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After recording, return to:

PR Klamath Oregon Limited Partnership
6060 Blink Bonnie Road
West Vancouver, BC V7W1V8

AMERITITLE

2013-011476

Klamath County, Oregon

10/09/2013 03:01:35 PM

Fee: \$142.00

**SECOND TRUST DEED, ASSIGNMENT OF RENTS AND LEASES,
SECURITY AGREEMENT AND FIXTURE FILING**

THIS SECOND TRUST DEED, ASSIGNMENT OF RENTS AND LEASES, SECURITY AGREEMENT AND FIXTURE FILING ("Trust Deed") is dated this 5 day of September, 2013 between **PAHLISCH HOMES, INC.**, an Oregon corporation ("**Grantor**") whose address is 63088 NE 18th Street, Suite 100, Bend, Oregon 97701 and **PR KLAMATH OREGON LIMITED PARTNERSHIP**, a Nevada limited partnership ("**Beneficiary**"), whose address is 6060 Blink Bonnie Road, West Vancouver, BC V7W1V8, Canada and **AMERITITLE** ("**Trustee**"), whose address is 15 Oregon Ave., Bend, OR 97701.

RECITALS

A. Grantor and Beneficiary have entered into that certain Purchase and Sale Agreement dated September 4, 2013 ("**Sales Agreement**") by which Grantor has contracted to purchase from Beneficiary certain lots at Pheasant Run Subdivision in Klamath County, Oregon, as more particularly described in the attached Exhibit A.

B. In connection with the Sales Agreement, Beneficiary has granted credit to Grantor ("**Loan**") under the terms and conditions of that certain Loan Commitment dated September 4, 2013 ("**Loan Commitment**"). The Loan is evidenced by a promissory note (the "**Note**") dated effective as of the same date as this Trust Deed and the closing of the Sales Agreement.

FOR VALUE RECEIVED, Grantor conveys to Trustee in trust with power of sale the real property in Klamath County, Oregon described on the attached Exhibit A, together with all existing and subsequently erected or affixed improvements and fixtures. For purposes of this Trust Deed, this real property shall be referred to as the "**Real Property**," and any individual legal lot making up the Real Property shall be referred to as a "**Lot**."

Grantor presently assigns to Beneficiary all of Grantor's right, title and interest in the Real Property and all rents, revenues, income, issues and profits, and any insurance proceeds (the "**Income**") from the Real Property, whether now or hereafter due.

Grantor grants Beneficiary a security interest in the Income and in all equipment, furnishings and other articles of personal property owned or leased by Grantor, now or subsequently located on or used in connection with the Real Property, including (without limitation) the personal property described on the attached Exhibit B, together with all

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accessions, parts or additions to, all replacements of and all substitutions for any of such property, and together with all proceeds (including insurance proceeds) therefrom. Together, all such personal property, Real Property, and other personal property and interests so conveyed is referred to in this Trust Deed as the “**Security Property.**”

This Trust Deed, the assignment of the Income, and security interest are given to secure payment of the Loan pursuant to the Loan Commitment and the Note, and performance of all obligations of Grantor under this Trust Deed, and are given and accepted on the following terms and conditions, which Grantor will promptly and faithfully observe and perform:

1. **PAYMENT AND PERFORMANCE.**

1.1 **Payment.** Grantor shall pay to Beneficiary a balloon payment as provided in the Loan Commitment upon any Transfer. Grantor shall pay to Beneficiary the respective amounts due under the Loan Commitment for the Tranche A Release Amount and the Tranche B Release Amount upon consummation of each Transfer, as set forth in the Note and in the Loan Commitment. Grantor shall pay to Beneficiary in full the entire remaining balance of the Loan secured by this Trust Deed no later than the second anniversary of the Effective Date (September 5, 2015), which is the maturity date of this Trust Deed. Grantor shall strictly and timely perform all other obligations imposed upon Grantor by this Trust Deed, the Construction Loan, the Note, and the Loan Commitment.

1.2 **Priority of Construction Loan.** The lien securing the Loan, which is secured by this Trust Deed, is and remains secondary and inferior to the Construction Loan, which term as used in this Trust Deed shall include the security instrument securing the Construction Loan and the promissory note for the Construction Loan as the same affect the Security Property. Grantor expressly covenants and agrees to pay or see to the payment of the indebtedness secured by the Construction Loan and to prevent any default of the Construction Loan. Grantor will immediately forward to Beneficiary a copy of any notice of default under the Construction Loan that Grantor may receive.

2. **POSSESSION AND MAINTENANCE OF THE SECURITY PROPERTY.**

2.1 **Possession.** Until in default, Grantor may remain in possession and control of and operate and manage the Security Property and collect the Income from the Security Property, if any.

