purposes of this Mortgage, be deemed to be part and parcel of the Mortgaged Property (hereinafter collectively referred to as the "Equipment");

Section 1.6. Licenses and Permits. All licenses, permits, franchises, authorizations and agreements (including, without limitation, all Applicable Permits, but excluding those which by their terms or by operation of law would become void solely by virtue of a security interest being granted

therein) now or hereafter obtained by or on behalf of Mortgagor (or by another person and assigned or otherwise transferred to Mortgagor) from any Governmental Authority having jurisdiction over the operation, management or use of the Project, the Real Property, the Improvements, the Equipment or the development or construction of the Project or the Improvements and all intangible property and rights relating to the development of the Project, the Real Property, the Improvements, the Equipment or the operation, management or use thereof, or used in connection therewith, including, without limitation, options, option rights, and contract rights;

Section 1.7. Mineral and Water Rights. All development rights or credits, air rights, mineral rights, or millsite claims, water and water rights (whether riparian, appropriative or otherwise and whether or not appurtenant) relating to the Project, the Real Property or any other Mortgaged Property, including, without limitation, shares of stock evidencing the same;

Section 1.8. Utility Deposits. All of Mortgagor's right, title and interest in and to any and all monies deposited by Mortgagor or any predecessor-in-interest of Mortgagor or deposited on behalf of Mortgagor or any predecessor-in-interest of Mortgagor with any irrigation, sewer or water district or company, gas or electric company, telephone company, other utility company (each, a "Utility"), any Governmental Authority or any other public or quasi-public body or agency, for the installation, or to secure the installation of, any utility or public service or work pertaining to the Project;

Section 1.9. Project Documents. To the extent assignable, all contracts, leases, consents or other agreements of every kind or nature affecting the use, occupancy or ownership of the Real Property, the Project, the Improvements, the Equipment, or any other of the Mortgaged Property (collectively, the "Project Documents"), and, except as otherwise expressly provided herein, the right to receive and apply the rents, issues, profits, products, income and royalties of the Mortgaged Property to the payment of the Obligations secured hereby;

Section 1.10. Cash Security. Any accounts, including without limitation deposit accounts, and all money, securities and other property now or hereafter held or established hereunder or under the other Collateral Documents or the Indenture;

Section 1.11. Other Benefits. All the remainders, reversions, rents, revenues, issues, profits, products, royalties, income and other benefits derived by Mortgagor from the Real Property, the Project, the Improvements, the Equipment, any other rights in or to water, any mineral rights or claims or any other of the Mortgaged Property;

Section 1.12. Condemnation and Casualty Awards. Subject to the Indenture, all proceeds of the conversion, voluntary or involuntary, of any of the foregoing into cash or liquidated claims or amounts, including, without limitation, all claims or demands relating to and proceeds of casualty insurance maintained by Mortgagor with respect to the Project or any other Mortgaged Property and all awards or other compensation heretofore or hereafter made to Mortgagor with respect to condemnation of any part of the Mortgaged Property all of which are hereby assigned to the Trustee, who is hereby authorized to collect and receive the same, to give proper receipts and acquittances therefor and to apply the same to the payment of the Obligations (as defined above) secured hereby, notwithstanding the fact that the same may not then be due and payable;

Section 1.13. Accounts and General Intangibles. All accounts, accounts receivable, contract rights (to the extent assignable), chattel paper, instruments, general intangibles and other obligations of any kind now or hereafter existing arising out of or in connection with the sale, lease or other disposition of electrical, thermal or other energy, goods or the rendering of services from the Project or other Mortgaged Property, and all rights now or hereafter existing in and to all security agreements, leases, and other contracts securing or otherwise relating to any such property and the proceeds thereof and all inventory, now owned or hereafter acquired, of the Mortgagor relating to the Project or other Mortgaged Property, including, without limitation, raw materials, supplies, component parts or work in process on the Project or other Mortgaged Property, and the proceeds thereof;

Section 1.14. Insurance Premiums and Claims. All advance payments of insurance premiums made by Mortgagor with respect to the Project or other Mortgaged Property and any claims of loss or demands of defense under any property or title insurance policy in which Mortgagor is named as an insured;

Section 1.15. Other Rights and Remedies. All of Mortgagor's rights and remedies at any time arising against any other person or estate under any law, rule, regulation, ordinance, order, code interpretation, judgment, decree, directive, guideline, policy or similar form of decision of any Governmental Authority (individually or collectively, a "Governmental Rule"), at law or in equity, including, without limitation, any rights to remain in possession of any Mortgaged Property under or pursuant to Section 365(h) of the Bankruptcy Code, 11 U.S.C. § 365(h); and

Section 1.16. Proceeds. All proceeds of the foregoing.

As used herein to qualify the scope of the security interest granted hereby in the Mortgaged Property, the phrase "in connection with" the Project, the Mortgaged Property or any part thereof shall be used in its broadest and most comprehensive sense. If any property is used (or to be used) for multiple or different purposes, and one such purpose relates primarily to any aspect of the Project, such property shall constitute Mortgaged Property hereunder, unless the Trustee shall release such property from this Mortgage.

ARTICLE II. SECURITY AGREEMENT AND FIXTURE FILING

This Mortgage shall, with respect to Mortgaged Property described in Article I hereof in which Mortgagor may grant a security interest under the Uniform Commercial Code as enacted in Oregon (the "UCC"), constitute a security agreement and shall, with respect to fixtures, as such term is used under Oregon law, constitute a financing statement filed as a fixture filing to be recorded in the real estate records under the UCC, as well as a mortgage. With respect to Mortgaged Property which is not a fixture or Real Property, this Mortgage shall create a statutory lien under ORS 288.518 and 288.825(3) and (4) on such Mortgaged Property a common law lien on and a pledge of such Mortgaged Property, and a security interest under the UCC in such Mortgaged Property to the extent applicable. Some of the Mortgaged Property described herein may be or become property in which the Trustee has a security interest, statutory lien and common law lien and pledge under the other Collateral Documents. The rights, remedies and interest of the Trustee under this Mortgage are independent and cumulative, and there shall be no merger of any Lien hereunder with any security interest created by the other Collateral Documents with respect to such property. The Trustee may elect to exercise or enforce any of its rights.

remedies or interest under either or both this Mortgage or the other Collateral Documents, as the Trustee may from time to time deem appropriate, in accordance with the terms of such documents.

ARTICLE III. COVENANTS OF MORTGAGOR

Section 3.1. Condition of Mortgaged Property. Mortgagor agrees (a) not to commit or permit any waste or material deterioration of the Mortgaged Property, (b) to do any and all acts which may be necessary to protect and preserve the security of the Trustee hereunder and the priority of the lien, charge, pledge and security interest of this Mortgage, and (c) not to create or permit any lien, charge, pledge, security interest, restrictive covenant, easement or encumbrance of any kind (each, a "Lien") against the Mortgaged Property, except for Permitted Encumbrances.

Section 3.2. Further Assignments. If requested by the Trustee, Mortgagor shall, to the extent assignable, assign to the Trustee, in addition to the assignment of the Site Lease and the Rents, Issues and Profits provided hereunder and any other grant, transfer or assignment effected or required under this Mortgage, a specific assignment of Mortgagor's interest in any or all other leases, subleases, contracts, licenses, permits and easements affecting the Mortgaged Property or any portion thereof, such assignments to be made by instruments in form and containing provisions satisfactory to the Trustee; provided however, that no such assignment shall be construed as imposing upon the Trustee any obligations or other duties with respect thereto.

