

PIONEER BANK

Mortgagor(s):
SUNNYFIELD FARMS, INC.
305 HASKINS ROAD
BONANZA, OR 97626

Mortgagee(s):
Pioneer Bank
C/O Pacific Intermountain Mortgage Company
2420 Main Street
Baker City, OR 97814

REAL ESTATE MORTGAGE

THIS MORTGAGE is made and entered into by Sunnyfield Farms, Inc., at 305 HASKINS ROAD, Klamath County, Oregon, herein called mortgagor, and Pioneer Bank, C/O Pacific Intermountain Mortgage Company, 2420 Main Street, Baker City, Oregon 97814, herein called mortgagee.

Mortgagors in consideration of FOUR HUNDRED AND THIRTY THREE THOUSAND DOLLARS (\$433,000.00) paid to mortgagor does hereby grant, bargain, sell and convey unto Pioneer Bank, mortgagee and mortgagee's successors and assigns, that real property situated in Klamath County, State of Oregon, described on Exhibit "A", and the irrigation equipment described on Exhibit "A-1", both attached hereto and by this reference made a part hereof, together with all and singular the tenements, hereditaments and appurtenances thereunto belonging or in any way appertaining and which may hereafter thereto belong or appertain, and the rents, issues and profits therefrom, and any and all fixtures upon the premises at the time of the execution of the mortgage or at any time during the term of this mortgage.

TO HAVE AND TO HOLD the premises with the appurtenances unto mortgagee and mortgagee's personal representative, successors and assigns forever.

This mortgage is intended to secure the payment of a promissory note dated October 1, 2002, in the principal amount of \$433,000.00 with the due date of the final installment being January 1, 2023.

The mortgagor warrants that the proceeds of the loan represented by the Note and this mortgage are (line out whichever is not applicable):

- (a) ~~primarily for mortgagor's personal, family or household purposes, or~~
- (b) for an organization or (even if mortgagor is a natural person) for business or commercial purposes.

This mortgage is further conditional upon the faithful observance by the mortgagor of the following Articles of covenants hereby expressly entered into by the mortgagor, to-wit:

ARTICLE I

MORTGAGOR FURTHER AGREES THAT THE LOAN SECURED BY THIS INSTRUMENT WILL BE IN DEFAULT SHOULD ANY LOAN PROCEEDS BE USED FOR A PURPOSE THAT WILL CONTRIBUTE TO EXCESSIVE EROSION OF HIGHLY ERODIBLE LAND OR TO THE CONVERSION OF WETLAND TO PRODUCE OR TO MAKE POSSIBLE THE PRODUCTION OF AN AGRICULTURAL COMMODITY, SUBJECT TO 7 CFR PART 1940, SUBPART G, EXHIBIT M.

ARTICLE II

HAZARDOUS SUBSTANCES: Notwithstanding any provision in the Mortgages or any other Loan Document, the provisions of this Article shall not be secured by the Mortgages and shall survive termination of this Mortgage, repayment of the Loan, and foreclosure of the Mortgages or similar proceedings.

(1) **Definition of Hazardous Substance:** For purposes of this Agreement, a "Hazardous Substance" is defined to mean any substance, material or waste, including asbestos and petroleum (including crude oil

or any fraction thereof), which is or becomes designated, classified or regulated as "toxic", "hazardous", a "pollutant" or similar designation under any federal, state or local law, regulation or ordinance.

(2) **Indemnity regarding Hazardous Substances:** Mortgagor agrees to indemnify, defend with counsel acceptable to Lender, and hold Lender, its parent and affiliated companies, and their respective officers, directors, employees and agents, harmless from and against all actual or threatened liabilities, claims, actions, damages (including foreseeable fees) and losses directly or indirectly arising out of or resulting from the presence of any Hazardous Substance in or around any part of the Properties or in the soil or groundwater under the Properties, including (a) any expenses incurred in connection with any reasonably necessary investigation of site conditions or any clean-up, remedial, removal or restoration work, and (b) any resulting damages or injuries to the person or property of any third parties or to any natural resources. In addition, Mortgagor shall similarly indemnify, defend and hold harmless any persons purchasing the Properties through a foreclosure sale or following a foreclosure sale, and any persons purchasing the Loan or any portion of or interest in it.

