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Recording Requested by and
after Recording mail to:

ST. JOHN & WAYNE, L.L.C.
70 EAST 55TH STREET - 19TH FLOOR
NEW YORK, NEW YORK 10022
Attention: Peter G. Seiden, Esq.

State of Oregon, County of Klamath
Recorded 07/14/2003 3:57 p.m.
Vol M03 Pg 48995-35
Linda Smith, County Clerk
Fee \$ 236.00 # of Pgs 41

DEED OF TRUST
✓ SECURITY AGREEMENT
✓ ASSIGNMENT OF LEASES AND RENTS
✓ AND FIXTURE FILING
(OREGON) (KLAMATH)

DATED AS OF: JUNE 30, 2003

GRANTOR: U.S. TIMBERLANDS SERVICES YAKIMA, LLC

TRUSTEE: CHICAGO TITLE INSURANCE COMPANY

BENEFICIARY: BANK OF AMERICA, N.A.

The maximum principal amount secured hereunder is \$8,333,890.00. The maturity date of the Note secured hereby is May 12, 2004.

This document constitutes a fixture filing under the Oregon Uniform Commercial Code.

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Execution

THIS DEED OF TRUST, SECURITY AGREEMENT AND FIXTURE FILING AND ASSIGNMENT OF RENTS AND AGREEMENTS (as same may be amended, supplemented, renewed, extended, replaced, or restated from time to time after the date hereof, the "Deed of Trust"), is made as of the 30th day of June, 2003, by U.S. TIMBERLANDS SERVICES YAKIMA, LLC, a Delaware limited liability company, having an address at 625 Madison Avenue, Suite 10-B, New York, New York 10022 (the "Grantor"), to CHICAGO TITLE INSURANCE COMPANY, having an address at c/o AmeriTitle, 222 South 6th Street, Klamath Falls, Oregon 97601 (the "Trustee") for the benefit of BANK OF AMERICA, N.A., a national banking association, having an office located at 101 South Tryon, NC1-002-06-31, 6th Floor, Charlotte, North Carolina 28255, Attention: Dan McAvoy, Senior Vice President (the "Beneficiary" and as more particularly defined below).

W I T N E S S E T H:

GRANTOR HEREBY IRREVOCABLY GRANTS, BARGAINS, SELLS, CONVEYS, TRANSFERS AND ASSIGNS:

A. To Trustee, in trust, with power of sale and right of entry and possession, all of its present and future estate, right, title and interest in and to the following (collectively the "Real Property"):

1. All of (i) the Timber (as defined below) (hereinafter, the "Timber") located on that certain real property located in the Counties of Klamath and Jackson, State of Oregon, as more particularly described in Exhibit A (the "Land") which is attached hereto and made a part hereof, including all hereditaments, appurtenances, easements and rights thereto or used in connection therewith or as a means of access thereto, together with all right, title and interest that Grantor now has or may hereafter acquire in the Timber and any proceeds thereof, and (ii) the Land itself.
2. All income, rents, royalties, revenues, issues, profits and proceeds from any and all of such Timber.
3. All proceeds and claims arising on account of any damage to or taking of such Timber, and all causes of action and recoveries for any loss or diminution in the value of such Timber, including the proceeds of any policy of insurance covering the Timber or the proceeds of any condemnation action or transfer in lieu of condemnation.
4. All of the Grantor's right, title and interest, if any, in and to the buildings and other improvements now or hereafter located on the Land, if any (collectively, the "Improvements"), including all plans and specifications prepared for construction of the Improvements and all contracts and agreements of the Grantor relating to the plans and specifications or the

construction of the Improvements, and all right, title and interest, if any, of the Grantor in and to the streets and roads abutting the Land to the center lines thereof, and strips and gores within or adjoining the Land, development rights, the air space and right to use said air space above the Land, all rights of ingress and egress by motor vehicles to parking facilities on or within the Land, all easements now or hereafter affecting the Land, all royalties and all rights appertaining to the use and enjoyment of the Land, including, without limitation, alley, drainage, crop, timber, agricultural, horticultural, mineral, water, oil and gas rights and reservations of the Land.

5. All of the Grantor's right, title and interest, if any, in and to all accounts and accounts receivable, fixtures and articles of personal property and all appurtenances and additions thereto and substitutions or replacements thereof, now or hereafter attached to, contained in, or used in connection with the Land and/or the Improvements or placed on any part thereof though not attached thereto, including, but not limited to, all screens, awnings, shades, blinds, curtains, draperies, carpets, rugs, furniture and furnishings, heating, lighting, plumbing, ventilation, air conditioning, refrigeration, refrigerators, incinerator and/or compacting and elevator plants, stoves, ranges, vacuum cleaning systems, call and intercom systems, sprinkler systems and other fire prevention and extinguishing apparatus and materials, motors, machinery, pipes, appliances, equipment, fittings and fixtures, and the trade name, good will and books and records relating to the business operated on the Land and/or the Improvements.

6. All of the Grantor's right, title and interest, if any, in and to all leases, subleases, contracts to lease, lettings, licenses and other agreements relating to the use or occupancy of all or any part of the Land, the Improvements and/or any other property or rights encumbered or conveyed hereby, or any part thereof, now or hereafter entered into by the Grantor as landlord or sublandlord and all right, title and interest of the Grantor thereunder, including, without limitation, all extensions, renewals, amendments and modifications thereof, and any options, rights of first refusal, guarantees, privileges and interests relating thereto, and all rents, income, receipts, revenues, escrow accounts, reserves, cash and securities deposited thereunder, the right to receive and collect the rents, issues and profits payable thereunder and the right to enforce, whether by action at law or in equity or by other means, all provisions, covenants and agreements thereof (it being intended by the Grantor and the Beneficiary that the assignment contained in this paragraph constitutes an unconditional, absolute assignment, as part of the consideration for the indebtedness under the Note, and not an assignment for additional security); provided, however, that Grantor shall have a license to collect and retain all amounts due thereunder and to perform the same unless and until the occurrence of an Event of Default.

7. All unearned premiums, accrued, accruing or to accrue under insurance policies now or hereafter obtained by the Grantor with respect to the Land and all proceeds of the conversion, voluntary or involuntary, of the Land, the Improvements and/or any other property or rights encumbered or conveyed hereby, or any part thereof, into cash or liquidated claims, including, without limitation, proceeds of hazard and title insurance and all awards and compensation heretofore and hereafter made to the present and all subsequent owners of the Land, the Improvements and/or any other property or rights encumbered or conveyed hereby by any governmental or other lawful authority for the taking by eminent domain, condemnation or otherwise, of all or any part of the Land; the Improvements and/or any other property or rights encumbered or conveyed hereby or any easement therein, including, but not limited to, awards for any change of grade of streets.

8. All right, title and interest of the Grantor in and to all extensions, improvements, betterments, renewals, substitutions and replacements of and all additions and appurtenances to the Land, the Improvements and/or any other property or rights encumbered or conveyed hereby, hereafter acquired by or released to the Grantor (but excluding therefrom any of the Land which shall have at any time been covered by the lien hereof and the security interest granted hereunder and shall thereafter have been released therefrom by the Beneficiary pursuant to a written instrument executed by the Beneficiary) or constructed, assembled or placed by the Grantor on the Land, the Improvements, and/or any other property or rights encumbered or conveyed hereby, and all conversions of the security constituted thereby which, immediately upon such acquisition, release, construction, assembling, placement or conversion, as the case may be, and in each such case without any further mortgage, conveyance, assignment or other act by the Grantor, shall become subject to the lien of this Deed of Trust as fully and completely, and with the same effect, as though now owned by the Grantor and specifically described herein.

9. All the estate, right, title, interest, property, possession, claim and demand whatsoever of the Grantor, as well in law as in equity, of, in and to the same and every part and parcel thereof with the appurtenances.

For purposes hereof, "Timber" means all merchantable timber identified as being located on Parcels 1, 2, 4 and 5 and valued in the Appraisal of the Fair Market Value of U.S. Timberlands Company, L.P. Boise Cascade Land Sale in Klamath and Jackson Counties, Oregon and Siskiyou County, California, prepared by Wesley Rickard, Inc., Gig Harbor, Washington and W.R. Weathers & Associates, Lowell, Oregon, dated as of May 5, 2003 (the "Appraisal"). Timber does not include bare land, non-forest, non-stocked, non-productive, reproduction, non-merchantable, riparian management area (RMA), watershed, not cruised, non-commercial, sale

area (to be clear cut), or any other non-merchantable timber identified, and not valued as merchantable timber, in the Appraisal.

B. To Beneficiary, as secured party, a security interest in any portion of the property owned by Grantor that may be construed to be personal property and in all other personal property of every kind and description, whether now existing or hereafter acquired and owned by Grantor, or in which Grantor has an interest, now or at any time arising from the use or enjoyment of all or any portion of the Real Property, including:

1. All permits, licenses, entitlements, authorizations, exemptions, certifications, franchises, timber harvesting plan reviews and approvals, environmental approvals (including an environmental impact statement or report if required under applicable law for Grantor's acquisition or disposition of the Timber) whether now existing or hereafter issued to or obtained by or on behalf of Grantor that relate to or concern in any way the Timber, and that are given or issued by any governmental agency or quasi-governmental authority as the same may be modified, amended or supplemented from time to time.
2. All substitutions, accessions, additions and replacements to the Timber (including logs and lumber) and to any of the foregoing; all proceeds of any of the foregoing property, including, without limitation, proceeds of any voluntary or involuntary disposition, diminution in value or claim respecting any such property (pursuant to judgment, condemnation award or otherwise) and all goods, documents, general intangibles, chattel paper and accounts, wherever located, acquired with cash proceeds of any of the foregoing or proceeds thereof.
3. All agreements, contracts, arrangements or other contractual obligations, whether now existing or hereafter entered into, whereby Grantor or its predecessors in interest have granted, grant or will grant to third persons the right to cut, harvest, or otherwise remove Timber from the Land (to the extent Grantor has an interest in such rights) (collectively, the "Cutting Rights Agreements") and all timber sales agreements, log sales agreements, purchase orders, purchase and sale agreements and other contractual obligations, whether now existing or hereafter entered into, whereby Grantor, as seller, is or may become obligated to cut, harvest or otherwise remove Timber harvested from the Land or to otherwise obtain Timber from the Land and to sell, exchange or deliver such Timber to third persons (collectively, the "Timber Sales Agreements") and all agreements, contracts or other contractual obligations, whether now existing or hereafter entered into, whereby third persons have granted or will grant to Grantor the right to cut, harvest or otherwise remove Timber from the Land (collectively, the "Harvesting Contracts," and together with the Cutting Rights Agreements and Timber Sales Agreements, the "Timber Agreements"; in addition to all of the foregoing, the Timber

Agreements shall include, without limitation, all Timber that is to be cut and removed under a conveyance or contract of sale).

All of the property assigned or transferred or intended to be assigned or transferred to Beneficiary in paragraph B, as well as those items deemed to be personal property (under the applicable Uniform Commercial Code in effect in the State of Oregon) under paragraph A above are hereinafter referred to as the "Personal Property."