Section 3.3. Insurance and Condemnation. Mortgagor shall at all times provide, maintain and keep in force all of the insurance required under the Indenture. All proceeds of insurance and condemnation received or receivable by Mortgagor shall be delivered and applied as provided for in the Indenture. In the event of the foreclosure of this Mortgage or other transfer of title to all or part of the Mortgaged Property to the Trustee or any other Person, in extinguishment, in whole or in part, of the Secured Obligations, all right, title and interest of Mortgagor in and to any insurance policy then in force shall pass to the Trustee, purchaser or grantee.

Section 3.4. Taxes, Encumbrances and Other Charges. Mortgagor shall pay or cause to be paid:

(a) Prior to the assessment of any penalty or delinquency, (i) all real and personal property taxes and assessments, whether general, special or supplemental and other governmental or public charges which are assessed or imposed upon the Mortgaged Property, or become due and payable, and which create or may create a Lien upon the Mortgaged Property, or any part thereof, or upon personal property or equipment used in connection with the Mortgaged Property, and (ii) all taxes, assessments, levies and charges imposed by any Governmental Authority upon the Trustee by reason of its interest in the Mortgaged Property created hereby or by reason of any payment, or portion thereof, made to the Trustee hereunder or pursuant to any Secured Obligation; provided however, that Mortgagor shall have no obligation to pay or discharge the Trustee's business or franchise taxes, federal or state income taxes, or other taxes which are measured by and imposed upon the Trustee's net or gross income or receipts.

(b) When due, all encumbrances (including any debt secured by this Mortgage), ground rents, Liens, and/or charges, with interest, on the Mortgaged Property or any part thereof.

(c) When due, all charges for utilities or services, including, without limitation, electricity, gas, water, telephone and sewer, in connection with the Mortgaged Property.

Notwithstanding the above, Mortgagor may contest in good faith any such taxes, assessments and other charges in accordance with Section 5.12 of the Indenture.

Section 3.5. Survival of Warranties. All representations, warranties and covenants of Mortgagor contained herein, in the other Collateral Documents and in the Indenture shall survive the execution and delivery of this Mortgage and shall remain continuing Secured Obligations, representations, warranties and covenants of Mortgagor during any time that any portion of the Secured Obligations remains outstanding.

Section 3.6. Inspections. The Trustee, its officers, employees and representatives are authorized to enter at any reasonable time, upon reasonable notice, upon or in any part of the Mortgaged Property for the purpose of inspecting the same and performing any of the acts it or Mortgagor is authorized to perform under the terms of this Mortgage or any of the other Collateral Documents or the Indenture.

Section 3.7. Personal Property. No personal property covered by the security interest granted herein may be removed from the Real Property without the prior written consent of the Trustee (a) except when sold, transferred or assigned at fair market value in the ordinary course of Mortgagor's business, and (b) except for obsolete, worn out or replaced property not used or useful in connection with the Project.

Section 3.8. Property Rights. With respect to the Site Lease and any other lease, sublease, grant of right-of-way, easement, license or profit or other document or instrument granting rights to the Real Property or containing rights or obligations for the benefit of or binding upon Mortgagor relating to the Real Property, under which Mortgagor is or may become a party or may otherwise be benefitted or obligated by reason of assignment or other transfer thereof to Mortgagor, and which is or may become subject to this Mortgage (collectively, the "Real Property Instruments"), Mortgagor agrees:

(a) That the provisions hereof shall be deemed to be Secured Obligations of Mortgagor in addition to Mortgagor's obligations with respect to similar matters contained in the Real Property Instruments; provided however, the inclusion herein of any covenants and agreements relating to similar matters as to which Mortgagor is obligated under the Real Property Instruments shall not restrict or limit Mortgagor's duties and obligations to keep and perform promptly all of its covenants, agreements and obligations under the Real Property Instruments, and nothing in this Mortgage shall be construed as requiring Mortgagor or the Trustee to take or omit to take any action which would cause a default under any Real Property Instrument.

(b) That so long as this Mortgage is in effect, there shall be no merger of any Real Property Instrument, nor of any interest therein, nor of the leasehold estate or other interest or estate created thereby, nor of any portion of any thereof, with any fee estate, leasehold estate or other interest or estate in the Real Property or any portion thereof, by reason of the fact that any Real Property Instrument, or any interest therein, or the leasehold or other interest or estate created thereby may be held directly or indirectly by or for the account of any person who also holds the fee estate or any other Real Property Instrument, interest therein, leasehold estate or other interest or estate in the Real Property or

any portion thereof. In case Mortgagor acquires the fee title or any other estate, right, title or interest in the Real Property, including, without limitation, any additional easements or any description or clarification of the location of easements, this Mortgage shall attach to and cover and shall be a lien upon the fee title or such other estate, right or interest so acquired, and such fee title or other estate, right or interest shall, without further assignment, mortgage or conveyance, become and be subject to the lien of and covered by this Mortgage. Mortgagor shall notify the Trustee of any such acquisition by Mortgagor and, on written request by the Trustee, shall cause to be executed and recorded all such other and further assurances or other instruments in writing as may in the reasonable opinion of the Trustee be required to carry out the intent and meaning hereof, and shall obtain for the benefit of the Trustee, as the named insured, such title insurance as the Trustee may request in connection therewith.

(c) That, so long as this Mortgage is in effect, no surrender (except a surrender upon the expiration of the term of any Real Property Instrument) by Mortgagor of its right, title or interest under any Real Property Instrument to any other party thereto, or any portion thereof or of any interest therein, and no termination by Mortgagor of any Real Property Instrument, shall be valid or effective. No Real Property Instrument, nor the terms thereof, may be amended, modified, changed, surrendered or canceled, or subordinated to any mortgage, lease or other interest, either orally or in writing, without the prior written consent of the Trustee in each case, and Mortgagor agrees that any such action without the prior written consent of the Trustee shall be void.

(d) That if any Real Property Instrument is for any reason whatsoever terminated prior to the expiration of its term and, if pursuant to any provision of any Real Property Instrument or otherwise, the Trustee or its designee shall acquire a new lease, grant, easement or other right, interest or agreement in connection with the ownership, possession or use of the real property affected by such Real Property Instrument, Mortgagor shall have no right, title or interest in or to such new lease, grant, easement or other right, interest or agreement or the estate created thereby.

(e) That if Mortgagor holds an interest as a covenant in or under any Real Property Instrument, any right, interest or estate created thereby or pursuant thereto, or any of the Mortgaged Property, then Mortgagor covenants that it will not, without the prior written consent of the Trustee, cause or permit the partition of any thereof, and Mortgagor, solely for the benefit of the Trustee, hereby irrevocably and unconditionally waives any and all rights it may have or hereafter acquire under applicable law to cause or permit such partition.

Section 3.9. Lessor's Bankruptcy.

(a) Mortgagor acknowledges that pursuant to Section 365 of the Bankruptcy Reform Act of 1978 (as the same may be amended from time to time, the "Bankruptcy Code") it is possible that a trustee in bankruptcy of a lessor or a lessor as a debtor-in-possession could reject the Site Lease or another lease or a sublease under which Mortgagor is the lessee or sublessee and which is subject to this Mortgage, in which case Mortgagor, as lessee, would have the election described in Section 365(h) of the Bankruptcy Code (which election, as the same may be amended from time to time, and together with any comparable right under any other state or federal law relating to bankruptcy, reorganization or other relief for debtors, whether now or hereafter in effect, is herein called the "Election") to treat such Site Lease or other lease as terminated by such rejection or, in the alternative, to remain in possession for the balance of the term of the Site Lease or other lease and any renewal or extension thereof that is enforceable by the lessee under applicable nonbankruptcy law. Mortgagor covenants that it will not suffer

or permit the termination of the Site Lease or other lease by exercise of the Election or otherwise without the prior written consent of the Trustee, and any such termination or exercise without such consent shall be void. Mortgagor acknowledges that because the Site Lease or other lease is a primary part of the security for the Secured Obligations, it is not anticipated that the Trustee would consent to termination of the Site Lease or any other agreement related to the Site and the Trustee shall not under any circumstances be obliged to give such consent.

