

State of Oregon, County of Klamath
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TRUST DEED

DATE: July 2, 2003, 2003

PARTIES: NORDBY & RAPER, INC. ("Grantor")
913 NE 1ST STREET
BEND, OR 97701

AMERITITLE ("Trustee")
15 OREGON AVE.
BEND, OR 97701

CLARENCE D. "BILL" RAPER, TRUSTEE OF THE ("Beneficiary")
CLARENCE D. "BILL" RAPER REVOCABLE LIVING
TRUST DATED DECEMBER 16, 1998, AND JEANICE
E. RAPER, TRUSTEE OF THE JEANICE E. RAPER
REVOCABLE LIVING TRUST DATED DECEMBER 16,
1998
630 MARSHALL AVE.
BEND, OR 97701

RECITALS:

A. Grantor is the owner of real property described on **Exhibit 1** attached hereto, including all appurtenances, buildings and existing or future improvements located thereon and all fixtures and attachments thereto, all of which real property is hereinafter referred to as "the Trust Property."

B. Beneficiary has agreed to lend to Bend Oil Company, and Bend Oil Company has agreed to borrow from Beneficiary, the sum of \$833,000.00 upon the terms and conditions set out herein and in a promissory note (the Note) dated concurrently with this Trust Deed with final payment due 15 years from the date of the Trust Deed. Grantor has agreed to deed an undivided one-half interest in the Trust Property to Trustee to secure punctual payment of the Note and any other indebtedness owing by Bend Oil Company to Beneficiary and to secure performance of all of Bend Oil Company's obligations under the Note, under this Trust Deed and under any other instruments evidencing an indebtedness of Bend Oil Company to Beneficiary.

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THEREFORE, to secure payment by Bend Oil Company of the indebtedness to be evidenced by the note in strict accordance with its terms, including payment of interest thereon and payment of any prepayment penalty for which provision is made in the Note, and performance by Bend Oil Company of the covenants contained herein and in the Note by Bend Oil Company to be performed, and to secure payment of any other indebtedness of Bend Oil Company to Beneficiary which arises directly or indirectly out of the Note or this Trust Deed, Grantor hereby grants, bargains, sells and conveys to the Trustee, in trust, with power of sale, an undivided one-half interest in the Trust Property and presently assigns one-half the rents, revenues, income, issues and profits therefrom to the Trustee, its successors and its assigns, upon the terms set forth herein.

PROVIDED, HOWEVER, that until the occurrence of an event of default, Bend Oil Company may remain in control of and operate and manage the Trust Property and collect and enjoy the rents, revenues, income, issues and profits therefrom; and

PROVIDED, FURTHER, that if Bend Oil Company shall make all payments for which provision is made in the Note in strict accordance with the terms thereof and shall perform all of the covenants contained herein, and shall make all payments due on any other indebtedness and shall perform all of the covenants contained in the Note and this Trust Deed up until the time that the principal balance of the note is not greater than \$633,000.00, then Trustee shall execute and deliver to Grantor, without warranty, a reconveyance of the Trust Property.

The parties covenant and agree as follows:

SECTION 1. GRANTOR'S AND BORROWER'S COVENANTS AND WARRANTIES

1.1. Payment of the Note. Bend Oil Company will make all payments of the interest and principal for which provision is made in the Note, and in any note or notes given in renewal or replacement thereof, promptly as such payments become due and payable and will pay the unpaid balance of the Note upon maturity.

1.2. Warranty of Title. Grantor warrants that it holds good and merchantable title to the Trust Property subject to no liens or encumbrances other than those set forth on Exhibit 2 hereto. Grantor covenants with Beneficiary that it will defend Beneficiary's and Trustee's rights hereunder against the claims and demands of all persons.

1.3. Use of Trust Property. Grantor covenants and warrants that the Trust Property is not currently used for agricultural, timber or grazing purposes. Grantor further covenants and warrants that the current use of the Trust Property is in compliance with all laws, ordinances and regulations of all governmental authorities.

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1.4. Taxes and Assessments; Liens and Claims.

1.4.1. Payment. Grantor shall pay when due all taxes and all assessments imposed against the Trust Property and all claims and demands arising from the Grantor's use or occupancy of the Trust Property.

