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State of Oregon, County of Klamath
Recorded 07/28/05 3:00 p m
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Linda Smith, County Clerk
Fee \$ 46.00 # of Pgs 6

1st 607111

Trust Deed
SUBORDINATION AGREEMENT

THIS SUBORDINATION AGREEMENT ("Agreement") is entered into as of the 21 day of July, 2005, by and between Southview Properties, LLC, an Oregon limited liability company ("Borrower"), and Pac Equities, Inc., a Nevada corporation ("Pac Equities").

Recitals

A. Borrower has requested that Premier West Bank, an Oregon bank ("Premier") extend to Borrower a loan in the principal amount of \$1,000,000 (the "Premier Loan"), a portion of the proceeds of which will be used to fund Phase I construction activities on the real property described on the attached Exhibit A (the "Property"). The Premier Loan is evidenced by a promissory note executed by Borrower in favor of Premier in the principal face amount of \$1,000,000 (the "Premier Note"), which will be secured by, among other things, a Deed of Trust (the "Premier Deed of Trust") encumbering the Property. The Premier Note, the Premier Deed of Trust and all other documents executed in connection with, or securing, the Premier Loan are hereinafter collectively referred to as the "Premier Loan Documents."

B. Borrower has previously entered into a loan with Pac Equities (the "Loan"). Borrower executed a promissory note in the amount of \$1,500,000 in favor of Pac Equities (the "Note"), which is secured by, among other things, a deed of trust (the "Pac Equities Trust Deed") encumbering the Property. The Pac Equities Trust Deed was recorded on August 30, 2004 as Instrument No. M-04 on page 57194. ✓

1. Robert Kelly, by Assignment recorded May 13, 2005, as Instrument No. M-05 on page 34861.
2. Culley Polehn & Shiena Polehn, by Assignment recorded May 18, 2005, as Instrument No. M-05 on page 36050.

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3. Lloyd H. TerBorg, by Assignment recorded May 18, 2005, as Instrument No. M-05 on page 36052.
4. David and/or Terry Steele, by Assignment recorded May 18, 2005, as Instrument No. M-05 on page 36054.
5. Marie Parks, by Assignment recorded May 13, 2005, as Instrument No. M-05 on page 34869.
6. Robert Neland, by Assignment recorded May 13, 2005, as Instrument No. M-05 on page 34875.
7. Pensco Trust Company, Custodian f/b/o Theresa Rankin, by Assignment recorded May 13, 2005, as Instrument No. M-05 on page 34871.
8. Robert R. Turner, Trust, by Assignment recorded May 13, 2005, as Instrument No. M-05 on page 34873.

C. Premier will only make the Premier Loan upon the agreement by Borrower and Pac Equities to the terms and conditions set forth in this Agreement.

Agreement

NOW, THEREFORE, in consideration of Premier making the Premier Loan and of the covenants and agreements set forth herein and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

1. Recitals. The recitals set forth above are hereby incorporated herein by this reference.

2. Pac Equities. Pac Equities represents and warrants that Pac Equities is the current holder of \$700,000 of the Note (the other \$800,000 being held by LBLM Investments, LLC), and that it has not assigned, transferred or otherwise conveyed its interest in the Note or the Pac Equities Trust Deed to any person or entity not identified in Recital B.

3. Consent to Premier Loan. Pac Equities consents to the Premier Loan and agrees that the closing, funding and performance of such loan shall not result in a violation of or default under any of the Pac Equities documents.

4. Subordination of Pac Equities Trust Deed.

(a) Pac Equities hereby expressly subordinates any lien of the Pac Equities Indebtedness (as defined below), and all of Pac Equities' liens and rights pursuant to the Note and the Pac Equities Trust Deed to the lien of the Premier Loan and all rights of

Premier and its successors and assigns under the Premier Loan Documents. As a result of this subordination, the Premier Loan Documents shall be a prior lien on the Property and all other collateral encumbered by the Premier Loan Documents, and the Note and the Pac Equities Trust Deed shall at all times be and remain absolutely subordinate, subject to and subservient to the prior lien of the Premier Loan Documents.

(b) The term "Pac Equities Indebtedness," as used in this Agreement, shall mean and include any and all indebtedness, liabilities and obligations of Borrower to Pac Equities or others for whom Pac Equities acts as agent, whether absolute or contingent, direct or indirect, joint, several or independent, now outstanding or owing or which may hereafter be existing or incurred, arising by operation of law or otherwise, due or to become due, and which arise out of the Note or the Pac Equities Trust Deed or are in any way secured by the Property or any other collateral now or hereafter provided to Premier as collateral for the Premier Loan.