(b) In order to secure the covenant made in this Section 3.09 and as security for the Secured Obligations, Mortgagor assigns the Election and all rights related thereto to the Trustee. Mortgagor acknowledges and agrees that the foregoing assignment of the Election and related rights is one of the rights which the Trustee may use at any time in order to protect and preserve the other rights and interests of the Trustee under this Mortgage, since exercise of the Election in favor of terminating the Site Lease or another lease or sublease would constitute waste hereunder. Mortgagor acknowledges and agrees that the Election is in the nature of a remedy and is not a property interest which Mortgagor can separate from the Site Lease or another lease. Therefore, Mortgagor agrees that exercise of the Election in favor of preserving the right to possession under the Site Lease shall not be deemed to constitute a taking or sale of the Mortgaged Property by the Trustee and shall not entitle Mortgagor to any credit against the Secured Obligations.

(c) Mortgagor acknowledges and agrees that in the event the Election is exercised in favor of Mortgagor remaining in possession, Mortgagor's resulting rights under the Site Lease or any other lease, as adjusted by the effect of Section 365 of the Bankruptcy Code, shall then be part of the Mortgaged Property and shall be subject to the Lien created by this Mortgage.

Section 3.10. Subleases. Mortgagor shall submit to the Trustee for its prior written approval any sublease of the Project or any portion of the Mortgaged Property, including approval of any tenant thereunder, and no sublease shall be effective unless and until it has been approved by the Trustee. In the event the Trustee approves any such sublease, Mortgagor shall not accept prepayments of rent for any period in excess of one month and shall perform all covenants of the lessor under all subleases affecting the Project or the Mortgaged Property. As used herein, "sublease" includes any extensions or renewals thereof and any amendments thereto to which the Trustee has consented, but shall not include any Shared Facility Arrangement that meets the requirements of Section 5.6 of the Indenture. Mortgagor shall not amend or terminate any subleases without the prior written consent of the Trustee. Mortgagor shall immediately give notice to the Trustee of any default under any of the subleases it receives or delivers. The Trustee shall have the right but not the obligation to cure any default of Mortgagor upon notice under any of the subleases and all amounts disbursed in connection with said cure shall be secured hereby.

Section 3.11. Subordination. Each lease or sublease of any portion of the Project or the Mortgaged Property (other than the Site Lease) shall be absolutely subordinate to the Lien of this Mortgage, but shall contain a provision satisfactory to the Trustee that in the event of a judicial foreclosure hereunder, such lease or sublease, at the option of the purchaser at such sale, shall not be terminated and the tenant or subtenant thereunder, if requested to do so, shall attorn to such purchaser or shall enter into a new lease or sublease for the balance of the term of such lease or sublease then remaining, upon the same terms and conditions.

Section 3.12. Defense of Actions and Costs. Mortgagor shall appear in and defend any action or proceeding purporting to affect the security of this Mortgage and/or any additional or other security for the Secured Obligations, or the interest of the Trustee hereunder. Mortgagor shall pay all costs, fees and expenses, including, without limitation, costs of evidence of title, title insurance premiums, and reasonable attorneys' fees, paid or incurred in any action or proceeding respecting the Mortgaged Property in which the Trustee may appear or be made a party, whether or not pursued to final judgment, and in any exercise of the power of sale contained herein, whether or not such sale is actually consummated.

Section 3.13. Actions by Trustee to Preserve. Should Mortgagor fail to pay or perform any Secured Obligation, and such failure to pay or perform gives rise to a Default, the Trustee, in its discretion, without obligation so to do and without further notice to or demand upon Mortgagor and without releasing Mortgagor from any obligation, may make or do the same in such manner and to such extent as it may deem reasonably necessary to protect the security and priority hereof. In connection therewith (without limiting its general powers), and provided that a Default shall have occurred and be continuing, the Trustee shall have and is hereby given the right, but not the obligation (a) to enter upon and take possession of the Real Property, (b) to make additions, alterations, repairs and improvements to the Real Property it may consider reasonably necessary or proper to keep the Real Property in good condition and repair, (c) to appear and participate in any action or proceeding affecting or which may affect the security hereof or the rights or powers of the Trustee hereunder, (d) to pay, purchase, contest or compromise any Lien or debt which in the judgment of either may affect or appear to affect the security of this Mortgage or be or appear to be prior or superior hereto, and (e) in exercising such powers, to pay necessary expenses and employ necessary or desirable consultants. All fees, costs and expenses incurred by the Trustee pursuant to this Section 3.13 shall be secured hereby.

Section 3.14. Reimbursement. Mortgagor shall pay within ten (10) Business Days after demand all sums expended for expenses reasonably paid or incurred by the Trustee, including, without limitation, court costs, expenses for evidence of title, appraisals and surveys, and attorneys' fees, under any of the terms of this Mortgage, including, without limitation, the provisions of Section 3.13 above, together with interest on the amount of each expenditure from the date of such expenditure at a rate of interest equal to twelve percent (12%) per annum.

Section 3.15. Acceleration Upon Sale or Encumbrance. Mortgagor acknowledges that the transfer of possession of the Real Property or any portion thereof or any interest therein (except as hereinafter provided), or a change in the person or entity operating and managing the Project or the Mortgagor may significantly and materially alter or reduce the Trustee's security for the Secured Obligations. Accordingly, as a material inducement to the Trustee to enter into the transactions contemplated by the Indenture, the Credit Support Agreement and the Collateral Documents, Mortgagor agrees that it shall not transfer the Real Property or any portion thereof or interest therein without the prior written consent of the Trustee, except as expressly permitted under Section 6.2 hereof or as otherwise permitted by the Indenture. Subject to the Indenture, the Trustee may grant or withhold its prior written consent in its sole discretion. Consent to one such transfer shall not be deemed to be a waiver of the Trustee's right to require consent to future or successive transfers. Upon transfer of the Real Property or any portion thereof or interest therein in violation of this Section 3.15, the Trustee may, by written notice to Mortgagor, declare all Secured Obligations immediately due and payable, except to the extent that acceleration by the Trustee is prohibited by law. As used herein, "transfer" shall mean any

sale, lease, assignment, transfer or other disposal of the Real Property, or any portion thereof, or interest therein.

ARTICLE IV. ASSIGNMENT OF RENTS AND LEASES

Section 4.1. Assignment. Mortgagor hereby absolutely and irrevocably assigns to the Trustee all right, title, interest and leasehold estate of Mortgagor in, to or under any leases or subleases of the Mortgaged Property. Mortgagor hereby further absolutely and irrevocably assigns to the Trustee all the present and future Rents, Issues and Profits, with the right and authority to collect the same. Mortgagor irrevocably appoints the Trustee its true and lawful attorney-in-fact, at the option of the Trustee at any time and from time to time, to demand, receive and enforce payment, to give receipts, releases and satisfactions, and to sue, in the name of Mortgagor or the Trustee, for any Rents, Issues and Profits accruing to Mortgagor in respect of all or any parts of the Mortgaged Property and apply the same to the Secured Obligations; provided however, that, subject to the requirements and limitations of the Indenture and so long as no Default shall have occurred and be continuing, (i) Mortgagor shall have the privilege, under a revocable license hereby granted by the Trustee to Mortgagor, to collect when due, all the Rents, Issues and Profits from the Mortgaged Property and to retain, use and enjoy the same, and (ii) the Trustee shall not exercise such rights. The power of attorney granted in the foregoing sentence is coupled with an interest and is irrevocable. The assignment of Rents, Issues and Profits in this Section 4.1 is, and is intended to be, an absolute assignment from Mortgagor to the Trustee and not merely the passing of a security interest.