Grantor's timely payment of the real property taxes on the quarterly installment basis shall be deemed for purposes hereof as "payment when due."

1.4.2. Protection of the Trust Property from Liens. Grantor shall not permit any lien prior or equal to the Trustee's title to be imposed upon the Trust Property, except liens for taxes or assessments assessed but not yet due.

1.4.3. Grantor's Right to Contest. Grantor may withhold payment of any taxes, assessments, claims or demands or may elect to contest any lien if Grantor is in good faith conducting appropriate proceedings to contest its obligation to pay and for so long as the Trustee's interest in the Trust Property is not jeopardized. If the Trust Property is subjected to a lien which is not discharged within 30 days from the date that the notice of claim of lien is filed, Grantor shall deposit or cause to be deposited with Beneficiary cash, a sufficient corporate surety bond or other security reasonably satisfactory to Beneficiary in an amount adequate to provide for discharge of the lien plus any interest, costs, attorney fees or other charges that could accrue as a result of foreclosure or sale. In any contest Grantor shall at Grantor's expense defend itself, Trustee and Beneficiary and shall satisfy any final adverse judgment before enforcement against the Trust Property.

1.4.4. Evidence of Payment of Taxes or Assessments. Upon payment of real property taxes and assessments Grantor shall furnish to Beneficiary evidence of payment of such taxes and assessments. Grantor hereby authorizes the appropriate city or county official to deliver to Trustee and Beneficiary at any time a written statement of the taxes and assessments against the Trust Property.

1.5. Insurance.

1.5.1. Property Insurance. Grantor shall procure and maintain policies of fire insurance with standard extended coverage endorsements on a replacement cost basis covering all buildings and improvements, including additions thereto and replacements thereof, in an amount sufficient to avoid application of any coinsurance clause and with loss payable to Beneficiary. The amount of insurance shall in no event be less than the amount of principal owed on the Note.

1.5.2. Insurance Companies, Policies and Certificates. Both the insurance company providing the policy required by this Section 1.5 and the form of the policy must be acceptable to Beneficiary. Grantor shall deliver to Beneficiary a certificate of coverage from the insurer issuing the policy required by paragraph 1.5.1 containing a

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stipulation that coverage will not be cancelled or diminished without a minimum of 10 days' advance written notice to Beneficiary. Grantor shall deliver to Beneficiary at least 10 days prior to the expiration of any insurance policy required by this Section 1.5 a certificate showing the placement of a renewal or substitute policy of insurance.

1.5.3. Notice of Loss. In the event of loss, Grantor shall immediately notify Beneficiary, which may make proof of loss if it is not made promptly by Grantor.

1.6. Use, Maintenance and Alterations.

1.6.1. Duty to Maintain. Grantor shall maintain the Trust Property in good condition and repair and promptly perform all repairs and maintenance necessary to preserve its value.

1.6.2. Waste; Nuisance. Grantor shall not conduct or permit any nuisance on the Trust Property nor commit or suffer any strip or waste thereof.

1.6.3. Removal of Improvements. Grantor shall not demolish or remove any improvements on the Trust Property without the prior written consent of Beneficiary but Grantor may make alterations which it deems necessary for the purpose of renting the Trust Property.

1.6.4. Beneficiary's Right to Enter and Inspect. Grantor will permit Beneficiary and its agents to enter upon the Trust Property at all reasonable times to inspect the Trust Property.

1.6.5. Compliance with Governmental Requirements. Grantor shall promptly comply with all laws, ordinances and regulations of all governmental authorities applicable to the use or occupancy of the Trust Property. Grantor may contest in good faith any such law, ordinance or regulation and withhold compliance during any proceeding, including appropriate appeals, so long as Beneficiary's and Trustee's interests in the Trust Property are not jeopardized.

1.7. Eminent Domain.

1.7.1. Notice of Taking or Condemnation Proceeding. If the Trust Property, or any part thereof or interest therein, should be taken or damaged by reason of any public improvement or condemnation proceeding, or if Grantor should receive any notice or other information regarding a condemnation proceeding or similar type of proceeding, Grantor shall immediately notify Beneficiary.