All of the real and personal property described above is referred to herein collectively as the "Property." The parties intend that the definition of Property is to be broadly construed and in the case of doubt as to whether a particular item is included in the definition of Property, the doubt should be resolved in favor of inclusion. The parties acknowledge and agree that the Land described on Exhibit A annexed hereto is encumbered by this Deed of Trust and is included as part of the Property.

TO HAVE AND TO HOLD said Property bargained and described, together with all and singular the lands, tenements, privileges, water rights, hereditaments and appurtenances thereto belonging or in anywise appertaining, and the reversion and reversions, remainder and remainders, rents, issues and profits thereof, subject to the Grantor's license thereon, and all of the estate, right, title, claim and demands whatsoever of Grantor, either in law or in equity, of, in and to the above-bargained property forever,

FOR THE PURPOSE OF SECURING:

ONE: Payment of the indebtedness evidenced by an Amended and Restated Promissory Note, dated as of the date hereof, and any renewals, extensions or modifications thereof and any replacements or substitutions therefor, in the original principal amount of EIGHT MILLION THREE HUNDRED THIRTY-THREE THOUSAND EIGHT HUNDRED NINETY DOLLARS (\$8,333,890.00), executed by Grantor and delivered to Beneficiary (the "Note"), together with the interest thereon, and the fees and other charges as provided by the Note, which is made a part hereof by reference. The Note provides for interest rate based upon the LIBOR Daily Floating Rate (as described therein); and the interest rate may vary from time to time as provided in the Note. The Note matures May 12, 2004.

TWO: Payment of such further sums as Grantor may hereafter borrow from Beneficiary when evidenced by another note or instrument reciting it is so secured, payable to Beneficiary or order and made by Grantor or any successor in ownership, together with all extensions, renewals, modifications, amendments and replacements thereto.

THREE: Payment of all other amounts agreed or provided to be paid by Grantor to Beneficiary and such further sums as may be advanced or loaned by Beneficiary to Grantor hereunder or under the Note or under the other Loan Documents (as defined immediately below).

FOUR: Performance of each agreement of Grantor herein contained or contained in the Note; any other deed of trust now or hereafter given from time to time by Grantor to Beneficiary pursuant to the Note (collectively, the "Other Deeds of Trust"), and any other agreement given

by Grantor or any other persons or entity to Beneficiary for the purpose of further securing any indebtedness hereby secured or executed in connection with the making of the loan secured hereby (the Note, the Other Deeds of Trust, this Deed of Trust, the Loan Documents as defined in the Note and any and all such other agreements being referred to herein collectively as the "Loan Documents").

GRANTOR REPRESENTS, WARRANTS, COVENANTS AND AGREES AS FOLLOWS:

ARTICLE I. COVENANTS

1.01. Payment of Note and Performance of Deed of Trust.

Grantor will pay the principal, interest and other charges payable under the Note according to its terms, and will perform and comply with each and every term, covenant and condition hereof, and of the Note.

1.02. Warranty of Title.

Grantor represents and warrants that at the time of the delivery of this Deed of Trust, (i) Grantor is seized in fee simple of the Land and Timber and owns outright every part thereof; (ii) there are no liens or encumbrances against or upon the Property other than those appearing in Beneficiary's mortgagee's policy of title insurance insuring the lien of this Deed of Trust, those listed on Schedule A of the Grantor's Certification as to Leases and Agreements, dated as of the date hereof, given by the Grantor to the Beneficiary (the "Certification"), or as otherwise specifically permitted by Beneficiary (the "Permitted Encumbrances"), and none will be created or suffered to be created by Grantor during the term of this Deed of Trust, except as have been disclosed to and approved by Beneficiary in writing and upon such terms and conditions as may be satisfactory to Beneficiary, or except any vested in the ordinary course of Grantor's business so long as all proceeds received by Grantor therefrom or to be received are immediately paid over to the Beneficiary to reduce Grantor's indebtedness under the Note, as more particularly provided in Section 1.08(R) hereof; (iii) Grantor has good right to make this Deed of Trust; (iv) Grantor has good and marketable title to all existing Personal Property, and has good right, full power and lawful authority to convey and encumber the same in the manner and form conveyed and encumbered hereby; (v) the Personal Property is free and clear of all liens, charges, and encumbrances whatsoever (except in favor of Beneficiary or the Permitted Encumbrances), including, security agreements, conditional sales contracts and anything of a similar nature, and none will be created or suffered to be created by Grantor; (vi) there is no financing statement (except in favor of Beneficiary) covering the Property, or any part thereof, on file in any public office; (vii) the Land constitutes one or more tax parcels, each with a separate tax assessment independent of any land or improvements not covered by this Deed of Trust; and (viii) Grantor will warrant and forever defend the title to the Property against the claims of all persons whomsoever.

1.03. Taxes, Liens and Other Charges.

Grantor will pay when due:

- (A) All taxes, assessments and other governmental or public charges affecting the Property, including, but not limited to, timber severance taxes, including any accrued interest, cost or penalty thereon and will submit receipts therefor to Beneficiary;
- (B) All encumbrances (including any debt secured by deeds of trust), ground rents, liens or charges, with interest, on the Property or any part thereof, and all costs and fees related thereto (provided that nothing in this subsection 1.03(B) shall be construed as a consent by Beneficiary to any such encumbrances, ground rents, liens, or charges).
- (C) All costs, fees and expenses of this Deed of Trust, including cost of evidence of title, Trustee's fees and attorneys' fees required to be paid herein.

1.04. Further Taxes.

Grantor agrees that if any tax, assessment or imposition upon this Deed of Trust or the indebtedness hereby secured or the interest of Trustee or Beneficiary in the Property or upon Trustee or Beneficiary by reason of or as a holder of any of the foregoing (including, without limitation, corporate privilege, franchise and excise taxes, but excepting therefrom any income tax on interest payments on the principal portion of the indebtedness hereby secured imposed by the United States or any state) is levied, assessed or charged, then, unless all such taxes are paid by Grantor to, for or on behalf of Trustee or Beneficiary, as the case may be, as they become due and payable (which Grantor agrees to do upon demand of Trustee or Beneficiary to the extent permitted by law), or Trustee or Beneficiary as the case may be, is reimbursed for any such sum advanced by Trustee or Beneficiary, all indebtedness hereby secured shall become immediately due and payable, at the option of Trustee or Beneficiary upon thirty (30) days' notice to Grantor, notwithstanding anything contained herein or in any law heretofore or hereafter enacted, including any provision thereof forbidding Grantor from making any such payment. Grantor agrees to exhibit to Trustee or Beneficiary upon request, official receipts showing payment of all taxes and charges which Grantor is required to pay hereunder.

1.05. Insurance.

Grantor will at all times provide, maintain and keep in force:

- (A) Intentionally Omitted.
- (B) General liability insurance against claims for bodily injury or death or for damage or injury to property occurring upon, in, or about the Property, (including, but not limited to Loggers Broad Form B and/or such other form as Beneficiary may require covering all logging and other operations) in such amount as may be required by Beneficiary but in no event less than an aggregate amount of \$2,000,000, with an occurrence limit of not less than \$1,000,000.

- (C) Such other insurance, and in such amounts, as may from time to time be reasonably required by Beneficiary against the same or other insurable hazards which at the time are commonly insured against by owners of like property.

Grantor shall furnish Beneficiary with certificates evidencing each policy required to be provided by Grantor hereunder and certified copies of each policy. All policies for such insurance shall be issued by companies approved by Beneficiary, shall be on forms approved by Beneficiary, shall be subject to the approval of Beneficiary (which approval shall not be unreasonably withheld or delayed) as to amount, content, form, and expiration date, and shall provide that they may not be cancelled without thirty (30) days prior written notice to Beneficiary. All policies except the general liability policy shall contain a Lender's Loss Payable Endorsement (Form BFU438), or its equivalent, in favor of Beneficiary insuring that the proceeds thereof shall be payable to Beneficiary (to the extent of its interest). The general liability policy shall name Beneficiary as an additional insured.

At least thirty (30) days before expiration of any policy required to be provided by Grantor hereunder, Grantor shall furnish Beneficiary proof of issuance of a policy continuing in force the insurance covered by the policy so expiring. Grantor shall furnish Beneficiary receipts for the payment of premiums on such insurance policies or other evidence of such payment reasonably satisfactory to Beneficiary. In the event that Grantor does not deposit with Beneficiary evidence of renewal of expiring insurance and evidence of payment of premium thereon at least thirty (30) days before expiration of any policy, then Beneficiary may, but shall not be obligated to, procure such insurance and pay the premiums therefor. In such event, Grantor agrees to repay to Beneficiary the premiums thereon promptly on demand, and until such repayment is received, interest thereon shall accrue at the Default Rate (as defined in the Note).

WARNING: UNLESS YOU PROVIDE US WITH EVIDENCE OF THE INSURANCE COVERAGE AS REQUIRED BY THE NOTE AND HEREIN, WE MAY PURCHASE INSURANCE AT YOUR EXPENSE TO PROTECT OUR INTEREST. THIS INSURANCE MAY, BUT NEED NOT, ALSO PROTECT YOUR INTEREST. IF THE COLLATERAL BECOMES DAMAGED, THE COVERAGE WE PURCHASE MAY NOT PAY ANY CLAIM YOU MAKE OR ANY CLAIM MADE AGAINST YOU. YOU MAY LATER CANCEL THIS COVERAGE BY PROVIDING EVIDENCE THAT YOU HAVE OBTAINED PROPERTY COVERAGE ELSEWHERE.

YOU ARE RESPONSIBLE FOR THE COST OF ANY INSURANCE PURCHASED BY US. THE COST OF THIS INSURANCE MAY BE ADDED TO YOUR CONTRACT OR LOAN BALANCE. IF THE COST IS ADDED TO YOUR CONTRACT OR LOAN BALANCE, THE INTEREST RATE ON THE UNDERLYING CONTRACT OR LOAN WILL APPLY TO THIS ADDED AMOUNT. THE EFFECTIVE DATE OF COVERAGE MAY BE THE DATE YOUR PRIOR COVERAGE LAPSED OR THE DATE YOU FAILED TO PROVIDE PROOF OF COVERAGE.

THE COVERAGE WE PURCHASE MAY BE CONSIDERABLY MORE EXPENSIVE THAN INSURANCE YOU CAN OBTAIN ON YOUR OWN AND MAY

NOT SATISFY ANY NEED FOR PROPERTY DAMAGE COVERAGE OR ANY MANDATORY LIABILITY INSURANCE REQUIREMENTS IMPOSED BY APPLICABLE LAW. (EACH REFERENCE TO "YOU" AND "YOUR" SHALL REFER TO GRANTOR AND EACH REFERENCE TO "US" AND "WE" SHALL REFER TO BENEFICIARY).