Section 4.2. Application of Rents, Issues and Profits. All Rents, Issues and Profits collected by or on behalf of the Trustee shall constitute Revenues and shall be applied as set forth in Article IV and other relevant provisions of the Indenture.

Section 4.3. Survival. The rights and powers of the Trustee under this assignment of rents and the application of Rents, Issues and Profits under this Article 4 shall continue until expiration of the redemption period (if a redemption period exists under applicable law) from any foreclosure sale, whether or not any deficiency remains after a foreclosure sale.

Section 4.4. Exculpation of the Trustee. The acceptance by the Trustee of the assignment contained herein with all of the rights, powers, privileges and authority created hereby shall not, prior to entry upon and taking possession of the Real Property by the Trustee, be deemed or construed to make the Trustee a "mortgagee in possession" nor thereafter or at any time or in any event obligate the Trustee to produce Rents, Issues and Profits from the Mortgaged Property or to appear in or defend any action or proceeding relating to such leases or subleases, the Rents, Issues or Profits, or the Real Property, or to take any action hereunder or to expend any money or incur any expenses or perform or discharge any Secured Obligation, duty or liability under any lease or sublease or to assume any Secured Obligation or responsibility for any security deposits or other deposits delivered to the Trustee, nor shall the Trustee be liable in any way for any injury or damage to any persons or property in or about the Mortgaged Property.

Section 4.5. Waiver. Neither the collection of the Rents, Issues and Profits and the application thereof as provided for herein, nor the entry upon or the taking or possession of the Real Property by the Trustee, shall be deemed to cure or waive any Default hereunder or waive, modify or affect any

default or notice of default under any of the Collateral Documents or the Indenture or invalidate any act done pursuant to any such notice. The enforcement of any such right or remedy by the Trustee, once exercised, shall continue for so long as the Trustee shall elect, notwithstanding that the collection and application of the Rents, Issues and Profits may have cured the original default. If the Trustee shall thereafter elect to discontinue the exercise of any such right or remedy, the same or any other right or remedy hereunder may be reasserted at any time and from time to time following any subsequent Default.

ARTICLE V. FIXTURE FILING

Section 5.1. Fixture Filing. This Mortgage covers goods which are or are to become fixtures.

(a) Mortgagor has granted to the Trustee a security interest in and to the Mortgaged Property. Mortgagor and Trustee hereby agree that all items of Mortgaged Property are Real Property or fixtures upon the Real Property and shall be treated as such to the fullest extent allowed by law and during the period this Mortgage is in force shall remain Real Property or fixtures upon the Real Property and such Real Property or fixtures shall not be or become personal property; provided, however, that if contrary to the intent of the Mortgagor and the Trustee the Mortgaged Property is or may be deemed to constitute personal property, Mortgagor shall cause filings to be made with the applicable government officials or filing offices and take all other action necessary or desirable to create and preserve for Trustee a perfected first priority statutory lien under ORS 288.518 and 288.825(3) and (4), and common law lien and pledge and security interest in the Mortgaged Property.

(b) This Mortgage shall constitute a security agreement and financing statement filed as a fixture filing to be recorded in the real estate records under the UCC. For such purposes, the Trustee is the secured party and Mortgagor is the debtor, and their addresses are as set forth in Section 7.3 below.

(c) The rights, remedies and interests of the Trustee under this Mortgage and the other Collateral Documents are independent and cumulative, and there shall be no merger of any lien hereunder with any security interest created by the other Collateral Documents. Nothing in this Mortgage shall limit the description of the property subject to such other Collateral Documents or limit the Trustee's rights and remedies thereunder.

Section 5.2. Limitations. Except as otherwise clearly and expressly provided herein: (a) the Trustee has not consented to any other security interest of any other person in any fixtures (other than Permitted Encumbrances) and has not disclaimed any interest in any fixtures; and (b) the Trustee has not agreed or consented to the removal of any fixtures from the Mortgaged Property, and any such consent by Mortgagor shall not be binding on the Trustee.

Section 5.3. Removal. Notwithstanding any other provisions of this Mortgage or any other agreement or contract between Mortgagor and the Trustee to the contrary, Mortgagor shall not, without the prior written consent of the Trustee, remove or permit the removal of any fixture from the Mortgaged Property until the date this Mortgage is released, except for fixtures removed and replaced in the ordinary course of business or so long as such removal and replacement impairs no prior perfected security interest under any of the Collateral Documents. The Trustee further reserves the right to prohibit the removal of any such fixture by any person with the legal right to remove any fixture from the Real Property

unless and until such person makes arrangements with (and satisfactory to) the Trustee for the payment to the Trustee of all costs of repairing any physical injury to the Mortgaged Property which may be caused by the removal of that fixture. Any such payment shall be made directly to the Trustee, and the Trustee may hold such payment as additional Mortgaged Property under this Mortgage or as Collateral under the other Collateral Documents or may apply such payment to any Secured Obligations. Failure by Mortgagor to cause the delivery to the Trustee of any such payment shall constitute (a) waste and conversion of the Mortgaged Property hereunder and a Default hereunder, and (b) conversion of Collateral under the Collateral Documents and a breach thereof.

ARTICLE VI. DEFAULTS; REMEDIES OF THE Trustee

Section 6.1 Default. Any of the following events shall, at the Trustee's option, constitute a "Default" under this Mortgage:

- (a) Any "Event of Default" under and as defined in the Indenture; or
- (b) The failure of Mortgagor to observe or perform any term, condition, covenant or agreement contained in this Mortgage for thirty (30) days after written notice by the Trustee of such failure; provided however, that if such default is of a nature such that it cannot reasonably be cured within such 30 day period but is susceptible to cure within a longer period, a Default shall not result therefrom so long as (i) Mortgagor has, promptly upon discovery thereof, given written notice to the Trustee of such default (provided, that if any Default is cured within any applicable time period specified herein, or waived or temporarily waived by the Trustee (with the consent of certain Bondholders if so required by the Indenture), the failure alone to give notice of such Default as provided in this sentence shall not be deemed a Default); (ii) Mortgagor as promptly as practicable commences action reasonably designed to cure such default and continues diligently to pursue such action until cured (but in no event longer than one hundred twenty (120) days) and (iii) the Trustee in its sole discretion shall have determined that such Default does not have a Material Adverse Effect.

Section 6.2. Remedies and Acceleration. Upon the occurrence of a Default hereunder, the Trustee may, subject to the requirements and conditions of the Indenture, declare all Secured Obligations to be immediately due and payable, with or without any presentment, demand, protest or notice of any kind. Whether or not the Trustee has declared all such amounts immediately due and payable, if a Default has occurred and is continuing, the Trustee may take any of the following actions:

- (a) With or without notice, and without releasing the Mortgagor from any obligation hereunder, cure any Default of the Mortgagor hereunder, including, without limitation, any default under any of the Collateral Documents, and, in connection therewith, enter upon the Mortgaged Property and do such acts and things that are, in the opinion of the Trustee, necessary or desirable to protect the security hereof, including, without limitation, appearing in and defending any action or proceeding purporting to affect the title to the Mortgaged Property, the security hereof or the rights or powers of the Trustee hereunder; pay, purchase, contest or compromise any Lien or claim of Lien as directed by the Trustee which, in its sole judgment, is prior or superior hereto or adversely affects the security hereof; pay any premiums or charges with respect to insurance required to be carried hereunder or under the Indenture; and employ attorneys, consultants, accountants, contractors and other appropriate persons as directed by the Trustee which it in its sole discretion deems necessary.