1.7.2. Condemnation Proceeds. Beneficiary shall be entitled to all compensation, awards and other payments or relief related to condemnation, and shall be entitled at its sole option to commence, appear in and prosecute in its own name any such

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action or proceeding. Beneficiary shall also be entitled to make any compromise or settlement in connection with such taking or damage. All such compensation, awards, damages, rights or action and proceeds awarded to Grantor (Condemnation Proceeds) are hereby assigned to Beneficiary and Grantor agrees to execute such further assignments of the Condemnation Proceeds as Beneficiary may require. Beneficiary shall have the option, in its sole and absolute discretion, to either:

(a) apply such Condemnation Proceeds, after deducting therefrom all costs and expenses (regardless of the particular nature thereof and whether incurred with or without suit), including attorney fees incurred by Beneficiary in connection with such Condemnation Proceeds, upon all or part of the indebtedness secured by this Trust Deed in such order as Beneficiary may determine, without regard to whether or not the security of Beneficiary is impaired, or

(b) apply all of such Condemnation Proceeds, after deducting all of Beneficiary's costs and expenses, to the restoration of the Trust Property upon such conditions as Beneficiary may determine.

1.8. Leases. Grantor will furnish to Beneficiary, upon request, copies of leases covering any portion of the Trust Property entered into after the date hereof.

1.9. Security Agreement. This instrument shall constitute a security agreement with respect to any fixtures attached to the Trust Property to secure all indebtedness and obligations secured by this Trust Deed and all future advances and all future indebtedness and obligations of Grantor to Beneficiary. This instrument shall also constitute a financing statement and shall be filed for recording in the real estate records of the county where the Trust Property is located.

1.10. Reserves. If Grantor has failed to perform its obligation under Sections 1.4 or 1.5 of this Trust Deed, Beneficiary may require Grantor to maintain with Beneficiary reserves for payment of taxes, assessments and insurance premiums. The reserve shall be created by monthly payments of a sum estimated by Beneficiary to be sufficient to produce, at least 15 days before due, an amount equal to the taxes, assessments and insurance premiums. If 15 days before payment is due the reserve is insufficient, Grantor shall pay any deficiency to Beneficiary upon demand. The reserve shall be held by Beneficiary as a general deposit from Grantor and shall constitute a non-interest bearing debt from Beneficiary to Grantor which Beneficiary may satisfy by payment of the taxes and assessments. If Beneficiary is required by law to pay interest on these funds, they shall earn interest at the lowest permissible rate, and beneficiary may impose any reasonable and lawful charge for holding and disbursing such funds. Nothing contained herein shall cause Beneficiary to be deemed a trustee of the reserve or to be obligated to pay any amounts in excess of the amount of funds deposited with Beneficiary pursuant to this Section 1.10.

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SECTION 2. EVENTS OF DEFAULT

The following shall constitute events of default:

2.1. Nonpayment. Failure of Bend Oil Company to make any payment required by the Note or Grantor to make any payment for taxes, insurance premiums or for reserves for such payments or any other payment necessary to prevent filing of a discharge of any lien.

2.2. Breach of Other Covenant. Failure of Grantor or Bend Oil Company to perform any obligation contained in this Trust Deed within 10 days after notice from Beneficiary (or Beneficiary's representatives) specifying the nature of the default or, if the default cannot be cured within 10 days, failure within such time to commence and pursue with reasonable diligence curative action. No notice of default and opportunity to cure shall be required if during the preceding 12 calendar months Beneficiary has already sent a notice to Grantor concerning default in performance of the same obligation.

2.3. Misinformation. Falsity in any material respect of the warranty in paragraph 1.2 or of any representation, warranty or information furnished to Beneficiary in connection with the Note or this Trust Deed.

2.4. Other Obligation. Failure of Bend Oil Company to perform any obligation required by any other instrument (i.e., other than the Note or this Trust Deed) evidencing or securing any indebtedness of Bend Oil Company to Beneficiary.

2.5. Sale or Transfer of Possession. The sale of the Trust Property or transfer of possession thereof in any manner by Grantor, whether by deed, contract of sale, lease or similar agreement, without the prior written consent of Beneficiary; provided, however, that Beneficiary will consent to a sale or transfer if the following conditions are met:

- (a) The credit of the third party must be satisfactory to Beneficiary;
- (b) The third party must assume full personal liability for payment and performance of the Note, this Trust Deed and any other security instruments;
- (c) Bend Oil Company, and any guarantor of the loan secured by this instrument, must confirm in writing that subsequent to such sale or transfer, Grantor, and all guarantors, shall remain personally obligated for payment and performance of the Note, this Trust Deed and any other security instruments; and
- (d) A charge for administrative costs shall be paid to Beneficiary by Bend Oil Company.