2.2 **Duty to Maintain.** Grantor shall maintain the Security Property in first class condition and promptly perform all repairs and maintenance necessary to preserve its value.

2.3 **Nuisance, Waste.** Grantor shall not conduct or permit any nuisance and shall not commit or suffer any strip or waste on the Security Property.

2.4 **Improvements.** Grantor shall diligently pursue to completion the construction of the homes on each of the Lots for which the Construction Loan is obtained. Grantor shall not demolish or remove any improvements from the Security Property without the prior written consent of Beneficiary. “**Improvements**” shall include all existing and future buildings, structures, landscaping and parking facilities.

2.5 **Beneficiary's Right to Enter.** Beneficiary and its agents and representatives may enter upon the Security Property at all reasonable times to attend to Beneficiary's interest and to inspect the Security Property.

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

2.7 **Hazardous Substances.** As used in this Section 2.7: (a) "**Hazardous Substances**" are those substances defined as toxic or hazardous substances, pollutants, or wastes by Environmental Law and the following substances: gasoline, kerosene, other flammable or toxic petroleum products, toxic pesticides and herbicides, volatile solvents, materials containing asbestos or formaldehyde, and radioactive materials; (b) "**Environmental Law**" means federal laws and laws of Oregon that relate to health, safety or environmental protection; (c) "**Environmental Cleanup**" includes any response action, remedial action, or removal action, as defined in Environmental Law; and (d) an "**Environmental Condition**" means a condition that can cause, contribute to, or otherwise trigger an Environmental Cleanup.

Grantor shall not cause or permit the presence, use, disposal, storage, or release of any Hazardous Substances, or threaten to release any Hazardous Substances, on or in the Security Property. Grantor shall not do, nor allow anyone else to do, anything affecting the Security Property (a) that is in violation of any Environmental Law, (b) which creates an Environmental Condition, or (c) which, due to the presence, use, or release of a Hazardous Substance, creates a condition that adversely affects the value of the Security Property. The preceding two sentences shall not apply to the presence, use, or storage on the Security Property of small quantities of Hazardous Substances that are generally recognized to be appropriate to normal residential uses and to maintenance of the Security Property (including, but not limited to, hazardous substances in consumer products).

Grantor shall promptly give Beneficiary written notice of (a) any investigation, claim, demand, lawsuit or other action by any governmental or regulatory agency or private party involving the Security Property and any Hazardous Substance or Environmental Law of which Grantor has actual knowledge, (b) any Environmental Condition, including but not limited to, any spilling, leaking, discharge, release or threat of release of any Hazardous Substance, and (c) any condition caused by the presence, use or release of a Hazardous Substance which adversely affects the value of the Security Property. If Grantor learns, or is notified by any governmental or regulatory authority, or any private party, that any removal or other remediation of any Hazardous Substance affecting the Security Property is necessary, Grantor shall promptly take all necessary remedial actions in accordance with Environmental Law. Nothing herein shall create any obligation on Beneficiary for an Environmental Cleanup.

2.8 **Duty to Protect.** Grantor shall do all other acts, in addition to those set forth in this Trust Deed, that from the character and use of the Security Property are reasonably necessary to protect and preserve the security.

3. **TAXES AND LIENS.**

3.1 **Payment.** Grantor shall pay when due all taxes and assessments levied against or on account of the Security Property, and all charges, fines, impositions attributable to the Security Property, and shall pay when due all claims for work done on or for services rendered or material furnished to the Security Property. Grantor shall pay community association dues, fines, fees and assessments, if any, assessed against or on account of the Security Property. Grantor shall maintain the Security Property free of any liens having priority over or equal to the interest of Beneficiary under this Trust Deed.

3.2 **Right to Contest.** Grantor may withhold payment of any tax, assessment or claim in connection with a good faith dispute over the obligation to pay, so long as Beneficiary's interest in the Security Property is not jeopardized. If the Security Property is subjected to a lien that is not discharged within 15 days, Grantor shall deposit with Beneficiary cash, a sufficient corporate surety bond or other security satisfactory to Beneficiary in an amount sufficient to discharge the lien plus any interest, costs, attorneys' fees or other charges that could accrue as a result of a foreclosure or sale under the lien. In any contest proceedings, Grantor will defend itself and Beneficiary and will name Beneficiary as an additional obligee under any surety bond, and Grantor shall satisfy any final adverse judgment before enforcement against the Security Property.

3.3 **Evidence of Payment.** Grantor shall promptly furnish evidence of payment of taxes and assessments to Beneficiary on its demand and shall authorize the appropriate county official to deliver to Beneficiary at any time a written statement of the taxes and assessments against the Security Property.