(b) Terminate Mortgagor's right and license to collect the Rents, Issues and Profits; apply any or all amounts received (whether as Rents, Issues and Profits, insurance proceeds, condemnation awards or otherwise) and held by the Trustee to pay, subject to the terms and requirements of the Indenture, all proper costs and expenses of so taking, holding and managing the same, including reasonable compensation to the Trustee's agents, attorneys and counsel, and any insurance premiums and taxes and assessments and other charges on the Mortgaged Property, which the Trustee shall deem necessary or desirable to pay, and all expenses of such repairs, alterations, additions and improvements, and other disbursements made by the Trustee pursuant to the terms hereof, and apply the remainder of the monies so received by the Trustee to the payment of any Secured Obligations, including the unpaid principal of, and interest on, the Bonds and any amounts due with respect to any other Obligations, all in accordance with the priorities and requirements of the Indenture, including Section 8.11 thereto. The collection and receipt of Rents, Issues and Profits from the Mortgaged Property by the Trustee, and its agent or receiver, after declaration of a Default and election to cause the Mortgaged Property to be sold under and pursuant to the terms of this Mortgage shall not constitute a waiver of or impair such Default or declaration of a Default or election to cause the Mortgaged Property to be sold or any sale proceedings predicated thereon, but such proceedings may be conducted and sale effected notwithstanding the receipt and collection of any such Rents, Issues and Profits. Any Rents, Issues and Profits in the possession of the Trustee, its agent or receiver, at the time of sale and not theretofore applied as herein provided, shall be applied in the same manner and for the same purposes as the proceeds of the sale.

(c) With or without bringing any action or proceeding, or by a receiver appointed by a court, enter and take possession of the Real Property, together with the books, papers and accounts of Mortgagor relating thereto, and exclude Mortgagor, its agents and servants therefrom; complete the construction and equipping of the Project and take such action in order to fulfill the Secured Obligations, including the right either to avail itself and procure performance of existing construction contracts or to enter into other contracts with the same contractors or others. Without limiting the generality of the foregoing, Mortgagor hereby appoints and constitutes the Trustee as its lawful attorney-in-fact with full power of substitution (it being understood and agreed that this power is coupled with an interest and cannot be revoked except upon satisfaction in full of all Secured Obligations) to complete construction and equipping of the Project in the name of Mortgagor, to use unadvanced funds under the Indenture, if any, or funds that may be otherwise available to, or reserved, escrowed or set aside by or for, Mortgagor in respect of the construction and equipping of the Project, or to advance the Trustee's own funds, to complete the Project, and to do any and every act that Mortgagor might do in its own behalf in respect of constructing and equipping the Project; hold, operate and manage the same and from time to time, make all needful repairs and such alterations, additions, advances and improvements to the Mortgaged Property as the Trustee shall deem appropriate to protect the Trustee's interests hereunder.

(d) Commence and maintain an action to foreclose this Mortgage, appoint a receiver, or specifically enforce any of the covenants of this Mortgage. Mortgagor agrees that such covenants shall be specifically enforceable by injunction or any other appropriate equitable remedy and that for the purposes of any suit brought under this subsection, Mortgagor waives the defense of laches and any applicable statute of limitations.

(e) Execute and deliver to Trustee a written notice of such Default and of its election to cause all or any portion of the Mortgaged Property to be sold to satisfy the Secured Obligations.

(f) Exercise any or all of the remedies available to a secured party under the UCC, including, without limitation:

(i) Either itself, by its agents or by means of a court appointed receiver, take possession of all or any part of the Mortgaged Property and exclude therefrom Mortgagor and all others claiming under Mortgagor, and thereafter hold, store, operate, use, manage, maintain and control, make repairs, replacements, alterations, additions and improvements to and exercise all rights and powers of Mortgagor in respect of the Mortgaged Property or any part thereof, or cause the same to be operated by a person or entity selected by the Trustee. In the event the Trustee demands or attempts to take possession of the Mortgaged Property or any part thereof, in the exercise of any rights hereunder, under the other Collateral Documents or the Indenture, Mortgagor shall promptly turn over and deliver complete possession thereof to the Trustee;

(ii) Without notice to or demand upon Mortgagor, make such payments and do such acts as the Trustee may deem necessary to protect the security interest granted hereby in the Mortgaged Property, and/or the priority thereof, including, without limitation, paying, purchasing, contesting or compromising any Lien which is prior or superior thereto (other than the Liens described in Section 6.10 hereof), and in exercising any such powers or authority to pay all expenses incurred in connection therewith;

(iii) Require Mortgagor to assemble the Mortgaged Property, or any portion thereof, at a place designated by the Trustee and reasonably convenient to both parties, and promptly to deliver such Mortgaged Property to the Trustee, or an agent or representative designated by it, it being understood that the Trustee, and its agent, representatives and employees, shall have the right to enter upon any or all of Mortgagor's premises and Property to exercise the Trustee's rights hereunder; and

(iv) Sell, lease or otherwise dispose of the Mortgaged Property at public or private sale, with or without having the Mortgaged Property at the place of sale, and upon such terms and in such manner as the Trustee may direct, and the Trustee may be a purchaser at any such sale.

As to any personal property subject to the UCC included in the Mortgaged Property, including, without limitation, accounts, contract rights and general intangibles, the Trustee may proceed separately against such personal property under the UCC or may proceed as to both real and personal property in accordance with the rights and remedies the Trustee has with respect to real property. In either event, Mortgagor shall have the burden of proving that any sale pursuant to this Section 6.2 was not conducted in a commercially reasonable manner.

(g) Resort to and realize upon the security hereunder and any other security now or hereafter held by the Trustee in any manner allowed by law in such order and manner as Trustee and the Trustee or either of them may, in their sole discretion, determine; and resort to any or all such security may be taken concurrently or successively and in one or several consolidated or independent judicial actions or lawfully taken non-judicial proceedings, or both.

Section 6.3. Appointment of Receiver. If a Default shall have occurred and be continuing, the Trustee, as a matter of right and without notice to Mortgagor or to anyone claiming under Mortgagor, and without regard to the then value of the Mortgaged Property or the interest of Mortgagor therein, shall have the right to apply to any court having jurisdiction to appoint a receiver or receivers of the

Mortgaged Property, or any portion thereof, and Mortgagor hereby irrevocably consents to such appointment and waives notice of any application therefor. Any such receiver or receivers shall have the usual powers and duties of receivers in like or similar cases and all the powers and duties of the Trustee in case of entry as provided in subsection 6.2(c) above, and shall continue as such and exercise all such powers until the date of confirmation of the sale of the Mortgaged Property, unless such receivership is sooner terminated.