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SECTION 3. REMEDIES IN CASE OF DEFAULT

If an event of default shall occur, Beneficiary or Trustee, as the case may be, may exercise any of the following rights and remedies, in addition to any other remedies which may be available at law, in equity, or otherwise:

3.1. Acceleration. Beneficiary may declare all sums secured by this Trust Deed, including all interest and prepayment penalties, to be immediately due and payable.

3.2. Books and Records. Beneficiary may examine all books, records and contracts of Grantor pertaining to the Trust Property and of any guarantors and make such memoranda thereof as may be desired.

3.3. Receiver. Beneficiary may have a receiver of the Trust Property appointed. Beneficiary shall be entitled to the appointment of a receiver as a matter of right whether or not the apparent value of the Trust Property exceeds the amount of the indebtedness secured by this Trust Deed. Employment by Trustee or Beneficiary shall not disqualify a person from serving as receiver. Grantor waives all defenses and consents to the appointment of a receiver at Beneficiary's option.

3.4. Possession. Beneficiary may, either through a receiver or a lender-in-possession, take possession of all or any part of the Trust Property, and Grantor shall peaceably surrender the same.

3.5. Rents and Revenues. Beneficiary may revoke Grantor's right to collect one-half of the rents and revenues from the Trust Property, and may, either itself or through a receiver, collect the same. To facilitate collection, Beneficiary may notify Grantor's tenants to pay one-half of rents directly to it. Beneficiary shall not be deemed to be in possession of the Trust Property solely by reason of exercise of the rights contained in this paragraph 3.5. If rents are collected by Beneficiary under this paragraph 3.5, Grantor hereby irrevocably designates Beneficiary as Grantor's attorney-in-fact to endorse instruments received in payment of rent, in respect of any part of the Trust Property, in the name of Grantor and to negotiate such instruments and collect the proceeds thereof.

3.6. Foreclosure. Beneficiary may obtain a decree foreclosing Grantor's interest in an undivided one-half interest of the Trust Property.

3.7. Fixtures and Personal Property. With respect to any fixtures or personal property subject to a security interest in favor of Beneficiary, Beneficiary may exercise any and all of the rights and remedies of a secured party under the Uniform Commercial Code.

3.8. Abandon Security. Beneficiary may abandon any security afforded by this Trust Deed or any other security instrument by notifying Grantor of Beneficiary's election to do so.

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3.9. Power of Sale. Beneficiary may direct Trustee, and Trustee shall be empowered, to foreclose the trust Property by advertisement and exercise of the power of sale under applicable law.

3.10. Sale of Collateral; Bid at Public Sale. In exercising its rights and remedies, Beneficiary shall be free to sell all or any part of the collateral together or separately, or to sell certain portions of its collateral and refrain from selling other portions. Beneficiary shall be entitled to bid at any public sale of all or any portion of its collateral.

3.11. Cumulative Remedies. Election to pursue one remedy shall not exclude resort to any other remedy, and, unless the context otherwise requires, all remedies under this Trust Deed are cumulative and not exclusive. An election to cure under paragraph 6.7 shall neither prejudice the right to declare a default nor constitute a waiver of the breached term or of any of the remedies provided herein. No delay or omission in exercising any right or remedy shall impair that or any other right or remedy or shall be construed to be a waiver of the default.

SECTION 4. RECEIVER OR TRUSTEE-IN-POSSESSION

Upon taking possession of all or any part of the Trust Property, a receiver or Trustee or Beneficiary or Beneficiary's representative may:

4.1. Management. Use, operate, manage, control and conduct business on the Trust Property and make expenditures for such purposes and for maintenance and improvements as in its judgment are necessary.

4.2. Rents and Revenues. Collect one-half of all rents, revenues, income, issues and profits from the Trust Property and apply such sums to the expenses of use, operation, management, maintenance and improvements.