(3) **Representation and Warranty:** Before signing this Agreement, Mortgagor researched and inquired into the previous, current and contemplated uses and ownership of the Properties. Based on that due diligence, Mortgagor represents and warrants that, to the best of his knowledge, no Hazardous Substance has been or will be disposed of, released onto or otherwise exists in, on, or under the Properties, except as Mortgagor has disclosed to Lender in writing.

(4) **Compliance with Law; Notices:** Mortgagor has complied, and shall comply and cause all occupants of the Properties to comply, with all laws, regulations and ordinances governing or applicable to Hazardous Substances as well as the recommendations of any qualified environmental engineer or other expert. Mortgagor shall promptly notify Lender if he/she/they know(s) or suspects there may be any Hazardous Substance in or around the Properties, or in the soil or groundwater under the Properties, or if any action or investigation by any governmental agency or third party pertaining to Hazardous Substances is pending or threatened.

(5) **Site Visits:** Mortgagor shall allow Lender access to the Properties at any reasonable time for the purposes of performing an appraisal, inspecting the Properties, taking soil or groundwater samples, and conducting tests, among other things, to investigate for the presence of Hazardous Substances, as defined in Article V. Such appraisals, inspections and audits shall be at the Lender's expense except if Lender performs such appraisals, inspections or audits after the occurrence of an Event of a Default as in hereinafter defined. Lender is under no duty to visit or observe the Properties. Any site visit, observation or examination by Lender shall be solely for the purpose of protecting Lender's security and preserving Lender's rights under the Loan Documents. Lender owes no duty of care to protect Mortgagor or any other party against, or to inform Mortgagor or any other party of, any adverse condition affecting the Properties, including any defects in the design or construction of any improvements on the Properties or the presence of any Hazardous Substances on the Properties.

ARTICLE III

(1) Mortgagor is lawfully seized of the premises and now has a valid and unencumbered fee simple title thereto, except easements and rights of way of record and mortgagor will warrant and defend said title against the claims and demands of all persons.

(2) Mortgagor will pay the promissory note(s) and all installments of interest thereon promptly as the same become due, according to the tenor of the note(s). The final due date for payment of principal and interest of the promissory note is January 1, 2023.

(3) So long as this mortgage remains in force, mortgagor will pay all taxes, assessments, and other charges of every nature levied or assessed upon or against the premises when due and payable, according to law, and before the same becomes delinquent, and will also pay all taxes levied or assessed on this mortgage or the debt thereby secured, and will promptly pay and satisfy any mechanics' liens or other encumbrances that, by operation of law or otherwise, become a lien upon the mortgaged premises superior to the lien of this mortgage.

(4) Mortgagor will keep the improvements (including but not limited to the dwelling, other outbuildings, fences, attached irrigation equipment) erected on the premises in good order and repair and will not commit or suffer any waste of the premises. At the request of the mortgagee, the mortgagor shall join with the mortgagee in executing one or more financing statements pursuant to the Uniform Commercial Code, in form satisfactory to the mortgagee and will pay for filing the same in the proper public office(s), as well as the cost of any lien search made by filing officers or searching agencies as may be deemed desirable by the mortgagee. Mortgagor will not make any changes in or alterations to the improvements on the mortgaged premises which will materially decrease the value of the same.

(5) This mortgage covers all water rights and ditch rights and mortgagor agrees that mortgagor will put to beneficial use all waters and maintain said water rights and not allow any water rights to be abandoned.

(6) Mortgagor agrees that mortgagee or it's agents, successors or assigns and their agents may at all reasonable times inspect the property to ascertain whether the covenants and agreements contained herein are being performed. Said inspections will be on at least an annual basis.

(7) So long as this mortgage shall remain in force, mortgagor will keep the buildings now erected, or any which may hereafter be erected on the premises, insured against loss or damage by fire, with extended coverage, to the extent of the contributory value on the primary dwelling and the remaining outbuildings in some company or companies acceptable to the mortgagee and for the benefit of both parties hereto as their interests may appear, and will deliver all the policies and renewals thereof to the mortgagee.