Section 6.4. Trustee's Expenses for Protection of Security. All advances, costs, and reasonable expenses (including, without limitation, title insurance premiums and reasonable attorneys' fees) which the Trustee may make, pay or incur under any provision of this Mortgage for the protection of the security of the Trustee under this Article 6, or any of the rights of the Trustee in connection with the Mortgaged Property, or in foreclosure proceedings commenced and subsequently abandoned, or in any dispute or litigation in which the Trustee may become involved by reason of or arising out of this Mortgage, any of the other Collateral Documents or the Indenture, whether or not such dispute or litigation is prosecuted to judgment or decision, shall be paid by Mortgagor to the Trustee, as the case may be, within ten (10) Business Days after demand, and shall bear interest until paid at a rate of twelve percent (12%) per annum, all of which Obligations shall be additional charges upon the Mortgaged Property and be equally secured hereby and shall be a Lien on the Mortgaged Property prior to any rights or claims upon the Mortgaged Property subordinate to the Lien of this Mortgage.

Section 6.5. Rights Cumulative. The Trustee's rights, powers and remedies under this Mortgage and the other Collateral Documents are cumulative and in addition to any other rights, powers and remedies provided by law. No delay or omission by the Trustee shall impair any such right, power or remedy or be construed to be a waiver of or acquiescence in any default on the part of the Mortgagor.

Section 6.6. Attorney-in-Fact. The Mortgagor irrevocably makes, constitutes and appoints the Trustee (with full power of substitution) as the true and lawful attorney-in-fact of the Mortgagor, with the right, power and authority to execute and deliver, following a Default hereunder, for Mortgagor and in Mortgagor's name and stead, all bills of sale, assignments, releases, and any other instruments the Trustee may deem necessary to effect the sale, assignment, transfer or delivery of the Mortgaged Property or any portion thereof pursuant to the terms of this Mortgage, to maintain the Mortgaged Property, to perfect the security interest therein, to preserve the priority thereof or to carry out the provisions of this Mortgage, and to perform each and every act or thing whatsoever which may be necessary or appropriate in connection therewith, and Mortgagor hereby ratifies all that Trustee shall lawfully do or cause to be done by virtue of this appointment. This power of attorney is a power coupled with an interest and is irrevocable.

Section 6.7. Receipt a Sufficient Discharge. Upon any sale of the Mortgaged Property or any part thereof or interest therein, whether pursuant to foreclosure or otherwise, the receipt of the officer making the sale under judicial proceedings shall be sufficient discharge to the purchaser for the purchase money and such purchaser shall not be obligated to see to the application of such funds.

Section 6.8. Other Rights. After the occurrence and during the continuance of a Default and at the time and in the manner herein provided, the Trustee may, without notice to or demand upon Mortgagor, without releasing Mortgagor from any obligation hereunder and without waiving its right to declare a Default as herein provided or impairing any declaration of a Default or election to cause the Mortgaged Property to be sold or any sale proceeding predicated thereon:

(a) Make or do such acts as Mortgagor is entitled to do in such manner and to such extent as either may deem necessary to protect the security hereof, the Trustee being authorized to enter upon and take possession of the Mortgaged Property for such purposes;

(b) Commence, appear in and/or defend any action or proceedings purporting to affect the security or priority hereof, and/or any additional or other security therefor, the interests, rights, powers and/or duties of the Trustee hereunder, whether brought by or against Mortgagor or the Trustee; and

(c) Pay, purchase, contest or compromise any Lien which in the judgment of either may affect or appear to affect the security of this Mortgage, the interest of the Trustee or the rights, powers and/or duties of the Trustee hereunder.

The Trustee shall not be under any obligation to make any of the payments or do any of the acts referred to in this Section 6.8 and any of the actions referred to in this Section 6.8 may be taken by the Trustee irrespective of whether any notice of default or election to sell has been given hereunder and without regard to the adequacy of the security for the Secured Obligations.

Section 6.9. Waiver of Stay, Extension, Moratorium Laws; Equiry of Redemption. Mortgagor shall not at any time (a) insist upon, or plead, or in any manner whatever claim or take any benefit or advantage of any applicable present or future stay, extension or moratorium law, which may affect observance or performance of the Secured Obligations, or (b) claim, take or insist upon any benefit or advantage of any present or future law providing for the valuation or appraisal of the Mortgaged Property or any portion thereof prior to the exercise of any remedy under or pursuant to the provisions of this Mortgage or the other Collateral Documents or the Indenture. Mortgagor, to the fullest extent that it lawfully may, hereby waives all benefit or advantage of any such law or laws. Mortgagor, for itself and all who may claim under it, hereby waives, to the extent permitted by applicable law, any and all rights and equities of redemption under any order or decree of foreclosure of this Mortgage and all notice or notices of seizure, and all right to have the Mortgaged Property marshalled upon any foreclosure hereof. The Trustee shall not be obligated to pursue or exhaust its rights or remedies as against any part of the Mortgaged Property before proceeding against any other part thereof and Mortgagor hereby waives any right or claim of right to have the Trustee proceed in any particular order, and any right which it may have to direct the order in which any of the Mortgaged Property shall be sold in the event of any sale or sales pursuant to this Mortgage.

Section 6.10. Subordination Provisions. As long any Senior Lien Obligations are Outstanding, the Lien of this Mortgage shall be subject and subordinate to the Lien of the Leasehold Mortgage, dated as of even date herewith and granted by the City to the Trustee to secure the Senior Lien Obligations, in accordance with the provisions of the Indenture. Notwithstanding the existence of any default with respect to the Second Lien Bonds (including, without limitation, any payment default), as long as there are any Senior Lien Obligations Outstanding the Trustee shall have no right to foreclose on the Mortgaged Property for the benefit of the Holders of the Second Lien Obligations or to pursue any rights in the Mortgaged Property under this Mortgage, including without limitation the commencement of any judicial enforcement or any other enforcement action with respect to any of the rights and remedies granted under this Mortgage.

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of any kind in which Mortgagor or the Trustee shall be a party, unless brought by the Trustee, or of any pending sale under any deed of trust, except as may otherwise be required by law.

Section 7.5. The Trustee's Powers. Without affecting the liability of Mortgagor or any other person liable for the payment of any Secured Obligation, and without affecting the lien or charge of this Mortgage upon any portion of the Mortgaged Property not then or theretofore released as security for the full amount of all unpaid Secured Obligations, the Trustee may, from time to time and without notice (i) release any person so liable, (ii) extend the maturity or alter any of the terms of any such Secured Obligation, or join in any agreement modifying the terms of any guaranty, (iii) waive any provision hereof or grant other indulgences, (iv) release or reconvey, or cause to be released or reconveyed, at any time at the Trustee's option, all or any part of the Mortgaged Property, (v) take or release any other or additional security for any Secured Obligation herein mentioned, (vi) make agreements or other arrangements with debtors in relation thereto, or (vii) subordinate the lien or charge of this Mortgage.

Section 7.6. Release. Upon the Trustee's written request following the payment and/or performance of all Secured Obligations, Trustee shall release the Lien created by this Mortgage and the other Collateral Documents on the Mortgaged Property or that portion thereof then held hereunder, provided, however, that any indemnity made in connection with the Indenture or any of the Collateral Documents running in favor of the Trustee shall survive any such release.

Section 7.7. Severability. The invalidity of any one or more covenants, phrases, clauses, sentences, or Sections or subsections of this Mortgage shall not affect the remaining portions of this Mortgage or any part thereof, and the same shall be construed as if such invalid covenants, phrases, clauses, sentences, or Sections or subsections, if any, had not been inserted herein. If the Lien of this Mortgage is invalid or unenforceable as to any of the Secured Obligations, or if the Lien is invalid or unenforceable as to any part of the Mortgaged Property, the unsecured or partially secured portion of such Secured Obligations shall be completely paid prior to the payment of the remaining and secured or partially secured portion of such Secured Obligations, and all payments made on such Secured Obligations, whether voluntary or under foreclosure or other enforcement action or procedure, shall be considered to have been first paid on and applied to the full payment of that portion of such Secured Obligations which is not secured or fully secured by the Lien of this Mortgage.