1.06. Casualty.

Grantor hereby assigns to Beneficiary all insurance proceeds that it may be entitled to receive, and such proceeds shall be delivered to and held by Beneficiary to be applied first, towards reimbursement of all reasonable costs and expenses of Beneficiary in connection with recovery of same, and then to the reduction of the indebtedness secured hereby, without the application of a prepayment fee. The application of insurance proceeds to the reduction of the principal balance outstanding on the Note shall not serve to cure any existing default. If the proceeds are sufficient to pay in full the indebtedness and other sums secured hereby, then any excess proceeds shall be paid over to Grantor.

In the event of the foreclosure of this Deed of Trust or other transfer of the title to the Property in extinguishment, in whole or in part, of the indebtedness secured hereby, all right, title and interest of Grantor in and to any insurance policy, or premiums or payments in satisfaction of claims or any other rights thereunder then in force shall pass to the purchaser or grantee notwithstanding the amount of any bid at such foreclosure sale.

Nothing contained herein shall prevent accrual of interest as provided in the Note until such proceeds are actually received and applied to the outstanding principal balance of the Note.

After the happening of any casualty, whether or not required to be insured against under the policies to be provided by Grantor hereunder, Grantor shall give prompt written notice thereof to Beneficiary.

1.07. Condemnation.

If the Property or any part thereof is taken or damaged by reason of any public improvement, condemnation proceeding, or conveyance in lieu thereof, or in any other manner, Beneficiary shall be entitled to all compensation, awards and other payments or relief therefor, and shall be entitled, at its option, to commence, appear in and prosecute in its own name any action or proceeding, or to make any compromise or settlement in connection with such taking or damage. All such compensation, awards, damages, rights of action and proceeds (the "Proceeds") are hereby assigned to Beneficiary, who shall, after deducting therefrom all its reasonable expenses, including attorneys' fees, apply the Proceeds to the reduction of the indebtedness secured hereby, without the application of any prepayment fee. The application of a condemnation award to the reduction of the outstanding principal balance of the Note shall not serve to cure any existing default. Nothing contained herein shall prevent the accrual of interest as provided in the Note until such Proceeds are actually received and applied to the outstanding principal balance of the Note.

1.08. Care of the Property.

Grantor shall manage and operate the Property for its highest and best use, having due regard to soil conditions, stand composition and distribution and other factors relevant to the conduct of sound silvicultural, forest management and harvesting practices. Without limiting the generality of the foregoing, Grantor shall:

- (A) Keep the Property in good condition and repair and not commit or permit any waste or deterioration of the Property or suffer any act or occurrence that would impair the security for the debt secured hereby;
- (B) Not remove, demolish or substantially alter any portion of the Property or permit or suffer such to be done (except in the ordinary course of Grantor's timber business), without Beneficiary's prior written consent which consent shall not be unreasonably withheld or delayed (except such alterations as may be required by laws, ordinances or regulations of governmental authorities);
- (C) Comply in all material respects with all laws, ordinances, rules, regulations and orders of governmental authorities now or hereafter affecting the Property or requiring any alterations or improvements to be made thereon, and perform all of its obligations under any covenant, condition, restriction or agreement of record affecting the Property, and deliver to Beneficiary copies of any permits, approvals or disapprovals issued by any governmental authority relating to the Property within ten days of receipt thereof;
- (D) Not commit, suffer or permit any act to be done in, upon or to the Property in violation of any law or ordinance or any covenant, condition or restriction affecting the Property;
- (E) Do any and all acts which, from the character or use of the Property, may be reasonably necessary to protect and preserve the security of Beneficiary, the specific enumerations herein not excluding the general;
- (F) Perform in all material respects all of Grantor's obligations or covenants under any encumbrance affecting the Property, including without limitation, leases, declarations, covenants, conditions, restrictions or other agreements relating to or affecting the Property;
- (G) Not create, suffer or permit any lien or encumbrance against or affecting the Property except the Permitted Encumbrances, those arising under this Deed of Trust or any other Loan Document or those arising in the ordinary course of Grantor's business as long as all proceeds received by Grantor therefrom or to be received are immediately paid over to the Beneficiary to reduce Grantor's indebtedness under the Note, as more particularly provided in Section 1.08(R) hereof;

- (H) Not take or permit to be taken any actions that might invalidate any insurance carried on the Property;
- (I) Promptly notify Beneficiary of any litigation pending or, to Grantor's knowledge, threatened against Grantor, the Property or any guarantor of the Note, whether or not such amount is covered by insurance.
- (J) Fire.
 - (i) Prevention. Grantor shall take all reasonable measures necessary to protect Timber located on the Property from loss by fire and all actions necessary to be in compliance with all local, state and federal laws, regulations and ordinances related to the protection of the Property from loss by fire, and all such further actions that are at least equal to fire-control practices generally followed on timber-producing property in the same general area, including without limitation the adoption of suitable prevention and control procedures and the maintenance of adequate fire-fighting equipment, proper disposal of slash, and shall fully cooperate with state and federal agencies on matters of fire prevention and control.
 - (ii) Roads. An adequate system of roads and roadways shall be maintained in such manner as to permit access for fire fighting, prevention and supervision to all parts of the Property.
- (K) Disease and Insect Control. There shall be maintained at all times in accordance with sound silvicultural practices all reasonable measures to prevent the development, and to control the spread, of disease and insect infestation on the Property, including, but not limited to, the shifting of logging operations to remove diseased or insect infested trees and other trees threatened with disease or insect infestation, and all such other accepted forest sanitation and control measures as necessary.
- (L) Third Party Cutting Rights Agreements. Subject to the Permitted Encumbrances and those items specifically set forth in the Grantor's Certification, no Cutting Rights Agreement wherein the buyer is granted the privilege of entry upon the Property for cutting and removal of timber shall be made without the prior written approval of Beneficiary which approval shall not be unreasonably withheld or delayed; provided, however, that no prior approval shall be required for such Cutting Rights Agreement made in the ordinary course of the Grantor's business if (i) Grantor delivers to Beneficiary a copy of such fully executed Cutting Rights Agreement within ten (10) days from its execution, and (ii) Grantor pays all net proceeds to be received by Grantor under such Cutting Rights Agreement to the Beneficiary to reduce Grantor's indebtedness under the Note, as more particularly provided in Section 1.08(R) hereof. Grantor has delivered to Beneficiary true, correct and complete copies of all Cutting Rights Agreements, if any, in effect as

of the date hereof with third-parties which relate in any way to the Timber or any other portions of the Property.

- (M) Access and Inspection. Beneficiary shall have the right, upon reasonable prior notice to Grantor, to inspect the Property, to examine the Timber Agreements, scaling sheets and books of account of Grantor relating to the Property, and to discuss the business, finances and accounts of Grantor with Grantor and its agents, all at such reasonable times and intervals as Beneficiary may desire. Beneficiary shall use reasonable efforts to assure that its entry upon and inspection of the Property shall not materially or unreasonably interfere with the business and operations of Grantor or Grantor's tenants, agents or contractors on the Property.
- (N) Reforestation. To the extent any permit relating to the Timber requires Grantor to reforest, Grantor shall take all reasonable measures to insure proper regeneration of Timber on the Land. In so doing, Grantor shall follow reforestation methods and procedures that at a minimum follow the then applicable laws, rules and regulations of the Oregon Board of Forestry for reforestation practices and any other applicable local, federal or state laws, ordinances, rules or regulations.
- (O) Harvesting. The Property shall be operated as timber producing tracts, having due regard to soil conditions, stand arrangements and other factors relevant to the conduct of sound silvicultural and harvesting practices; provided, however, Grantor agrees that, without the prior written consent of Beneficiary, which consent shall not be unreasonably withheld or delayed, Grantor will not sell, harvest, remove, or permit the sale, cutting, harvesting or removal of any Timber pursuant to any Timber Agreement; except, however, that no prior approval shall be required for such Timber Agreements made in the ordinary course of the Grantor's business if (i) Grantor delivers to Beneficiary a copy of such fully executed Timber Agreement within ten (10) days from its execution, and (ii) Grantor pays all net proceeds to be received by Grantor under such Timber Agreement to the Beneficiary to reduce Grantor's indebtedness under the Note, as more particularly provided in Section 1.08(R) hereof. Grantor will not sell, cut, harvest or remove, or permit the sale, cutting, harvesting or removal of, any Timber except as specifically permitted hereunder. Grantor shall harvest the Timber in a manner that will not materially adversely impair the collateral value of the Property relative to Grantor's outstanding obligations from time to time under the Note.
- (P) Inventory Maintenance. Grantor agrees that it shall maintain an inventory of Timber at standards of accuracy and thoroughness reasonably consistent with good forest management practices.
- (Q) Consulting Forester. Following an Event of Default, Beneficiary may appoint a consulting forester (the "Consultant") of Beneficiary's choice to make such inspections and to perform other services deemed reasonably necessary to insure

compliance with the provisions of this Deed of Trust. Grantor shall pay the reasonable and necessary costs for such inspections and other services.

- (R) Timber Sales; Payment of Sales Proceeds. (i) All sales of Timber and Timber products authorized or permitted pursuant to subparagraphs (L) and (O) of this Section 1.08 shall be on an arm's length basis and contain terms customary in the forest products industry for such agreements, and shall be at prices not less than the fair market value thereof (except as otherwise approved by the Beneficiary, or where prices are already set pursuant to agreements included among the Permitted Encumbrances or entered into in accordance with this Deed of Trust).

(ii) It is further understood and agreed that in connection with any such sales, (i) the Grantor shall notify the Beneficiary, in writing, within ten (10) days from the execution of the Timber Agreement as to the proposed payment date, time and location, the sales price, and the net proceeds to be received by Grantor in connection with such sale, which writing shall also include a copy of the fully executed Timber Agreement and proposed closing statement (if any), (ii) contemporaneous with such sale the Grantor shall pay to the Beneficiary all such net proceeds, which shall be used to pay the indebtedness of Grantor under the Note. Such payment of the net proceeds shall be made by the Grantor to the Beneficiary by wire transfer, certified or bank check(s), in an amount equal to such net proceeds.

(iii) The net proceeds paid to the Beneficiary shall be applied as follows: (1) first, to the payment of all outstanding costs and expenses owing to the Beneficiary under this Deed of Trust, the Note and the other Loan Documents; (2) second, to the payment of all outstanding charges, if any, incurred in connection with any overdue payments of principal and/or interest under the Note, the Loan Documents or hereunder; (3) third, to the payment of any such overdue amounts of principal and/or interest; (4) fourth, to the reduction of principal under the Note, in the inverse order of principal payments; and (5) fifth, to the payment of all other amounts due hereunder or under the Note, this Deed of Trust or any other Loan Document, including, without limitation, all accrued and unpaid interest.

(iv) In connection with any such sale, the Beneficiary shall provide to the Grantor, at the Grantor's sole cost and expense, simultaneously upon payment of the net proceeds, appropriate release documents releasing the subject property of any such sales contract from the lien of this Deed of Trust and any financing statements encumbering same.