4. **PROPERTY DAMAGE INSURANCE.**

4.1 **Maintenance of Insurance.** Grantor shall procure and maintain policies of fire insurance with standard extended coverage endorsements on a replacement cost basis covering all improvements on the Security Property, in an amount sufficient to avoid application of any coinsurance clause and with loss payable to Beneficiary. Policies shall be written in amounts, in form, on terms and with companies reasonably acceptable to Beneficiary. Within 10 days of the Effective Date, and from time to time as Beneficiary may reasonably request, Grantor shall deliver to Beneficiary certificates of the policies required under this Trust Deed for each Security Property from each insurer containing a stipulation that coverage will not be cancelled or diminished without a minimum of 10 days' written notice to Beneficiary. Grantor shall maintain all policies as required under the Construction Loan at all times during its term.

4.2 **Application of Proceeds.** Grantor shall promptly notify Beneficiary of any loss or damage of the Security Property. Beneficiary may make proof of loss if Grantor fails to do so within 15 days of the casualty. Beneficiary may, at its election, apply the proceeds to the reduction of the Loan or the restoration and repair of the Security Property. If Beneficiary elects to apply the proceeds to restoration and repair, Grantor shall repair or replace the damaged or destroyed improvements in a manner satisfactory to Beneficiary. Upon satisfactory proof of such expenditure, Beneficiary shall pay or reimburse Grantor from the proceeds for the reasonable cost of repair or restoration. Any proceeds which have not been paid out within

180 days after their receipt and which Beneficiary has not committed to the repair or restoration of the Security Property shall be used to prepay first accrued interest and then principal of Grantor's Loan. If Beneficiary holds any proceeds after payment in full of the Loan, such proceeds shall be paid to Grantor.

4.3 **Unexpired Insurance at Sale.** Any unexpired insurance shall inure to the benefit of, and pass to, the purchaser of the Security Property covered by this trust deed at any trustee's sale or any foreclosure sale of the Security Property or any individual Lot.

5. **WARRANTIES OF GRANTOR.**

5.1 **Title.** Grantor warrants that it holds title to the Security Property in fee simple free of all encumbrances other than those set forth in the attached Exhibit C.

5.2 **Defense of Title.** Subject to the exceptions in the paragraph above, Grantor warrants and will forever defend the title against the lawful claims of all persons. In the event any action or proceeding is commenced that questions Grantor's title or the interest of Beneficiary or Trustee under this trust deed, Grantor shall defend the action at its expense.

5.3 **Not Residential Trust Deed.** Grantor warrants that this trust deed is not and will not at any time constitute a "residential trust deed" (as that term is defined in ORS 86.705(3) or its successor statutes). Grantor warrants that Grantor is engaging in this transaction exclusively for business, commercial, or investment purposes.

6. **CONDEMNATION.**

6.1 **Application of Net Proceeds.** If all or any part of the Security Property is condemned, Beneficiary may elect to require that all or any portion of the net proceeds of the condemnation be applied on the Loan. The "**net proceeds**" shall mean the total amount available after payment of all reasonable costs, expenses, and attorneys' fees necessarily paid or incurred by Grantor, Beneficiary, and Trustee in connection with the taking by condemnation. Sale of all or any part of the Security Property to a purchaser with the power of eminent domain in the face of a threat or the probability of the exercise of the power shall be treated as a taking by condemnation to which this Section shall apply.

6.2 **Proceedings.** If any proceedings in condemnation are filed, Grantor shall promptly take such steps as may be necessary to defend the action and obtain the award.

7. **POWERS AND OBLIGATIONS OF TRUSTEE.**

7.1 **Powers of Trustee.** In addition to all powers of Trustee arising as a matter of law, Trustee shall have the power to take the following actions with respect to the Security Property upon the request of Beneficiary and Grantor:

(a) Join in preparing and filing a map or plat of the Security Property, including the dedication of streets or other rights in the public.

(b) Join in granting any easement or creating any restriction on the Security Property.

(c) Join in any subordination or other agreement affecting this Trust Deed or the interest of Beneficiary under this Trust Deed.

(d) Reconvey, without warranty, all or any portion of Security Property.

7.2 **Obligations to Notify.** Trustee shall not be obligated to notify any other party of a pending sale under any other trust deed or lien, or of any action or proceeding in which Grantor, Beneficiary or Trustee shall be a party, unless the action or proceeding is brought by Trustee.