Section 7.8. Amendment. Any termination, amendment, supplement, waiver or modification of any term hereof shall be in writing and executed by the Mortgagor and the Trustee.

Section 7.9. Headings. The headings of the Articles, Sections and subsections hereof are for convenience and shall not affect the meaning of this Mortgage.

Section 7.10. Benefits. The Trustee and the Mortgagor, their permitted successors and assigns, but no others, shall be bound hereby and entitled to the benefits hereof, provided however, that the parties acknowledge and agree that this Mortgage and the rights of the Trustee hereunder and under the other Collateral Documents are granted in favor of the Trustee for the benefit of the Holders of the Bonds and all other Obligations, including the Credit Support Agreement, issued or entered into and to be issued or entered into under or pursuant to the Indenture, all in accordance with the terms and conditions of the Indenture. Without limiting the foregoing, the Trustee may, at its election, assign, convey or transfer all or any part(s) of its right, title or interest hereunder in connection with any assignment or other transfer of all or any part(s) of its interest in or to the Collateral Documents.

all or any part(s) of its right, title or interest hereunder in connection with any assignment or other transfer of all or any part(s) of its interest in or to the Collateral Documents.

Section 7.11. Governing Law. This Mortgage shall be governed by and construed in accordance with the laws of the State of Oregon.

Section 7.12. Attorneys' Fees. Mortgagor will upon demand pay to the Trustee the amount of any and all reasonable expenses, including the reasonable fees and disbursements of its outside and staff counsel and of any experts and agents (including fees of law clerks, paralegals, investigators and others not admitted to the bar but performing services under the supervision of an attorney), which the Trustee may incur in connection with (i) the administration of this Mortgage, (ii) the custody, preservation, use or operation of, or the sale of, collection from, or other realization upon, any of the Mortgaged Property, (iii) the exercise or enforcement of any of the rights of the Trustee hereunder or (iv) the failure by the Mortgagor to perform or observe any of the provisions hereof. As used herein, the term reasonable attorneys' fees includes such fees incurred in the exercise of any remedy (with or without litigation), in any proceeding for the collection of the Secured Obligations, in any foreclosure on any of the Mortgaged Property, in protecting or sustaining the Lien or priority of the security, or in any litigation or controversy arising from or connected with such obligations, including any bankruptcy, receivership, injunction or other proceeding, or any appeal from or petition for review of any of the foregoing. Reasonable attorneys' fees shall include fees incurred not only in enforcing the debt in any bankruptcy or receivership proceeding, but also any fees incurred in participating in the bankruptcy or receivership proceedings generally.

Section 7.13. Nonrecourse to Mortgagor. Notwithstanding any other provision of this Mortgage, there shall be no recourse against Mortgagor, or any of its officials or employees, for any liability to the Trustee arising in connection with any breach or default under this Mortgage, except that the Trustee may satisfy any judgment obtained against Mortgagor arising from a breach or default by the Mortgagor under this Mortgage from amounts realized through the exercise of rights and remedies of the Trustee with respect to the Mortgaged Property hereunder, under the other Collateral Documents or from other moneys available therefor under the Indenture, all in accordance with the terms and conditions of the Indenture; provide^d that (a) the foregoing provisions of this Section 7.13 shall not constitute a waiver, release or discharge of any of the Secured Obligations, or of any of the terms, covenants, conditions or provisions of this Mortgage, and the same shall continue until fully paid, discharged, observed or performed; (b) the foregoing provisions of this Section 7.13 shall not limit or restrict the right of the Trustee to name the Mortgagor or any other Person as a defendant in any action or suit for the exercise of any remedy under or with respect to this Mortgage or any of the Mortgaged Property, or for injunction, mandamus or specific performance, so long as such remedy shall not be enforced against any other assets of the Mortgagor or any of its respective officials or employees or out of any property, assets or funds other than the Mortgaged Property. The limitations on recourse set forth in this Section 7.13 shall survive the termination of this Mortgage and the full payment and performance of the Secured Obligations.

Section 7.14. Time. Time is of the essence of this Mortgage.

Section 7.15. Inconsistencies. In the event that any of the covenants of Mortgagor set forth in this Mortgage conflict with those set forth in the Indenture, the Indenture shall control; provided that in

all other respects, in the event of an inconsistency between this Mortgage and the Indenture, the terms of this Mortgage shall control.

Section 7.16. Use Of Property. THIS INSTRUMENT WILL NOT ALLOW USE OF THE REAL PROPERTY DESCRIBED IN THIS INSTRUMENT IN VIOLATION OF APPLICABLE LAND USE LAWS AND REGULATIONS. BEFORE SIGNING OR ACCEPTING THIS INSTRUMENT, THE PERSON ACQUIRING AN INTEREST IN THE REAL PROPERTY SHOULD CHECK WITH THE APPROPRIATE CITY OR COUNTY PLANNING DEPARTMENT TO VERIFY APPROVED USES AND TO DETERMINE ANY LIMITS ON LAWSUITS AGAINST FARMING OR FOREST PRACTICES AS DEFINED IN ORS 30.930.

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IN WITNESS WHEREOF, the Mortgagor has caused this Mortgage to be duly executed by their respective officers thereunto duly authorized, as of the day and year first above written.

"MORTGAGOR"

CITY OF KLAMATH FALLS, OREGON

By: Todd Kellstrom

Name: Todd Kellstrom

Title: Mayor

STATE OF OREGON)

County of Klamath) ss.

SUBSCRIBED AND SWORN to before me this 23rd day of April, 1999.



Shirley F. Kappas
NOTARY PUBLIC FOR OREGON
My Commission Expires: 9-10-01

15688

EXHIBIT A

DESCRIPTION OF LEASED PREMISES

A parcel of land located in the Southwest Quarter (SW1/4) of Section 18, in Township 39 South, Range 9 East of the Willamette Meridian, in Klamath County, Oregon. Said parcel of land is described with reference to the Oregon Coordinate System, South Zone (NAD83/91), more particularly described as follows:

Beginning at a point that bears S.14°09'11"E., 1053.18 feet from the West Quarter Corner of said Section 18; thence S.02°45'54"E., 416.51 feet; thence N.87°13'30"E., 1943.44 feet; thence N.16°18'45"E., 32.75 feet; thence N.20°00'27"E., 44.80 feet; thence N.14°15'06"E., 30.39 feet; thence N.12°02'25"E., 16.90 feet; thence N.13°04'36"E., 44.81 feet; thence N.09°28'58"E., 45.44 feet; thence N.00°08'27"W., 45.59 feet; thence N.06°00'20"W., 43.42 feet; thence N.15°07'32"W., 44.21 feet; thence N.25°16'54"W., 43.00 feet; thence N.27°27'32"W., 43.42 to a point that bears S.24°28'33"W., 982.35 feet from the Center Quarter Corner of said Section 18; thence S.87°13'39"W., 1962.13 feet to the point of beginning.

SK 17

15689

EXHIBIT B

EASEMENTS

A. WATER LINES, WATER SUPPLY AND FIRE PROTECTION:

(i) An easement for the installation, maintenance, repair, replacement and use by Lessee of water lines, whether above or below ground, servicing the Plant with potable water and effluent water used for cooling, processing, boiler feedwater make-up and all other water necessary in the operation and maintenance of the Plant, to be located at such location as Lessor shall designate and describe on a schedule to be attached hereto prior to the Commercial Operation Date, including water from the City of Klamath Falls, Oregon, in its municipal capacity, and water from Collins Well #6.