- (S) No Waste, etc. Grantor shall not commit, permit or suffer waste, impairment or deterioration of the Property. So long as this Deed of Trust remains in force and effect, Grantor grants Beneficiary such ownership interest in the Property as is necessary for Beneficiary to prosecute any suit for waste, conversion or trespass. Any default or breach by Grantor of any of the terms contained in any part of this

subsection 1.08 relating to the harvest, removal, destruction, preservation, cultivation or sale of the Property shall constitute waste, conversion or trespass and Beneficiary shall be entitled to commence an action for same. As long as the harvesting, cutting, sale and removal of any of the Property is conducted in compliance with this Section 1.08, such activities shall not constitute waste, impairment or deterioration of the Property.

1.09. Further Assurances.

If reasonably required by Beneficiary at any time during the term of this Deed of Trust, Grantor will execute, acknowledge and deliver to Beneficiary, in form reasonably satisfactory to Beneficiary, such chattel mortgages, security agreements or other similar security instruments, in form and substance satisfactory to Beneficiary, covering the Property owned by Grantor or in which Grantor has any interest which Beneficiary reasonably believes is essential to the Property covered by this Deed of Trust. Grantor shall further, from time to time, within fifteen (15) days after request by Beneficiary, execute, acknowledge and deliver any financing statement, renewal, affidavit, certificate, continuation statement or other document as Beneficiary may reasonably request in order to perfect, preserve, continue, extend or maintain the security interest under and the priority of this Deed of Trust and any such chattel mortgage or other security instrument. Grantor further agrees to pay to Beneficiary on demand all costs and expenses reasonably incurred by Beneficiary in connection with the preparation, execution, recording, filing and refiling of any such instrument or document including the charges for examining title and the attorney's fee for rendering an opinion as to the validity and priority of the lien of this Deed of Trust and of such chattel mortgage or other security instrument. However, neither a request so made by Beneficiary nor the failure of Beneficiary to make such request shall be construed as a release of such Property, or any part thereof, from the conveyance of title by this Deed of Trust, it being understood and agreed that this covenant and any such chattel mortgage, security agreement or other similar security instrument, delivered to Beneficiary, are cumulative and given as additional security. Any breach of such security agreement shall constitute an Event of Default under this Deed of Trust.

1.10. Agreements Affecting the Property: Assignment.

(A) In addition to, and also in accordance with Section 1.08 hereunder, including, without limitation, subparagraphs (L) and (O) thereunder, Grantor will fully and promptly keep, observe, perform and satisfy each obligation, condition, covenant and restriction affecting the Property or imposed on it under any agreement between Grantor and a third party relating to the Property and any Timber Agreements (collectively, the "Contracts") so that there will be no material default thereunder and so that the persons obligated thereon shall be and remain at all times obligated to perform thereunder. Grantor will not permit to exist any condition, event or fact which could allow or serve as a basis or justification for any such person to avoid such performance. All right, title and interest of Grantor in the Contracts are hereby assigned to Beneficiary absolutely and irrevocably and not as additional security provided that Grantor shall have a license to collect and retain (subject to Section 1.08(R) hereof) amounts due thereunder and to perform the same unless and until the occurrence of an Event of Default. Grantor shall not in any manner impair Beneficiary's rights and interest with respect to the Contracts.

(B) All Contracts shall be subject to the provisions of Sections 1.08(L), (O) and (R), and at Beneficiary's option may be made superior or subordinate to this Deed of Trust. Notice of such assignment shall be given to the tenants or parties thereunder as may be required by Beneficiary.

(C) Grantor, or its designees approved in writing in advance by Beneficiary, shall be the exclusive manager of the Property. Any management agreement affecting the Property shall be subject to the prior written approval of Beneficiary, which shall not be unreasonably withheld or delayed, shall be expressly subordinate to this Deed of Trust and the lien hereof, and shall be terminable by Beneficiary or the purchaser at any foreclosure sale upon such sale or transfer in lieu thereof without payment of any fee or other amounts to the manager.

1.11. Expenses.

(A) In connection with any action or actions that may be brought for the foreclosure of this Deed of Trust, possession of the Property, the protection of or the defense of the priority of the lien provided for hereby, the appointment of a receiver, the enforcement of any and all covenants or rights contained in or secured by this Deed of Trust, Beneficiary or Trustee shall have the right to employ an attorney in connection with their rights under the Loan Documents and Grantor shall pay all reasonable attorneys' fees, costs and expenses, including expenses of retaking, holding, preparing for sale or selling (including cost of evidence or search of title and the costs and expenses of an investigation of the Property for Hazardous Material (as defined below) and other environmental characteristics) and fees in any bankruptcy or insolvency proceeding involving Grantor, or fees on appeal.

(B) Grantor will pay within fifteen (15) days of written demand all sums expended or expense incurred by Trustee or Beneficiary, including, without limitation, reasonable attorneys' fees, under any of the terms of this Deed of Trust. If such sums are not so paid within fifteen (15) days of written notice, such sums shall thereafter bear interest at the Default Rate.

(C) Grantor will pay any reasonable amount required by Beneficiary for any statement requested by Grantor regarding the obligations secured hereby.

1.12. Books, Records and Accounts.

Grantor will keep and maintain, or cause to be kept and maintained, at Grantor's principal offices as set forth above, proper and accurate books, records and accounts reflecting all items of income and expense in connection with the operation of the Property or in connection with any services, equipment or furnishings provided in connection with the operation of the Property. Beneficiary or its designee shall have the right, upon reasonable prior notice to the Grantor, from time to time during normal business hours to examine such books, records and accounts at the office of Grantor or other person or entity maintaining such books, records and accounts and to make copies or extracts thereof as Beneficiary or its designee shall desire. Grantor shall provide Beneficiary such financial statements and information as may be required under the Note.

1.13. Subrogation.

Beneficiary will be subrogated for further security to the lien of and to all rights of any beneficiary, mortgagee or lienholder under any encumbrance, whether or not released of record, paid out of the proceeds of the loan secured by this Deed of Trust or advanced pursuant to the terms hereof and any of the other Loan Documents.

1.14. Intentionally Omitted.**1.15. Collateral Security Instruments.**

Grantor covenants and agrees that if Beneficiary at any time holds additional security for any obligations secured hereby, it shall have the right to enforce the terms thereof or otherwise realize upon the same, at its option, either before or concurrently herewith or after a sale is made hereunder, and may apply the proceeds upon the indebtedness secured hereby without affecting the status of or waiving any right to exhaust all or any other security, including the security hereunder, and without waiving any breach or default or any right of power whether exercised hereunder or contained herein or in any such other security.

1.16. Suits Affecting Property.

Grantor agrees to appear in and defend any action or proceeding purporting to affect the Property or this Deed of Trust or any other security for the obligations secured hereby, the interest of Beneficiary or the rights, powers or duties of Trustee hereunder. Grantor agrees to notify Beneficiary before it commences any action or proceeding relating to any part of the Property or the security of this Deed of Trust. Grantor agrees to pay all costs and expenses, including cost of evidence of title and reasonable attorneys' fees in any action or proceeding in which Beneficiary or Trustee may appear or be made a party, including, but not limited to, foreclosure or other proceeding commenced by those claiming a right to any part of the Property under any prior or subordinate liens, any forfeiture proceeding, in any action to partition or condemn all or part of the Property, and in any action concerning the disposition or availability of insurance proceeds relating to the Property, whether or not such proceedings are pursued to final judgment. Grantor hereby assigns to Beneficiary all proceeds payable by third parties arising from claims or events of impairment or loss to the Property, and agrees that Beneficiary may require that such amount be paid directly to Beneficiary.

1.17. Beneficiary's Right to Defend Action and Cure Certain Defaults.

Beneficiary shall have the right to appear in and defend any action or proceeding at law or in equity or in bankruptcy purporting to affect the Property or any security for the obligations secured hereby. Beneficiary shall be granted and paid all Beneficiary's costs, charges and expenses, including cost of evidence of title and reasonable attorneys' fees incurred in such action or proceeding in which Beneficiary may appear.

If Grantor fails to make any payment or to do any act as herein provided, then Beneficiary or Trustee, but without obligation so to do and without notice to or demand upon

Grantor and without releasing Grantor from any obligation hereof, shall have the right to: make or do the same in such manner and to such extent as either may deem necessary to protect the security hereof, Beneficiary or Trustee being authorized to enter upon the Property for such purposes; commence, appear in and defend any action or proceeding purporting to affect the security hereof or the rights or powers of Beneficiary or Trustee; pay, purchase, contest or compromise any encumbrance, charge or lien that in the judgment of either appears to be prior or superior hereto; and, in exercising any such power, incur any liability, expend whatever amounts in Beneficiary's or Trustee's absolute discretion it may deem necessary therefor, including cost of evidence of title and attorneys' fees.

Grantor hereby agrees to pay within thirty (30) days of written demand all of Beneficiary's costs, charges, expenses and amounts referred to above in this Subsection 1.17 including cost of evidence of title and reasonable attorneys' fees incurred in such action or proceeding in which Beneficiary may appear. All costs, charges and expenses so incurred, together with interest thereon as aforesaid, shall be secured by the lien of this Deed of Trust. Such amounts, if not paid within thirty (30) days of written demand therefor, shall thereafter bear interest at the Default Rate.

1.18. Hazardous Materials.

(A) The term "Environmental Liability" shall mean any claim, demand, obligation, cause of action, accusation, allegation, order, violation, damage (including foreseeable consequential damage), injury, judgment, penalty or fine, cost of Enforcement or cost of Remedial Action, or any other cost or expense whatsoever, including reasonable attorneys' fees and disbursements, resulting from the violation or alleged violation of any Environmental Law or from any Enforcement or Remedial Action. The term "Environmental Law" or "Environmental Laws" means and includes, without limitation, any federal, state or local law, statute, regulation or ordinance pertaining to health, industrial hygiene or the environmental or ecological conditions on, under or about the Property, including without limitation each of the following: the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended, 42 U.S.C. Section 9601 et seq.; the Resource Conservation and Recovery Act of 1976, as amended, 42 U.S.C. Section 6901 et seq.; the Toxic Substance Control Act, as amended, 15 U.S.C. Section 2601 et seq.; the Clean Air Act, as amended, 42 U.S.C. Section 7401 et seq.; the Federal Water Pollution Control Act, as amended, 33 U.S.C. Section 1251 et seq.; the Federal Hazardous Materials Transportation Act, 49 U.S.C. Section 1801 et seq.; the Oregon Hazardous Waste Management Law, ORS Ch. 466, the Oregon Hazardous Materials Cleanup Law, ORS Ch. 465, the Oregon Water Pollution Control Law, Ch. 468B and the Oregon Air Pollution Control Law, ORS Ch. 468A and the rules, regulations and ordinances of the U.S. Environmental Protection Agency, the Oregon agencies charged with enforcement of Environmental Laws and of all other agencies, boards, commissions and other governmental bodies and officers having jurisdiction over the Property or the use or operation thereof. The term "Enforcement or Remedial Action" shall mean any step taken by any person, agency or entity to enforce compliance with or to collect or impose penalties, fines, or other sanctions provided by any Environmental Law. The term "Hazardous Material" means and includes, without limitation: (i) those substances included within the definitions of "hazardous substances," "hazardous materials," "toxic substances," "pollutants," "hazardous wastes," or

"solid waste" in any Environmental Laws; (ii) those substances listed in the U.S. Department of Transportation Table or amendments thereto (49 CFR 172.101) or by the U.S. Environmental Protection Agency (or any successor agency) as hazardous substances (40 CFR Part 302 and any amendments thereto); (iii) those other substances, materials and wastes which are or become regulated under any applicable federal, state or local law, regulation or ordinance or by any federal, state or local governmental agency, board, commission or other governmental body, or which are or become classified as hazardous or toxic by any such law, regulation or ordinance; and (iv) any material, waste or substance which is any of the following: (a) asbestos; (b) polychlorinated biphenyl; (c) designated or listed as a "hazardous substance" pursuant to Sections 307 or 311 of the Clean Water Act (33 U.S.C. Section 1251 et seq.); (d) explosive; (e) radioactive; or (f) a petroleum product.