4.3. Construction. At its option, complete any construction in progress on the Trust Property, and in that connection pay bills, borrow funds, employ contractors and make any changes in plans and specifications as it deems appropriate.

4.4. Additional Indebtedness. If the revenues produced by the Trust Property are insufficient to pay expenses, including, without limitation, any disbursements made by Beneficiary or Trustee pursuant to this Section 4, a receiver may borrow, or Beneficiary or Trustee may advance, such sums upon such terms as it deems necessary for the purposes stated in this section, and repayment of such sums shall be secured by this Trust Deed. Amounts borrowed or advanced shall bear interest at a rate equal to the lesser of six percent (6%) per annum or the highest rate permitted by applicable law. Amounts borrowed or advanced and interest thereon shall be payable by Grantor to Beneficiary or Trustee on demand.

SECTION 5. APPLICATION OF PROCEEDS

All proceeds realized from the exercise of the rights and remedies under Sections 3 and 4 shall be applied as follows:

5.1. Costs and Expenses. To pay the costs of exercising such rights and remedies, including the costs of any sale, the costs and expenses of any receiver or lender-in-possession, and the costs and expenses provided for in paragraph 6.6.

5.2. Indebtedness. To pay all other amounts owed by Grantor, payment of which is secured by this Trust Deed.

5.3. Surplus. The surplus, if any, shall be paid to the clerk of the court in the case of a foreclosure by judicial proceeding, otherwise to the person or persons legally entitled thereto.

SECTION 6. GENERAL PROVISIONS

6.1. Reconveyance upon Payment. Upon written request of Beneficiary stating that the note has been paid down to \$633,000.00, Grantor shall be entitled to a release of the property from this Trust Deed and a reconveyance of said property. The recitals in any reconveyance executed under this Trust Deed of any matters of facts shall be conclusive proof of the truthfulness thereof. The grantee in such reconveyance may be described as "the person or persons legally entitled thereto."

6.2. Substitute Trustee. In the event of dissolution or resignation of the Trustee, Beneficiary may substitute one or more trustees to execute the trust hereby created, and the new trustee(s) shall succeed to all of the powers and duties of prior trustees.

6.3. Trust Deed Binding on Successors and Assigns. This Trust Deed shall be binding on and inure to the benefit of the successors and assigns of Grantor, Trustee and Beneficiary.

6.4. Indemnity. Grantor shall hold Beneficiary and Trustee harmless from any and all loss and expense, including but not limited to attorney fees and court costs, in any suit, action or proceeding or any appeal therefrom brought against Trustee or Beneficiary by a third party resulting from or attributable to Beneficiary's ownership of the Note or Trustee's interest under this Trust Deed, except suits, actions and proceedings based upon a claim that Beneficiary or Trustee improperly entered into this Trust Deed or Note or loaned money thereunder.

6.5. Notice. Any notice under this Trust Deed shall be in writing. Any notice to be given or document to be delivered under this Trust Deed shall be effective when either delivered in person or deposited as registered or certified mail, postage prepaid, addressed to the party at the address first stated in this Trust Deed; provided that any notice pursuant

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to exercise of the Trustee's power of sale in the event of default shall be sufficient if such notice complies with all provisions of Oregon law applicable to exercise of such powers of sale. Any party may by notice to the others designate a different address.

6.6. Expenses and Attorney Fees. In the event that Beneficiary or Trustee shall take any action, judicial or otherwise, to enforce the Note or any provision of this Trust Deed or if Beneficiary or Trustee shall be required to appear in any proceeding to protect and maintain the priority of Trustee's title to the Trust Property, Trustee or beneficiary (or both) shall be entitled to recover from Grantor all expenses which it may reasonably incur in taking such action, including but not limited to costs incurred in searching records, the cost of title reports and surveyors' reports, and its attorney fees, whether incurred in a suit or action or any appeals from a judgment or decree therein or petition for review, or in connection with nonjudicial action. Grantor shall reimburse Beneficiary or Trustee (or both) for expenses so incurred on demand with interest from the date of expenditure until repaid at a rate equal to the lesser of six percent (6%) per annum or the highest rate permitted by applicable law.