(ii) Access to the Collins Facility's fire protection system (including underground mains, ground suction tanks and fire hydrants).

B. SANITARY SEWER LINES:

An easement for the installation, maintenance, repair, replacement and use by Lessee of sanitary sewer lines servicing the Plant to be located at such location as Lessor shall designate and describe on a schedule to be attached hereto prior to the Commercial Operation Date.

C. STORM SEWER LINES:

An easement for the installation, maintenance, repair, replacement and use by Lessee of a storm sewer system which will service the Plant to be located at such location as Lessor shall designate and describe on a schedule to be attached hereto prior to the Commercial Operation Date.

D. NATURAL GAS SERVICE:

An easement for the installation, maintenance, repair, replacement and use by Lessee of gas lines, whether above or below ground, and meters providing natural gas service to the Plant to be located at such location as Lessor shall designate and describe on a schedule to be attached hereto prior to the Commercial Operation Date.

E. INGRESS AND EGRESS:

An easement for all purposes of ingress and egress for motor vehicle and pedestrian traffic over, upon and across the existing road connecting to State Highway 97 for

EX B

15690

primary access, and to Weyerhaeuser Road for backup secondary access, and for access to the railroad spur on the Collin's Facility Site. Lessor may impose such reasonable restrictions on, and rules and regulations for, the use of such access as Lessor may deem necessary for the security of its operations at the Collins Facility.

F. SIGNAGE:

An easement for purposes of erecting a sign or signs displaying the names or symbols of Lessee, its operators, tenants and contractors, which signs shall be approved as to size and form, and located, installed and maintained in the manner and at the locations, designated by Lessor.

G. STEAM AND CONDENSATE LINES:

An easement for the installation, maintenance, repair, replacement and use of steam and condensate lines, whether above, below or upon ground to be located at such location as Lessor shall designate and describe on a schedule to be attached hereto prior to the Commercial Operation Date, together with access rights thereto, as may be necessary or desirable for the proper operation of the Plant and the transmission of steam and condensate between the Plant and the Collins Facility.

H. TELEPHONE LINES:

An easement for the installation, maintenance, repair, replacement and use by the Lessee of the telephone and communications lines and service to be located on such location as Lessor shall designate and describe on a schedule to be attached hereto prior to the Commercial Operation Date, together with such access rights as may be reasonable and necessary therefor.

APR-23-99 11:19AM

FROM-STOEL RIVER

5032252279

ATER WYNNE

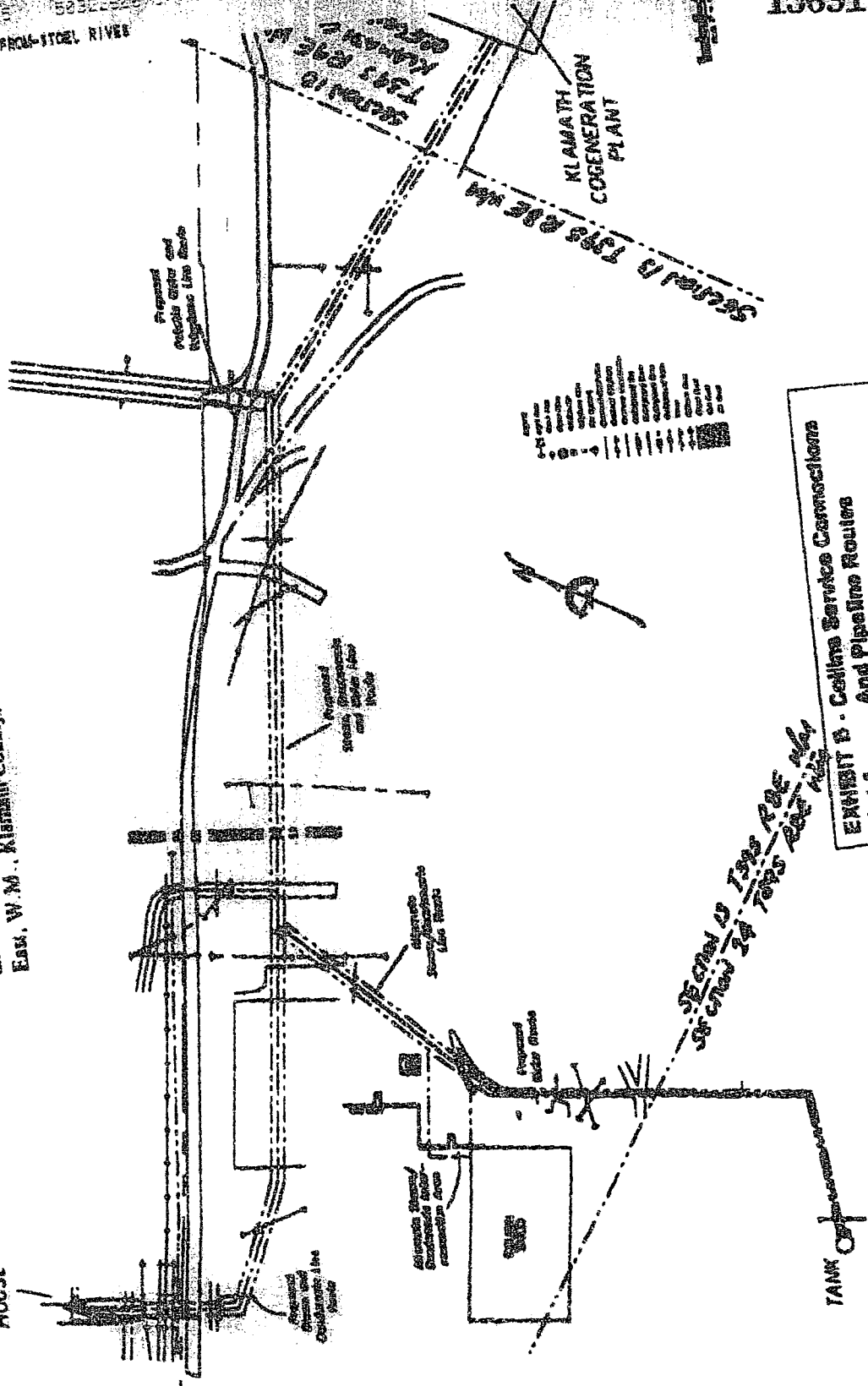
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The Easements described in Exhibit B of this Lease are located on lands of Collins Products LLC in Section 18, Township 39 South, Range 9 East, W.M. and Sections 13 and 24, Township 39 East, Range 8 East, W.M., Klamath County, Oregon.

BOILER HOUSE



- 1. Easement for the installation, operation, and maintenance of pipelines, structures, and equipment.
- 2. Easement for the installation, operation, and maintenance of pipelines, structures, and equipment.
- 3. Easement for the installation, operation, and maintenance of pipelines, structures, and equipment.
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- 9. Easement for the installation, operation, and maintenance of pipelines, structures, and equipment.
- 10. Easement for the installation, operation, and maintenance of pipelines, structures, and equipment.

EXHIBIT B - Collins Service Connections
And Pipeline Routes
Sheet 2

STATE OF OREGON : COUNTY OF KLAMATH: ss. the 27th day
Filed for record at request of Aspen Title & Escrow P. M., and duly recorded in Vol. M99
of April A.D., 1999 at 3:19 o'clock P. M. on Page 15663
of Mortgages by Linda Smith, County Clerk
FEE \$155.00