(B) Grantor hereby represents and warrants that, to the best of Grantor's actual knowledge without having conducted an investigation, inspection or inquiry, neither Grantor nor any other person has ever caused or permitted any Hazardous Material to be placed, held, located or disposed of, on, under or at the Land or Property, or any other real property legally or beneficially owned (or in which any interest or estate is owned) by Grantor in any state now or hereafter having in effect a so-called "Superlien" law or ordinance (the effect of which would be to create a lien on the Property to secure any obligation in connection with such real property in such other state). Grantor hereby represents and warrants that neither the Land nor the Property, nor any part thereof has ever been used (whether by the Grantor or, to the best knowledge of Grantor without having conducted an investigation, inspection or inquiry, by any other person) to generate, manufacture, store, treat or dispose of any Hazardous Material in quantities or amounts that violate Environmental Laws. Grantor has received no notice of any proceeding or inquiry by any governmental authority (including, without limitation, the United States Environmental Protection Agency or the Oregon agencies charged with enforcement of Environmental Laws) with respect to the presence of any Hazardous Material on, under or related to the Land or the Property or the migration thereof from or to adjoining property. Grantor has received no notice of any investigation of any contemplated investigation, by any local, state or federal governmental agency with authority to regulate, promulgate, administer or enforce any Environmental Laws within 2,000 yards of the Property.

(C) Grantor shall keep and maintain the Property in compliance, in all material respects, with and shall not cause or permit the Property to be in violation of any Environmental Law. If Hazardous Materials are discovered on, under or related to the Property, which under any Environmental Law require any special handling, collection, storage, treatment or disposal in quantities or amounts that violate Environmental Laws. Grantor shall commence with diligence, within thirty (30) days of notice thereof, to take all actions at its sole expense required by any Environmental Law or governmental authority with jurisdiction over the Property, to comply with any Environmental Laws. Grantor shall not use, generate, manufacture, treat, store, dispose of on, under, or about the Property or transport to or from the Land or the Property, or allow to remain on the Property any Hazardous Materials in quantities or amounts that violate Environmental Laws. Notwithstanding the foregoing, Grantor may cause or permit Hazardous Materials to be used, stored or otherwise located on the Property if used in connection with Grantor's ordinary business practices, but then only in compliance with all Environmental Laws.

Grantor shall promptly advise Beneficiary in writing of (i) any and all enforcement, cleanup, remedial, removal, or other governmental or regulatory actions instituted, completed, or threatened pursuant to any Environmental Law affecting the Property; (ii) all claims made or threatened by any third party against Grantor or the Property relating to damage, contribution, cost recovery compensation, loss, or injury resulting from any Environmental Liability; and (iii) Grantor's discovery of any occurrence or condition on any real property under, adjoining or in the vicinity of the Property that could cause the Property or any part thereof to be subject to any restrictions on the ownership, occupancy, transferability, or use of the Property under any Environmental Laws. Except in the case of emergencies (which shall be deemed to exist for a maximum of 48 hours after Grantor's actual knowledge thereof), without Beneficiary's prior written consent, which shall not be unreasonably withheld, Grantor shall not take any remedial action in response to the presence of any Hazardous Material on, under or about the Property.

Beneficiary shall have the right to join and participate in, as a party if it so elects, any legal proceedings or actions initiated in connection with any Environmental Liability and to have its reasonable attorney's fees in connection therewith paid by Grantor. Except in the case of emergencies (which shall be deemed to exist for a maximum of 48 hours), without Beneficiary's prior written consent, which shall not be unreasonably withheld, Grantor shall not take any remedial action in response to the presence of any Hazardous Material on, under or about the Property.

1.19. Conveyance of Property; Change of Ownership.

Subject to Sections 1.08 (L), (O) and (R) in the event that, without Beneficiary's prior written consent, (i) all or any part of or any interest in the Property is sold, transferred, conveyed, leased, further encumbered, or a contract of sale or other conveyance entered into with respect thereto, or (ii) there is a transfer of any beneficial interest in Grantor, or any beneficial interest in any member of Grantor that constitutes a material change in the control, then, upon the occurrence of any one or more of the foregoing events, Beneficiary shall have the right, at its option, to declare all amounts secured hereby immediately due and payable.

The execution and delivery by the Grantor of any joint venture agreement, partnership agreement, declaration of trust, option agreement or other instrument whereunder any other person or corporation may become entitled, directly or indirectly, to the possession or enjoyment of the Property, or the income or other benefits derived or to be derived therefrom shall in each case be deemed to be a conveyance or assignment of the Grantor's interest in the Property for the purposes of this section, and shall require the prior written consent of the Beneficiary.

1.20. Anti-forfeiture.

Grantor hereby further expressly represents and warrants to Beneficiary that, to the Grantor's best knowledge, neither Grantor nor any other person involved with the Property has committed or engaged in any act, enterprise, or omission affording the federal government or any state or local government the right of forfeiture as against the Property or any part thereof or any monies paid in performance of its obligations under this Note or under any of the other Loan Documents. Grantor hereby covenants and agrees not to commit, permit or suffer to exist any

act or omission or engage in any enterprise affording such right of forfeiture. In furtherance thereof, Grantor hereby indemnifies Beneficiary and agrees to defend and hold Beneficiary harmless from and against any loss, damage or injury by reason of the breach of the covenants and agreements or the warranties and representations set forth in the preceding sentence. Without limiting the generality of the foregoing, the filing of formal charges or the commencement of proceedings against Grantor, Beneficiary or all or any part of the Property under any federal or state law for which forfeiture of the Property or any part thereof or of any monies paid in performance of Grantor's obligations under the Loan Documents shall, at the election of the Beneficiary, constitute an Event of Default hereunder without notice or opportunity to cure.

1.21. Financial Covenants.

Grantor shall use its best efforts at all times maintain its financial condition in accordance with the requirements set forth in the Note. Grantor represents and warrants that there has been no material adverse change in Grantor's financial condition since the latest financial statements delivered by Grantor to Beneficiary.

ARTICLE II. INDEMNIFICATION

2.01. Indemnification.

Grantor hereby agrees to and does hereby indemnify, protect, defend and save harmless the Beneficiary and its trustees, officers, employees, agents, attorneys and shareholders from and against any and all losses, damages, expenses or liabilities of any kind or nature and from any suits, claims or demands, including reasonable counsel fees incurred in investigating or defending such claim, suffered by any of them and caused by, relating to, arising out of, resulting from, or in any way connected with this Deed of Trust and the transactions contemplated herein (unless caused by the gross negligence or willful misconduct of the Beneficiary), including, without limitation, (i) the Grantor's violation of any Legal Requirements (as defined in the Note), (ii) any act or omission to act on the part of Grantor and/or its respective Affiliates (as defined in the Note) or any other Person (as defined in the Note), (iii) disputes between the Beneficiary and Grantor over Grantor's obligations under this Article II if Beneficiary is the prevailing party, (iv) disputes between any architect, general contractor, subcontractor, materialman or supplier, or on account of any act or omission to act by the Beneficiary in connection with this Deed of Trust if Beneficiary is the prevailing party, or (v) losses, damages, expenses or liabilities sustained by the Beneficiary in connection with any environmental sampling or cleanup of the Property required or mandated by any federal, state or local law, ordinance, rule or regulation, including, without limitation, in connection with any Environmental Law or Environmental Liability.

ARTICLE III. SECURITY AGREEMENT AND FIXTURE FILING**3.01. Security Agreement.**

This Deed of Trust creates a lien on the Property, and to the extent the Property is not real property under applicable law this Deed of Trust constitutes a "security agreement" and a "financing statement" under the Oregon Uniform Commercial Code and any other applicable law. By executing and delivering this Deed of Trust, Grantor grants to Trustee and to Beneficiary, as security for all secured obligations, a security interest in the Property to the full extent that any of the Property may be subject to the Oregon Uniform Commercial Code. If required by Beneficiary, at any time during the term of this Deed of Trust, Grantor will execute and deliver to Beneficiary, in form reasonably satisfactory to Beneficiary, additional security agreements, financing statements or other instruments covering all Personal Property or fixtures of Grantor which may at any time be furnished, placed on, or annexed or made appurtenant to the Real Property or used, useful or held for use in the operation of the Improvements. Without limiting the foregoing, Grantor hereby irrevocably constitutes and appoints Beneficiary with full power of substitution, as its true and lawful attorney-in-fact with full irrevocable power and authority (coupled with an interest) in the place and stead of Grantor and in the name of Grantor or in the Beneficiary's own name, for the Beneficiary to execute, deliver and file such instruments for and on behalf of the Grantor. Grantor further agrees that to the extent permissible and enforceable under applicable law:

(A) The obligations covered by this security agreement under this Article III include future advances in all forms;

(B) Beneficiary may: commingle any personal property that comes into its possession; repledge such personal property upon terms that impair Grantor's right to redeem such; and require Grantor to assemble the personal property and make it available to Beneficiary at a place to be designated by Beneficiary which is reasonably convenient to both parties. To the extent Beneficiary is required for any reason to provide commercially reasonable notice to Grantor, Grantor agrees that notice mailed by first class mail ten (10) days before the event of which notice is given, is commercially reasonable notice;

(C) The standard by which Beneficiary's rights and duties under Article 9 of the Oregon Uniform Commercial Code, including but not limited to ORS Ch. 79.0601-79.0628 thereof, shall be measured is gross negligence or willful misconduct;

(D) Grantor shall notify Beneficiary in writing within thirty (30) days of any change in name of Grantor or its limited liability company structure. Nothing herein shall be construed as a consent by Beneficiary to a change in corporate limited liability company structure otherwise prohibited hereby.

Grantor hereby irrevocably constitutes and appoints Beneficiary the attorney-in-fact of Grantor, to execute, deliver and file with the appropriate filing officer or office such security agreements, financing statements or other instruments as Beneficiary may request or require in

order to impose and perfect the lien and security interest hereof more specifically on the Personal Property or any fixture.