(8) WARNING: Unless mortgagor provides mortgagee with evidence of insurance coverage as required by the contract or loan agreement between them, mortgagee may purchase insurance at mortgagor's expense to protect mortgagee's interest. This insurance may, but need not, also protect mortgagor's interest. If the collateral becomes damaged, the coverage purchased by mortgagee may not pay any claim made by or against mortgagor. Mortgagor may later cancel the coverage by providing evidence that mortgagor has obtained property coverage elsewhere. Mortgagor is responsible for the cost of any insurance coverage purchased by mortgagee, which cost may be added to mortgagor's contract or loan balance. If it is so added, the interest rate on the underlying contract or loan will apply to it. The effective date of coverage may be the date mortgagor's prior coverage lapsed or the date mortgagor failed to provide proof of coverage. The coverage mortgagee purchases may be considerably more expensive than insurance mortgagor might otherwise obtain alone and may not satisfy any need for property damage coverage or any mandatory liability insurance requirements imposed by applicable law.

NOW THEREFORE, if the mortgagor shall pay the promissory note(s) and shall fully satisfy and comply with the covenants hereinbefore set forth, then this conveyance shall be void, but otherwise it shall remain in full force and virtue as a mortgage to secure the payment of the promissory note(s) in accordance with the terms thereof and the performance of the covenants and agreements herein contained. Any failure to make any of the payments provided for in the note(s) or this mortgage when the same shall become due or payable, or to perform any agreement herein contained, shall give to the mortgagee the option to declare the whole amount due on the note(s), or unpaid thereon or on this mortgage, at once due and payable, and this mortgage by reason thereof may be foreclosed at any time thereafter. If the mortgagor shall fail to pay any taxes or other charges or any lien or insurance premium as herein provided to be done, the mortgagee shall have the option to pay the same. Any payment so made shall be added to and become a part of the debt secured by this mortgage, and draw interest at the same rate as the note(s) without waiver, however, of any right arising from breach of any of the covenants herein. Time is of the essence with respect to all sums due hereunder, and the promissory note(s).

In case a suit or action is brought to foreclose this mortgage, the court may, upon motion of the holder of the mortgage, without respect to the condition of the property, appoint a receiver to collect the rents and profits arising out of the premises and direct the receiver to apply such rents and profits to the payment and satisfaction of the amount due under this mortgage, first deducting all proper charges and expenses of the receivership, including a reasonable charge for attorney fees.

In the event any suit or action to foreclose this mortgage is commenced, the losing party therein agrees to pay the attorney fees, costs and disbursements of the prevailing party, including statutory costs and

disbursements and costs of title report(s) and /or title search. If any appeal is taken from any judgment or decree entered pursuant to such suit or action, the losing party on appeal therein promises to pay the attorney fees, costs and disbursements, including all statutory costs and disbursements, of the prevailing party. To the extent permitted by law, all such sums shall be and are secured by the lien of this mortgage and shall be included in the judgment or decree of foreclosure.

Each and all of the covenants and agreements herein contained shall apply to, inure to the benefit of, and bind the personal representatives, successor and/or assigns of the mortgagor and of the mortgagee respectively.

In construing this mortgage and related note(s), it is understood that the mortgagor or mortgagee may be more than one person. If the context so requires, the singular shall be taken to mean and include the plural. Generally, all grammatical changes shall be made, assumed and implied to make the provisions hereof apply equally to corporations and to individuals.

All covenants and provisions of this mortgage shall bind the successors and assigns of mortgagor and shall inure to the benefit of successors and assigns of mortgagee, provided however mortgagor understands that a sale or other transfer of the mortgaged premises or any part thereof, without prior written consent of mortgagee, shall constitute a default of this mortgage.

IN WITNESS WHEREOF, the mortgagor has executed this instrument the day and year first above written. If the mortgagor is a corporation, it has caused it's name to be signed and it's seal, if any, affixed by an officer or other person duly authorized to do so by order of it's board of directors.