5. Covenants of Pac Equities. Pac Equities hereby covenants and agrees that it will execute any and all other instruments necessary, as reasonably required by Premier, to subordinate the Pac Equities Trust Deed to the Premier Loan.

6. Termination of Subordination. This Agreement shall automatically terminate and be of no further force and effect at the earlier of: (a) the Borrower's satisfaction of all of its obligations to Pac Equities; or (b) such time as all obligations under the Premier Loan have been paid in full and the Premier Deed of Trust has been released.

7. Notices. All notices, requests or demands hereunder must be given in writing and will be considered to be duly and properly given on personal delivery or delivery by courier to the party or an officer of the party, or if mailed, upon the first to occur of actual receipt or the expiration of three (3) days after being sent by certified mail, postage prepaid, return receipt requested, addressed as follows:

If to Pac Equities:

Pac Equities, Inc.

Attention: _____

If to Borrower:

Southview Properties, LLC
22101 NE 150th Avenue
Battleground, WA 98604
Attention: Gregory P. Bessert

Any party may change such party's address for notices or copies of notices by giving notice to the other parties in accordance with this Section 7.

8. Assignment and Binding Effect. This Agreement shall be binding upon and shall inure to the benefit of the parties hereto and their respective successors and assigns.

9. Governing Law. This Agreement is executed in and shall be construed under and governed by the laws of the State of Oregon.

10. Severability. In case any one or more of the provisions contained in this Agreement should be held to be invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions contained herein shall not in any way be affected or impaired thereby.

11. Amendments. No provisions of this Agreement may be amended, modified, supplemented, changed, waived, discharged or terminated, unless Premier consents thereto in writing.

12. Counterparts. This Agreement may be executed in multiple counterparts, each of which shall constitute a duplicate original, but all of which together shall constitute one and the same instrument.

13. Costs of Enforcement. In the event that any party to this Agreement commences any legal action to enforce its rights hereunder as a result of the breach of this Agreement by any other party, the prevailing party in such action shall be entitled to recover all of its costs and expenses in connection therewith, including all reasonable legal fees and costs.

IN WITNESS WHEREOF, the parties have executed this Subordination Agreement as of the date first above written.

Pac Equities for itself and on behalf of all assignees:

Pac Equities, Inc.,
a Nevada corporation,

By: M. F. Testerman
Name: M. F. Testerman
Title: Executive Director

BORROWER:

58531

SOUTHVIEW PROPERTIES, LLC,
an Oregon limited liability company

By: Gregory P. Bessert
Gregory P. Bessert, Manager

STATE OF OREGON)
) ss.
COUNTY OF Deschutes)

The foregoing instrument was acknowledged before me this 27th day of July, 2005, by Michael Testerman, as Ex. Director of Pac Equities, Inc., a Nevada corporation.



Linda S. Bafford
Notary Public for Oregon

STATE OF OREGON)
) ss.
COUNTY OF Deschutes)

The foregoing instrument was acknowledged before me this 27th day of July, 2005, by Gregory P. Bessert, as Manager of Southview Properties, LLC, an Oregon limited liability company.



Linda S. Bafford
Notary Public for Oregon

Real property in the County of Klamath, State of Oregon, described as follows:

A parcel of land situated in the NE 1/4 and SE 1/4 of Section 36, Township 38 South, Range 8 East of the Willamette Meridian, the NE 1/4 of Section 1, Township 39 South, Range 8 East of the Willamette Meridian, and the NE 1/4 NE 1/4 of Section 6, Township 39 South, Range 9 East of the Willamette Meridian, all in Klamath County, Oregon and being more particularly described as follows:

Beginning at a point on the north-south centerline of Section 36 from which the NW corner of the SW 1/4 NE 1/4 of said section bears North 00°11'27" East 427.59 feet; thence South 89°58'12" East 619.61 feet; thence South 27°18'39" East 3530.91 feet; thence South 62°41'21" West 250.36 feet; thence South 27°18'39" East 1811.20 feet to a point on the South line of the NW 1/4 NW 1/4 of Section 6; thence along said South line South 89°28'21" West 199.91 feet to the SW corner thereof; thence along the South line of the NE 1/4 NE 1/4 of Section 1 North 89°29'44" West 1330.62 feet to the SW corner of said NE 1/4 NE 1/4; thence along the West line of the SE 1/4 NE 1/4 of Section 1 South 00°06'44" East 458.90 feet to the Northerly right of way line of State Highway 140; thence along said Northerly right of way line North 56°12'28" West 194.88 feet; thence leaving said right of way line North 11°59'09" East 364.18 feet to the South line of the NW 1/4 NE 1/4 of Section 1; thence along said South line South 89°56'08" West 516.20 feet to the said Northerly right of way line of State Highway 140; thence along said Northerly right of way line North 50°28'23" West 199.25 feet; thence North 59°17'52" West 439.78 feet; thence leaving said Northerly right of way line North 36°42'45" West 329.35 feet to the North-South center section line of Section 1; thence along said center section line North 00°04'15" East 722.87 feet to the 1/4 corner common to Section 1 and Section 36; thence along the center section line of Section 36 North 00°11'27" East 35089.58 feet to the point of beginning.

SAVING AND EXCEPTING, Beginning at the Southeast corner of the NE 1/4 NE 1/4 of said Section 1; thence on the South line of said NE 1/4 NE 1/4 North 89°17'37" West 617.88 feet; thence leaving said South line North 27°18'39" West 235.77 feet; thence North 62°41'21" East 1183.54 feet; thence North 27°18'39" West 1195.51 feet; thence North 62°41'21" East 605.39 feet; thence South 27°18'39" East 1811.20 feet to the South line of the NW 1/4 NW 1/4 of said Section 6; thence South 89°28'21" A parcel of land situated in the NE 1/4 and SE 1/4 of Section 36, West 199.91 feet on said South line, to the point of beginning.

And further excepting Tract 1416 - The Woodlands, Phase 1, according to the official plat thereof on file in the office of the County Clerk, Klamath County, Oregon, The Woodland - Phase 2, and that parcel know as the Mixed Use Area, more particularly described as follows:

A parcel of land situated in the SE 1/4 of Section 36, Township 38 South, Range 8 East, and the NE 1/4 of Section 1, Township 39 South, Range 9 East, of the Willamette Meridian, Klamath County, Oregon, being more particularly described as follows:

Beginning at the southeast corner of Lot 15, Tract 1416-THE WOODLANDS, Phase 1; thence North 63°38'02" East, 79.13 feet; thence South 26°25'25" East, 1336.81 feet, along the westerly boundary line of the Recreation Area description; thence South 63°34'46" West, 118.57 feet; thence South 26°25'19" East, 237.83 feet more or less to the south line of the NE 1/4 NE 1/4 of said Section 36; thence North 88°15'01" West, 799.37 feet to a 5/8" iron rod as shown on Record of Survey No. 2901; thence North 89°10'31" West, 516.18 feet to the northerly right-of-way line of Highway 140; thence North 49°35'06" West, 199.25 feet; thence North 58°24'35" West, 381.04 feet; thence leaving said right-of-way line North 35°13'09" East, 958.13 feet to a point on the southwesterly right-of-way line of West Ridge Drive; thence North 57°43'09" East, 50.00 feet to the northeasterly right-of-way of West Ridge Drive and the southwest corner of Lot 8 of said Tract 1416; thence along the exterior boundary of said Tract 1416, North 63°38'02" East, 68.29 feet; thence South 26°21'58" East, 5.00 feet; thence North 63°38'02" East, 65.00 feet; thence North 26°21'58" West, 10.00 feet; thence North 63°38'02" East, 65.01 feet; thence South 26°21'58" East, 5.00 feet; thence North 63°38'02" East, 70.01 feet; thence South 26°21'58" East, 5.00 feet; thence North 63°38'02" East, 65.01 feet; thence North 26°21'58" West, 10.00 feet; thence North 63°38'02" East, 65.01 feet; thence South 26°21'58" East, 5.00 feet; thence North 63°38'02" East, 70.01 feet; thence South 26°21'58" East, 4.93 feet; thence North 63°42'44" East, 52.00 feet; thence North 63°38'02" East a distance of 70.00 feet to the point of beginning. EXCEPTING THEREFROM, that portion of West Ridge Drive lying within the above described parcel. Containing 34.19 acres more or less, with bearings based on Tract 1416-THE WOODLANDS-Phase 1.