If Grantor enters into a separate security agreement with Beneficiary relating to any of the Personal Property or fixtures, the terms of such security agreement shall govern the rights and remedies of Beneficiary in the event of default thereunder. Any breach of or default under any such security agreement shall constitute an event of default under this Deed of Trust.

It is understood and agreed that, in order to protect Beneficiary from the effect of ORS Ch. 79.0324 and ORS Ch. 79.0334, as amended from time to time, in the event that (i) Grantor intends to purchase any goods which may become fixtures attached to the Property, or any part thereof, and (ii) such goods will be subject to a purchase money security interest held by a seller or any other party:

(E) Grantor shall, before executing any security agreement or other document evidencing such security interest, obtain the prior written approval of Beneficiary, which approval shall not be unreasonably withheld or delayed and all requests for such written approval shall be in writing and contain the following information:

- (1) a description of the fixtures to be replaced, added to, installed or substituted;
- (2) the address at which the fixtures will be replaced, added to, installed or substituted; and
- (3) the name and address of the proposed holder and proposed amount of the security interest,

and any failure of Grantor to obtain such approval shall be a material breach of Grantor's covenant under this Deed of Trust, and shall, at the option of Beneficiary, entitle Beneficiary to all rights and remedies provided for herein upon default provided, that Beneficiary shall be deemed to have approved such agreement if it fails to object to such agreement within thirty (30) days of its actual receipt of Grantor's written request for such approval. No consent by Beneficiary pursuant to this subsection shall be deemed to constitute an agreement to subordinate the right of the Beneficiary in fixtures or other property covered by this Deed of Trust.

(F) If at any time Grantor fails to make any payment on an obligation secured by a purchase money security interest in the Personal Property or any fixtures, Beneficiary, at its option, may at any time pay the amount secured by such security interest and the amount so paid shall be (1) secured by this Deed of Trust and shall be a lien on the Property having the same priorities as the liens and security interests created by this Deed of Trust, and (2) payable on demand with interest at the rate specified in the Note from the time of such payment. If Grantor shall fail to make such payment to Beneficiary within thirty (30) days after demand, the entire principal sum secured hereby with all unpaid interest accrued thereon shall, at the option of Beneficiary, become due and payable immediately.

(G) Beneficiary shall have the right to acquire by assignment from the holder of such security interest any and all contract rights, accounts receivable, negotiable or non-negotiable instruments, or other evidence of Grantor's indebtedness for such Personal Property or fixtures, and, upon acquiring such interest by assignment, shall have the right to enforce the security interest as assignee thereof, in accordance with the terms and provisions of the Oregon Uniform Commercial Code then in effect, and in accordance with any other provisions of law.

(H) Whether or not Beneficiary has paid the indebtedness secured by or taken an assignment of such security interest, Grantor covenants to pay all sums and perform all obligations secured thereby, and if Grantor at any time shall be in default for a period of ten (10) days under such security agreement, it shall be a material breach of Grantor's covenants under this Deed of Trust, and Beneficiary may, at its option, declare the principal sum secured hereby immediately due and payable, time being of the essence.

3.02. Fixture Filing.

To the extent that any of the Property constitutes a fixture, standing timber and/or timber that is to be cut under a Timber Agreement, this Deed of Trust shall serve as a fixture filing pursuant to the Oregon Uniform Commercial Code. To this end, Grantor acknowledges that (i) this Deed of Trust covers goods which are or are to become fixtures on the Land, standing timber and/or timber that is to be cut under a Timber Agreement; (ii) this financing statement is to be recorded; (iii) Grantor is the record owner of such property; and (iv) products of collateral are also covered. Except as otherwise expressly permitted, no financing statement in favor of any secured party other than Beneficiary covering the personal property described herein or any portion thereof is on file in any public office. Subject to Sections 1.08 (L), (O) and (R) of this Deed of Trust, Grantor will not remove or permit the removal of the collateral or any part thereof without the prior written permission of Beneficiary, which shall not be unreasonably withheld or delayed, provided that obsolete and worn-out articles may be removed concurrently with the replacement or renewal thereof with property of at least equal value or usefulness in the operation of the Property. This Deed of Trust constitutes a financing statement under the Oregon Commercial Code and for that purpose, the following information is set forth:

(i) The Exact Legal Name and address of Grantor ("Debtor") is: U.S. TIMBERLANDS SERVICES YAKIMA, LLC, a Delaware limited liability company, having an address at 625 Madison Avenue, Suite 10-B, New York, New York 10022.

(ii) Name and address of Beneficiary ("Secured Party"): BANK OF AMERICA, N.A., a national banking association, having an office located at 101 South Tryon, NC1-002-06-31, 6th Floor, Charlotte, North Carolina 28255, Attention: Dan McAvoy, Senior Vice President.

(iii) Description of the types (or items) of property covered by this Financing Statement: all of the property described in Article B described or referred to herein and included as part of the Property.

(iv) Description of real estate to which collateral is attached or upon which it is located: Described in Exhibit A.

(v) Federal Identification Number of Debtor: 52-2339209.

(vi) Debtor is a registered organization in the State of Delaware, and its Delaware organizational number is 3419150.

ARTICLE IV. DEFAULTS AND REMEDIES

4.01. Events of Default.

If any of the following events shall occur ("Events of Default"):

- (A) Default in payment when due of any indebtedness evidenced by the Note or secured hereby or the failure to pay when due any other sums of money required to be paid by any of the Loan Documents or the indemnification under Article II hereof; or
- (B) Except with respect to a failure to pay money as required in 4.01(A) above, failure by Grantor to comply with any of the covenants, terms, conditions, restrictions or agreements contained in this Deed of Trust, or any of the other Loan Documents within thirty (30) days after notice of such non-compliance; provided that if such failure cannot be reasonably cured within such thirty (30) day period, then failure by Grantor to commence a cure within such thirty (30) days and diligently prosecute the cure to completion; or
- (C) The occurrence and continuation of an Event of Default under the Guaranty (as defined in the Note), the Note or any other Loan Document; or
- (D) Any material representation or disclosure made to Beneficiary by Grantor or any Guarantor under the Guaranty proves to be materially false or misleading on the date when such representation or disclosure was made, whether or not that representation or disclosure appears in this Deed of Trust, or the Grantor or any Guarantor omits to provide any material information that makes any such representation or disclosure materially false or misleading; or
- (E) A transfer of all or any portion of the Property in violation of Paragraph 1.19 hereof occurs;

then and in any such event, the Beneficiary shall be entitled to exercise all rights, and shall have the benefit of all remedies provided by law or set forth in this Deed of Trust or in any other instrument given to secure the indebtedness evidenced by the Note, including the right to declare all sums secured hereby immediately due and payable. No waiver by Beneficiary of any default on the part of Grantor shall be construed as a waiver of any subsequent default hereunder.

4.02. Foreclosure Sale.

If an Event of Default occurs and Beneficiary so requests, Trustee shall sell the Property in accordance with the Trust Deed Act of the State of Oregon (ORS Ch. 86.705-86.795 as existing now or hereafter amended) at public auction to the highest bidder. Any person except Trustee may bid at the Trustee's sale. Trustee shall apply the proceeds of the sale as follows: (i) to the expenses of sale, including Trustee's fee and attorneys' fee; (ii) to all the indebtedness evidenced by the Note and all other indebtedness secured by this Deed of Trust or any other Loan Document; (iii) the surplus, if any, shall be distributed in accordance with the Trust Deed Act. Trustee shall deliver to the purchaser at the sale its deed, without warranty, which shall convey to the purchaser the interest in the Property which Grantor had or had the power to convey at the time of its execution of this Deed of Trust and such as it may have acquired thereafter. The Trustee's deed shall recite the facts showing that the sale was conducted in compliance with all the requirements of the law and of this Deed of Trust, which recital shall be prima facie evidence of such compliance and conclusive evidence thereof in favor of bona fide purchasers and encumbrancers for value. The power of sale conferred by this Deed of Trust and by the Trust Deed Act of the State of Oregon is not an exclusive remedy, and when not exercised Beneficiary may foreclose this Deed of Trust as a mortgage.

Beneficiary shall have the right to proceed as to the Personal Property in accordance with Beneficiary's rights and remedies in respect to the Real Property or sell the Personal Property separately and without regard to the remainder of the Property in accordance with Beneficiary's rights and remedies provided by the Oregon Uniform Commercial Code as well as other rights and remedies available at law or in equity.

4.03. Other Remedies Upon Default.

Upon the occurrence of an Event of Default, Beneficiary is authorized, either by itself or by its agent to be appointed by it for that purpose or by a receiver appointed by a court of competent jurisdiction, to enter into and upon and take and hold possession of any portion or all of the Property, both real and personal, and exclude Grantor and all other persons therefrom; to operate and manage the Property and execute contracts for the same; to perform such reasonable acts of repair or protection as may be reasonably necessary or proper to conserve the value thereof; and collect any rents or proceeds for the benefit and protection of Beneficiary, and from time to time apply or accumulate such rents or proceeds in such order and manner as Beneficiary or such receiver, in its sole discretion, shall consider advisable, to or upon the following: the expenses of receivership, if any; the proper costs of upkeep, maintenance, repair and/or operation of the Property; the repayment of any sums theretofore or thereafter advanced pursuant to the terms of this Deed of Trust, the interest then due or next to become due upon the indebtedness secured hereby, and the taxes and assessments upon the Property then due or next to become due, or upon the unpaid principal of such indebtedness. The collection or receipt of rents or proceeds by Beneficiary, its agent or receiver, after notice of default and notice of sale shall not affect or impair such default or notices or any sale proceedings predicated thereon. Any rents or proceeds in the possession of Beneficiary, 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.

Neither Trustee nor Beneficiary shall be under any obligation to make any of the payments or do any of the acts referred to in this subsection 4.03, and any of the actions referred to in this subsection 4.03 may be taken by Beneficiary regardless of whether any notice of default or notice of sale has been given hereunder and without regard to the adequacy of the security for the indebtedness evidenced by the Note.

4.04. Sale in Parcels; Marshalling.

Grantor agrees that upon the occurrence of an Event of Default, the Property, real, personal or mixed, may be sold as an entirety or in parcels, by one sale or by several sales held at one time or at different times, all as Trustee or Beneficiary, in its unrestricted discretion, may elect. Grantor, for and on behalf of itself and all persons claiming by, through or under Grantor, waives any and all right to have the Property marshalled upon any foreclosure sale and agrees that, upon foreclosure, the Property may be sold as an entirety and not in parcels.

4.05. Appointment of Receiver.

Upon the occurrence of any Event of Default, Beneficiary, separately or in any action to foreclose this Deed of Trust, shall be entitled (without notice and without regard to the adequacy of any security for the Note, the absence of waste or deterioration of the Property or other arguments based on equity) to the appointment of a receiver of the income, rents, royalties, issues, profits or proceeds of the Property who shall have, in addition to all the rights and powers customarily given to and exercised by such receiver, all the rights and powers granted to Beneficiary by the covenants contained herein. Once appointed, at Beneficiary's option, such receiver may remain in place until all amounts secured hereby are paid in full.