John A. Volle
JOHN A. VOLLE, PRESIDENT
SUNNYFIELD FARMS, INC.

John A. Volle
JOHN A. VOLLE, INDIVIDUALLY

Deborah A. Volle
DEBORAH A. VOLLE, INDIVIDUALLY

STATE OF OREGON
County of Klamath

This instrument was acknowledged before me on October 2, 2002, by John A. Volle, known to me to be the President of Sunnyfield Farms, Inc., and by John A. Volle and Deborah A. Volle, individually.

Janice Wachter
Notary Public for Oregon
My commission expires: 12/23/02

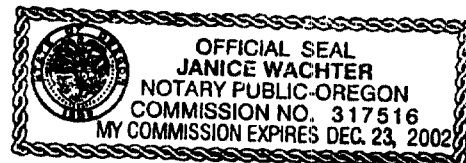


Exhibit A

PARCEL 1:

The NE 1/4 NE 1/4 of Lot 1, and that portion of the SE 1/4 NE 1/4 lying and being on the North side of the Klamath Falls-Bonanza State Highway, Section 6, Township 39 South, Range 11 East of the Willamette Meridian, in the County of Klamath, State of Oregon.

PARCEL 2:

All that portion of Lot 2 and the SW 1/4 NE 1/4 of Section 6, Township 39 South, Range 11 East of the Willamette Meridian, lying North of the Northerly right of way line of the Dairy-Bonanza Highway and East of the Easterly right of way line of Haskins Road, in the County of Klamath, State of Oregon.

PARCEL 3:

The NW 1/4 NW 1/4 of Lot 4, Section 5, Township 39 South, Range 11 East of the Willamette Meridian, in the County of Klamath, State of Oregon.

PARCEL 4:

The W 1/2 SW 1/4, Section 32, Township 38 South, Range 11 East of the Willamette Meridian, in the County of Klamath, State of Oregon.

PARCEL 5:

The SW 1/4 NW 1/4, Section 32, Township 38 South, Range 11 East of the Willamette Meridian, in the County of Klamath, State of Oregon.

PARCEL 6:

The SW 1/4 NE 1/4, Section 31, Township 38 South, Range 11 East of the Willamette Meridian, in the County of Klamath, State of Oregon.

PARCEL 7:

The SE 1/4 NE 1/4, Section 31, Township 38 South, Range 11 East of the Willamette Meridian, in the County of Klamath, State of Oregon.

PARCEL 8:

The SE 1/4 of Section 31, Township 38 South, Range 11 East of the Willamette Meridian, in the County of Klamath, State of Oregon.

EXHIBIT "A-1"

IRRIGATION EQUIPMENT
Volle

All fixtures (including trade fixtures), supplies, equipment and inventory used for the production of water on the Real Property or for the irrigation or drainage thereof, whether now owned or hereafter acquired, and whether now existing or hereafter arising, and all proceeds (including insurance proceeds) from the sale or other disposition of any of such Property. Said fixtures, supplies, equipment and inventory include, but are not limited to, the following:

1. G.E. 75 H.P. motor Serial # P66135241 with Ingersoll-Rand V.T. pump Serial # 92066374
2. Marathon electric 30 H.P. motor Serial # 0988536 with Berkeley Hor. Cent. pump Serial # 7673466
3. US Electric 30 H.P. motor ID # D1101061271009F with V.T. Gould pump Serial # FR435637-1
4. US Electric 30 H.P. motor ID # D1201061755008F with V.T. Gould pump Serial # FR435637-2
5. 2960' of 8" PVC and 5040' of 6" PVC with 81 risers
6. Wade wheel line 1720' with 5" mainline and 58" wheels
7. Wade wheel line 720' with 5" mainline and 58" wheels
8. Valley center pivot model 8000 - 6 spans - 1162' - with Nelson Sr. 100 end gun and 14 - 20' boom backs
9. Valley center pivot model 8000 - 6 spans - 1134' - with Nelson Sr. 100 end gun and 14 - 20' boom backs
10. (50) 4" x 40' aluminum handlines with valves at 80'
11. (3) used gun carts