6.7. Beneficiary's Right to Cure. If Grantor fails to perform any obligation required of it under this Trust Deed, Beneficiary may, without notice, take any steps necessary to remedy such failure. Grantor shall reimburse beneficiary for all amounts expended in so doing on demand with interest at a rate equal to the lesser of six percent (6%) per annum or the highest rate permitted by applicable law from the date of expenditure until repaid. Such action by Beneficiary shall not constitute a waiver of the default or any other right or remedy which Beneficiary may have on account of Grantor's default.

6.8. Applicable Law. This Trust Deed shall be governed by the laws of the State of Oregon.

6.9. Time of Essence. Time is of the essence of this Trust Deed.

6.10. Headings. The headings to the sections and paragraphs of this Trust Deed are included only for the convenience of the parties and shall not have the effect of defining, diminishing or enlarging the rights of the parties or affecting the construction or interpretation of any portion of this Trust Deed.

6.11. Severability. If any provision of this Trust Deed shall be held to be invalid, illegal or unenforceable, such invalidity, illegality or unenforceability shall not affect any other provisions of this Trust Deed, but this Trust Deed shall be construed as if such invalid, illegal or unenforceable provision had never been contained herein.

6.12. Entire Agreement. This Trust Deed and the Note contain the entire agreement of the parties with respect to the matters covered, and no other previous agreement, statement or promise made by any party to this Trust Deed which is not contained in its terms or in the terms of the Note shall be binding or valid.

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IN WITNESS WHEREOF, Grantor has caused this Trust Deed to be executed as of the day and year first above written.

GRANTOR:

NORDBY & RAPER, INC.

By: Ray A. Babb, President

STATE OF OREGON)
) ss.
County of Deschutes)

On July 2, 2003, personally appeared the above-named Robert J. Nordby as President of Nordby & Raper, Inc., and acknowledged the foregoing instrument to be his voluntary act. Before me:



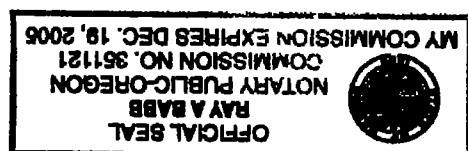
Ray A. Babb
Notary Public for Oregon

BEND OIL COMPANY

By: Ray A. Babb President

STATE OF OREGON)
) ss.
County of Deschutes)

On July 2, 2003, personally appeared the above-named Robert J. Nordby as President of Bend Oil Company, and acknowledged the foregoing instrument to be his voluntary act. Before me:



Ray A. Babb
Notary Public for Oregon

Trust Deed

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**PARCEL 1: 140 Wirtz Street
Chemult, OR**

48681

PARCEL NO. 1: Lots 4, 5 and 6 in Block 5 of CHEMULT, Oregon, according to the duly recorded plat thereof on file in the records of Klamath County, Oregon. Also, beginning at a point on the South Line of Third Street, produced, 20 feet Southwesterly along said line from the most Westerly corner of Lot 6 in Block 5 of CHEMULT, Oregon; thence continuing Southwesterly along said Southerly line of Third Street, produced, a distance of 175 feet, more or less, to the West line of the NW1/4 of SW1/4 of Section 21, Township 27, S.R. 8 E.W.M.; thence South, along the West line of said NW1/4 of SW1/4 a distance of 325 feet, more or less to a point on the Northerly line of Second Street, produced; thence Northeasterly along the said North line of Second Street, produced, 260 feet, more or less, to a point 20 feet Southwesterly along said line, from the most Southerly corner of Lot 1 of said Block 5, thence Northwesterly parallel to the Westerly line of said Block 5, a distance of 300 feet, more or less, to the point of beginning; aka Tax Acc No. 2708-21CB-1400.

PARCEL NO. 2: A portion of the NW1/4 SW1/4 of Section 21, Township 37, South Range 8 E.W.M., more particularly described as follows:

Beginning at the Southwest corner of Block 5, CHEMULT, Oregon, thence North 19° 20' West along the Westerly boundary of said Block 5, 300 feet to a point; thence Southwesterly parallel with the Southerly boundary of said Block 5 extended Southwesterly, 20 feet to a point; thence South 19° 20' East 300 feet to a point; thence Northeasterly 20 feet to the point of beginning; aka Tax Acc No. 2708-21CB-1200 and 2708-21CB-1300.

EXHIBIT 2

48682

NONE