4.06. Payment of Proceeds.

Whenever this Deed of Trust requires that amounts payable by a third party be paid directly to Beneficiary (for example, insurance proceeds and proceeds of claims of loss or damage to the Property), Beneficiary may enforce such right with a preliminary injunction or temporary restraining order. Grantor agrees that irreparable harm may result if such payments are not made directly to Beneficiary. Grantor agrees not to oppose a motion for such injunction or restraining order provided that arrangements are made to deposit such sums in a third party depository.

ARTICLE V. GENERAL COVENANTS

5.01. No Waiver.

Grantor covenants and agrees that the acceptance by Beneficiary of any sum secured hereby after its due date, or in an amount less than the sum then due, shall not constitute a waiver by Beneficiary of its rights either to require prompt payment when due of all other sums so secured or to declare a default or exercise such other rights as herein provided for failure so to pay. No failure by Beneficiary to insist upon strict performance of any term, covenant or

condition hereof, nor failure to exercise any right or remedy hereunder, shall constitute a waiver of any such breach of such term, covenant or condition or of the later exercise of such right or remedy. All waivers shall be in writing.

5.02. Remedies Cumulative.

No remedy herein conferred upon or reserved to Trustee or Beneficiary is intended to be exclusive of any other remedy herein or by law provided or permitted, but each shall be cumulative and shall be in addition to every other remedy given hereunder or now or hereafter existing at law or in equity or by statute.

5.03. Plats, Easements and Other Agreements.

At any time upon written request of Beneficiary, payment of its fees and presentation of this Deed of Trust and the Note for endorsement (in case of full reconveyance, for cancellation and retention), without affecting the liability of any person for the payment of the indebtedness or the effect of the Deed of Trust upon the remainder of the Property, Trustee may (i) join in any subordination or other agreement affecting this Deed of Trust or the lien or charge thereof; or (ii) reconvey, without warranty, all or any part of the Real Property. The grantee in any reconveyance may be described as the "person or persons legally entitled thereto," and the recitals therein of any matters or facts shall be conclusive proof of the truthfulness thereof. Grantor agrees to pay Trustee's fee for full or partial reconveyance, together with a recording fee, if Trustee, at its option, elects to record said reconveyance.

5.04. Notices.

Except as otherwise provided for herein, any notice required or permitted to be given hereunder shall be in writing and shall be (a) transmitted by recognized overnight courier or postage prepaid registered or certified United States mail, return receipt requested, or (b) transmitted by telecopier or facsimile, with a copy by first class mail, to the parties as follows (as elected by the giving such notice):

- (i) if to Grantor, to:

U.S. Timberlands Services Yakima, LLC
625 Madison Avenue
Suite 10-B
New York, New York 10022
Attention: Thomas C. Ludlow, CFO
Telephone No.: (212) 755-1100
Telefax No.: (212) 758-4009

with copies to:

Dorsey & Whitney LLP
1420 Fifth Avenue
Suite 3400
Seattle, Washington 98101
Attention: Laurie Ragen, Esq.
Telephone No.: (206) 903-8764
Telefax No.: (206) 903-8820

-and-

John Rudey
1030 Fifth Avenue
New York, New York 10028
Telephone No.: (212) 755-1100
Telefax No.: (212) 758-4009

(ii) if to Beneficiary, to:

Bank of America, N.A.
101 South Tryon
NC1-002-06-31
6th Floor
Charlotte, North Carolina 28255
Attention: Daniel McAvoy, Senior V.P.
Telephone No.: (704) 388-3872
Telefax No.: (704) 388-0041

with copies to:

Bank of America, N.A.
767 Fifth Avenue
Floor 12A
New York, New York 10153
Attention: Rosemary T. Vrablic, Senior Vice President
Telephone No.: (212) 407-5467
Telefax No.: (212) 593-1085

-and-

St. John & Wayne, L.L.C.
70 East 55th Street
19th Floor
New York, New York 10022
Attention: Peter G. Seiden, Esq.
Telephone No.: (212) 446-5000
Telefax No.: (212) 446-5055

(iii) if to the Trustee, to:

49026

Chicago Title Insurance Company
c/o AmeriTitle
222 South 6th Street
Klamath Falls, Oregon 97601
Attention: Rose Carlson, Title Officer
Telephone No.: (541) 883-3401
Telefax No.: (541) 882-0620

Except as otherwise specified herein, all notices and other communications shall be deemed to have been duly given on the first to occur of (i) the date of delivery if delivered personally, (ii) three (3) days following posting if transmitted by mail, (iii) on the next business day if sent by overnight courier, or (iv) the date of receipt if transmitted by telecopier or facsimile. Any party may change its address for purposes hereof by notice to the other. All notices hereunder and all documents and instruments delivered in connection with this transaction or otherwise required hereunder shall be in the English language. Each party shall be entitled to rely on all communications which purport to be on behalf of the party and purport to be signed by an authorized party or the above indicated attorneys. A failure to send the requisite copies does not invalidate an otherwise properly sent notice to Grantor and/or Beneficiary.

5.05. Heirs and Assigns; Terminology.

This Deed of Trust applies to, inures to the benefit of, and binds all parties hereto, their heirs, legatees, devisees, administrators, executors, successors and assigns. The term "Grantor" shall mean both the original Grantor and any subsequent owner or owners of any of the Property. The term "Beneficiary" shall mean the owner and holder, including pledgees, of the Note, whether or not named as Beneficiary herein. In this Deed of Trust, whenever the context so requires, the masculine gender includes the feminine and/or neuter, and the singular number includes the plural. The term "and/or" as used herein means one or the other or both, or any one or all, or any combination of the things or persons in connection with which the words are used. The obligations of Grantor hereunder shall be joint and several, binding on the community of which any Grantor is a part and on the separate or quasi-community property of any Grantor.

The captions and headings are inserted only as a matter of convenience and for reference, and in no way define, limit or describe the scope or intent of this Deed of Trust nor in any way affect this Deed of Trust.

5.06. Severability.

If any provision hereof should be held unenforceable or void, then such provision shall be deemed separable from the remaining provisions and shall in no way affect the validity of this Deed of Trust, except that if such provision relates to the payment of any monetary sum then Beneficiary may, at its option, declare the indebtedness and all other sums secured hereby

immediately due and payable, provided that no prepayment fee shall be payable in the event Beneficiary elects to exercise the option to accelerate contained in this subsection 5.06.

Grantor acknowledges and agrees that this document constitutes, among others, two separate agreements: a Deed of Trust and a Security Agreement, each of which may be construed and enforced independently of the others even though the provisions hereof are common to all.

5.07. Time Is of the Essence.

Time is of the essence hereof in connection with all obligations of Grantor herein or in the Note. By accepting payment of any sum secured hereby after its due date, Beneficiary does not waive its right either to require prompt payment when due of all other sums so secured or to declare default for failure so to pay.

5.08. Jury Trials.

It is mutually agreed by Grantor and Beneficiary that they each waive trial by jury in any action, proceeding, or counterclaim brought by either of them against the other on any matter whatsoever arising out of or in any way connected with the Note, this Deed of Trust or the loan secured hereby.

5.09. Oral Agreements.

UNDER OREGON LAW, MOST AGREEMENTS, PROMISES AND COMMITMENTS MADE BY BENEFICIARY AFTER OCTOBER 3, 1989, CONCERNING LOANS AND OTHER CREDIT EXTENSIONS WHICH ARE NOT FOR PERSONAL, FAMILY OR HOUSEHOLD PURPOSES OR SECURED SOLELY BY THE GRANTOR'S RESIDENCE, MUST BE IN WRITING, EXPRESS CONSIDERATION AND BE SIGNED BY BENEFICIARY TO BE ENFORCEABLE.

5.10. Governing Law

This Deed of Trust is to be governed by and construed in accordance with the laws of the State of Oregon as to matters concerning the creation, validity, perfection and enforcement of the lien and security interest created by this Deed of Trust.

5.11. Counterparts

This Deed of Trust is being executed in counterparts to be recorded in each county identified in subsection A.1 on page 1 above.

5.12. ARBITRATION.

ANY CONTROVERSY OR CLAIM BETWEEN OR AMONG THE PARTIES HERETO INCLUDING BUT NOT LIMITED TO THOSE ARISING OUT OF OR

RELATING TO THIS INSTRUMENT, AGREEMENT OR DOCUMENT OR ANY RELATED INSTRUMENTS, AGREEMENTS OR DOCUMENTS, INCLUDING ANY CLAIM BASED ON OR ARISING FROM AN ALLEGED TORT, SHALL BE DETERMINED BY BINDING ARBITRATION IN ACCORDANCE WITH THE FEDERAL ARBITRATION ACT (OR IF NOT APPLICABLE, THE APPLICABLE STATE LAW), THE RULES OF PRACTICE AND PROCEDURE FOR THE ARBITRATION OF COMMERCIAL DISPUTES OF J.A.M.S./ENDISPUTE OR ANY SUCCESSOR THEREOF ("J.A.M.S."), AND THE "SPECIAL RULES" SET FORTH BELOW. IN THE EVENT OF ANY INCONSISTENCY, THE SPECIAL RULES SHALL CONTROL. JUDGMENT UPON ANY ARBITRATION AWARD MAY BE ENTERED IN ANY COURT HAVING JURISDICTION. ANY PARTY TO THIS INSTRUMENT, AGREEMENT OR DOCUMENT MAY BRING AN ACTION, INCLUDING A SUMMARY OR EXPEDITED PROCEEDING, TO COMPEL ARBITRATION OF ANY CONTROVERSY OR CLAIM TO WHICH THIS DEED OF TRUST APPLIES IN ANY COURT HAVING JURISDICTION OVER SUCH ACTION.

A. SPECIAL RULES. THE ARBITRATION SHALL BE CONDUCTED IN THE COUNTY OF GRANTOR'S DOMICILE AT THE TIME OF THE EXECUTION OF THIS INSTRUMENT, AGREEMENT OR DOCUMENT AND ADMINISTERED BY J.A.M.S. WHO WILL APPOINT AN ARBITRATOR; IF J.A.M.S. IS UNABLE OR LEGALLY PRECLUDED FROM ADMINISTERING THE ARBITRATION, THEN THE AMERICAN ARBITRATION ASSOCIATION WILL SERVE. ALL ARBITRATION HEARINGS WILL BE COMMENCED WITHIN 90 DAYS OF THE DEMAND FOR ARBITRATION; FURTHER, THE ARBITRATOR SHALL ONLY, UPON A SHOWING OF CAUSE, BE PERMITTED TO EXTEND THE COMMENCEMENT OF SUCH HEARING FOR UP TO AN ADDITIONAL 60 DAYS.

B. RESERVATION OF RIGHTS. NOTHING IN THIS ARBITRATION PROVISION SHALL BE DEEMED TO (I) LIMIT THE APPLICABILITY OF ANY OTHERWISE APPLICABLE STATUTES OF LIMITATION OR REPOSE AND ANY WAIVERS CONTAINED IN THIS INSTRUMENT, AGREEMENT OR DOCUMENT; OR (II) BE A WAIVER BY BENEFICIARY OF THE PROTECTION AFFORDED TO IT BY 12 U.S.C. SEC. 91 OR ANY SUBSTANTIALLY EQUIVALENT STATE LAW; OR (III) LIMIT THE RIGHT OF BENEFICIARY HERETO (A) TO EXERCISE SELF HELP REMEDIES SUCH AS (BUT NOT LIMITED TO) SETOFF, OR (B) TO FORECLOSE AGAINST ANY REAL OR PERSONAL PROPERTY COLLATERAL, OR (C) TO OBTAIN FROM A COURT PROVISIONAL OR ANCILLARY REMEDIES SUCH AS (BUT NOT LIMITED TO) INJUNCTIVE RELIEF, WRIT OF POSSESSION OR THE APPOINTMENT OF A RECEIVER. BENEFICIARY MAY EXERCISE SUCH SELF HELP RIGHTS, FORECLOSE UPON SUCH PROPERTY, OR OBTAIN SUCH PROVISIONAL OR ANCILLARY REMEDIES BEFORE, DURING OR AFTER THE PENDENCY OF ANY ARBITRATION PROCEEDING BROUGHT PURSUANT TO THIS INSTRUMENT, AGREEMENT OR DOCUMENT. NEITHER THIS EXERCISE OF SELF HELP REMEDIES NOR THE INSTITUTION OR MAINTENANCE OF AN ACTION FOR FORECLOSURE OR PROVISIONAL OR ANCILLARY REMEDIES SHALL CONSTITUTE A WAIVER OF THE RIGHT OF ANY PARTY, INCLUDING

THE CLAIMANT IN ANY SUCH ACTION, TO ARBITRATE THE MERITS OF THE CONTROVERSY OR CLAIM OCCASIONING RESORT TO SUCH REMEDIES.

5.13. Reconveyance.

Upon payment of all sums secured by this Deed of Trust, Beneficiary shall request Trustee to reconvey the Property and shall surrender to Trustee this Deed of Trust and all notes evidencing the indebtedness secured by this Deed of Trust. Trustee shall reconvey the Property without warranty to the person or persons legally entitled thereto. The grantee in any reconveyance may be described as the "person or persons legally entitled thereto," and the recitals therein of any matters or facts shall be conclusive proof of the truthfulness thereof. Such person or persons shall pay Trustee's and Beneficiary's reasonable costs incurred in so reconveying the Property.

[signature page follows]

IN WITNESS WHEREOF, Grantor has executed this instrument as of the date first written above.

U.S. TIMBERLANDS SERVICES YAKIMA, LLC
By: U.S. Timberlands Services Company, L.L.C.,
its sole member

By: 

John M. Rudey, its President, CEO and
Chairman

STATE OF NEW YORK)
) ss.
COUNTY OF NEW YORK)

On the 27th day of JUNE, 2003, before me personally came John M. Rudey, to me known, who, being by me duly sworn, did depose and say that he resides at 625 Madison Avenue, Suite 10-B, New York, New York 10022; that he is the President of U.S. TIMBERLANDS SERVICES COMPANY, L.L.C. (the "Company"), the limited liability company that executed the foregoing instrument as the sole member of U.S. TIMBERLANDS SERVICES YAKIMA, LLC, the grantor therein; and that he was authorized to execute the instrument on behalf of the Company and the Company was authorized to execute the instrument on behalf of said grantor.



Notary Public

(Seal)

EVAN S. WEINTRAUB
Notary Public, State of New York
No. 02WES076979
Qualified in New York County
Commission Expires June 6, 2008

EXHIBIT A

All real property located in Jackson County, Oregon, described as follows:

PARCEL NO. 1:

The East half of Section 28, Township 40 South, Range 3 East, Willamette Meridian, Jackson County, Oregon.

PARCEL NO. 2:

The Northwest quarter, and the West half of the Southwest quarter of Section 34, Township 40 South, Range 3 East, Willamette Meridian, Jackson County, Oregon.

PARCEL NO. 3:

All of Section 10, Township 39 South, Range 4 East, Willamette Meridian, Jackson County, Oregon.

PARCEL NO. 4:

All of Section 18, Township 39 South, Range 4 East, Willamette Meridian, Jackson County, Oregon.

PARCEL NO. 5:

The Northeast quarter, the North half of the Northwest quarter, the Southeast quarter of the Northwest quarter, and the South half of Section 22, Township 39 South, Range 4 East, Willamette Meridian, Jackson County, Oregon.

PARCEL NO. 6:

All of Section 28, Township 39 South, Range 4 East, Willamette Meridian, Jackson County, Oregon.

PARCEL NO. 7:

All of Section 30, Township 39 South, Range 4 East, Willamette Meridian, Jackson County, Oregon.

All real property located in Klamath County, Oregon, described as follows:

TOWNSHIP 40 SOUTH, RANGE 6 EAST, W.M.

- Section 12:** Government Lot 1; The Southeast Quarter of the Northeast Quarter; The East Half of the Southeast Quarter
- Section 24:** All
- Section 25:** All
- Section 26:** The East Half
- Section 36:** All

TOWNSHIP 41 SOUTH, RANGE 6 EAST, W.M.

- Section 2:** The Northeast Quarter
- Section 9:** The Southwest Quarter
- Section 12:** All
- Section 16:** Government Lots 1, 2, 3, and 4

TOWNSHIP 39 SOUTH, RANGE 7 EAST, W.M.

- Section 27:** The South Half of the Southwest Quarter; The Southwest Quarter of the Southeast Quarter
- Section 28:** The South Half of the South Half
- Section 29:** The Southeast Quarter of the Southeast Quarter
- Section 32:** The Southeast Quarter of the Northwest Quarter; The Southwest Quarter of the Northeast Quarter; The Southeast Quarter of the Southeast Quarter; The West Half of the Southeast Quarter; The East Half of the Southwest Quarter; The Southwest Quarter of the Southwest Quarter
- Section 33:** The Northeast Quarter; The Northeast Quarter of the Northwest Quarter; The North Half of the Southeast Quarter
- Section 34:** All
- Section 35:** The West Half of the Southwest Quarter; A Portion of Government Lot 3; The Southeast Quarter of the Southwest Quarter; The Southwest Quarter of the

Southeast Quarter, Government Lot 5, more particularly described in Volume 314, Page 179, Deed Records of Klamath County, Oregon

TOWNSHIP 40 SOUTH, RANGE 7 EAST, W.M.

- Section 1:** The Northwest Quarter of the Southeast Quarter; The Northeast Quarter of the Southwest Quarter; The South Half of the Southwest Quarter
- Section 2:** Fractional North Half; The North Half of the Southwest Quarter; The Southeast Quarter of the Southwest Quarter; The Southeast Quarter
- Section 4:** All
- Section 6:** The North Half of the Northeast Quarter; The Southeast Quarter of the Northeast Quarter; The Southeast Quarter; The South Half of the Southwest Quarter
- Section 7:** The West Half of the Southwest Quarter; The Southeast Quarter of the Southwest Quarter; The Southwest Quarter of the Southeast Quarter
- Section 8:** The Northeast Quarter; Government Lots 3, 4, and 5; The Northeast Quarter of the Southwest Quarter
- Section 10:** Governments Lots 1, 2, 3, and 4; The South Half of the North Half; The Southwest Quarter
- Section 12:** The Southwest Quarter; The Southeast Quarter of the Northwest Quarter; The Southwest Quarter of the Northeast Quarter; the West Half of the Southeast Quarter
- Section 13:** Being a portion of the North Half of the Northwest Quarter of Section 13, Township 40 South, Range 7 East, W.M., Klamath County, Oregon, more particularly described as follows:
- Beginning at the section corner common to Sections 11, 12, 13, and 14, Township 40 South, Range 7 East, W.M., Klamath County, Oregon; thence South 89°10'48" East along the Section line 2,636.126 Feet to the ¼ corner common to Sections 12 and 13 of said Township and Range; thence South 0°21'4" East 1,321.589 Feet to a 2" survey cap; thence North 89°15'40" West 1,331.234 feet to a 2" survey cap marking the Northwest 1/16th corner of Section 13; thence North 44°22'04" West 1,877.448 feet to the point of beginning.
- Section 16:** All
- Section 18:** All
- Section 20:** The North Half; The North Half of the South Half

- Section 22: The Northwest Quarter; The North Half of the Northeast Quarter; The Southwest Quarter of the Northeast Quarter; The Northwest Quarter of the Southeast Quarter; The North Half of the Southwest Quarter; Government Lots 3 and 4
- Section 26: The East Half; The East Half of the Northwest Quarter; The Southwest Quarter of the Northwest Quarter; The Northwest Quarter of the Northwest Quarter
- EXCEPT** that portion of the following described land lying in the Northwest Quarter of the Northwest Quarter of said Section 26, more particularly described as follows:
- Beginning at an iron pin from which the Section corner common to said Sections 23 and 26 (as marked by a brass capped monument) bears North 45°07'46" West 130.75 feet and South 29°15'31" West 61.67 feet; thence North 43°51'57" East 223.58 feet to an iron pin; thence North 84°44'04" East 229.91 feet to an iron pin; thence South 08°53'40" East 279.98 feet to an iron pin; thence South 41°58'02" West 234.03 feet to an iron pin; thence North 45°07'46" West 381.17 feet to the point of beginning.
- Section 28: All
- Section 33: The East Half of the West Half; The Southwest Quarter of the Southeast Quarter
- Section 35: The East Half of the East Half; The Southwest Quarter of the Southeast Quarter
- Section 36: The West Half; The Southeast Quarter

TOWNSHIP 41 SOUTH, RANGE 7 EAST, W.M.

- Section 1: The East Half; The Southwest Quarter
- Section 2: The Southwest Quarter of the Northeast Quarter; The East Half of the Northwest Quarter
- EXCEPT** That portion described in Deed recorded January 5, 1925, in Deed Book 65 at Page 142.
- The East Half of the Southwest Quarter; The West Half of the West Half
- Section 3: The East Half of the Southeast Quarter
- Section 4: The North Half of the North Half; The South Half of the Northeast Quarter
- Section 10: The Northwest Quarter; The Northeast Quarter of the Southwest Quarter
- Section 11: The East Half; The Northwest Quarter of the Northwest Quarter; The Northwest Quarter of the Southwest Quarter

Section 12: All

Section 13: The Northwest Quarter of the Northeast Quarter; The North Half of the Northwest Quarter; Government Lots 2 and 3

Section 14: The Northeast Quarter of the Northeast Quarter; Government Lots 1, 2, 3, and 4

TOWNSHIP 41 SOUTH, RANGE 8 EAST, W.M.

Section 6: The Northwest Quarter; The Northwest Quarter of the Northeast Quarter; The North Half of the Southwest Quarter; The Southwest Quarter of the Southwest Quarter

Section 7: The Northwest Quarter; The North Half of the Northeast Quarter; The North Half of the Southwest Quarter; The Southwest Quarter of the Southwest Quarter