8. TRANSFER BY GRANTOR.

8.1 **Prohibition of Transfer Without Consent.** Grantor agrees that it will notify Beneficiary when it receives a bona fide offer to purchase a Security Property, that following the consent required in the Loan Agreement for a sale it will provide Beneficiary with a copy of the executed sales agreement, and that it will obtain Grantor's prior written consent for any modification of such approved sales agreement. Grantor shall not sell, agree to sell, assign, convey, subcontract, hypothecate, encumber or otherwise transfer any part or all of the Security Property or any interest in the Security Property, without the prior written consent of Beneficiary. Providing notice to Beneficiary in the form of a copy of the escrow closing statement shall serve as a request for such consent, which consent, in the case of a pending sale, shall be given or denied in writing by Beneficiary within three business days of receipt of such notice. If notice of Beneficiary's decision to give or withhold consent after receipt of an escrow closing statement within the 3-day period, consent shall be deemed to have been given for the sale of the particular Security Property for which Beneficiary received such notice. Notwithstanding the foregoing, in no case shall the Grantor subject the Security Property to additional financial encumbrances besides this Trust Deed and the Construction Loan in favor of any person or entity not the Beneficiary or cause any such financial encumbrance to attach to the Security Property.

8.2 **Effect of Consent.** Consent by Beneficiary to one transfer shall not constitute a consent to other transfers or a waiver of this Section 8. No transfer by Grantor shall relieve Grantor of liability for payment of the Loan. Following a transfer, Beneficiary may agree to any extension of time for payment or modification of the terms of this Trust Deed or the Note or waive any right or remedy under this Trust Deed or the Note without relieving Grantor from liability. Grantor waives notice, presentment, and protest with respect to the Loan.

9. SECURITY AGREEMENT; SECURITY INTEREST.

9.1 **Security Agreement.** This instrument shall constitute a security agreement with respect to the Income and any personal property included in the description of the Security Property.

9.2 **Security Interest.** Upon request by Beneficiary, Grantor shall execute financing statements and take whatever other action is requested by Beneficiary to perfect and continue

Beneficiary's security interest in the Income and personal property portion of the Security Property. Grantor hereby appoints Beneficiary as Grantor's attorney-in-fact for the purpose of executing any documents necessary to perfect or continue the security interest granted therein. Beneficiary may file copies or reproductions of this Trust Deed as a financing statement at any time and without further authorization from Grantor. Grantor will reimburse Beneficiary for all expenses incurred in perfecting or continuing this security interest. Upon default, Grantor shall assemble such personal property and make it available to Beneficiary within three days after receipt of written demand from Beneficiary.

9.3 **Fixture Filing.** This instrument constitutes a financing statement filed as a fixture filing in the Official Records of the County Recorder of the county in which the Security Property is located with respect to any and all fixtures included within the term Security Property as used herein and with respect to any goods or other personal property that may now be or hereafter become such fixtures.

10. **RECONVEYANCE ON PERFORMANCE.**

Grantor will be entitled to a partial reconveyance of this Trust Deed upon payment of the Tranche A Release Amount and, if applicable, the Tranche B Release Amount (each as defined in the Loan Commitment) including any contingent interest, for the Lot for which such payment is made. If all of the Loan is paid when due, and Grantor otherwise performs all the obligations imposed upon Grantor under this Trust Deed, Beneficiary shall execute and deliver to Trustee a request for full reconveyance and shall execute and deliver to Grantor suitable statements of termination of any financing statement on file. If Grantor pays a portion of the Loan by submitting the Tranche A Release Amount and, if applicable, the Tranche B Release Amount for a Lot or any portion of the Security Property in accordance with the Note, Beneficiary shall execute and deliver to Trustee a request for partial reconveyance of this Trust Deed as to the particular Lot after closing of the sale of the same and shall execute and deliver to Grantor suitable statements of termination of any financing statement on file. Any full or partial reconveyance and filing fees shall be paid by Grantor.

11. **DEFAULT.**

The following shall constitute events of default:

(a) Failure of Grantor to pay any portion of the Loan when it is due, including without limitation, the failure to pay any amount due under the Note, and the failure to pay the Tranche A Release Amount and, if applicable, the Tranche B Release Amount for a Lot upon transfer or conveyance of the same at the closing of the sale for such Lot.

(b) Failure of Grantor within the time required by this Trust Deed to make any payment for taxes, insurance, or any other payment necessary to prevent filing of or discharge of any lien.

(c) Transfer or agreement to transfer any part or interest in the Property or a single Lot without the prior written consent of Beneficiary, as required under Section 9 above.

(d) Dissolution, termination of existence, insolvency on a balance sheet basis or business failure of Grantor; the commencement by Grantor of a voluntary case under the federal bankruptcy laws or under any other federal or state law relating to insolvency or debtor's relief; the entry of a decree or order for relief against Grantor in an involuntary case under the federal bankruptcy laws or under any other applicable federal or state law relating to insolvency or debtor's relief; the appointment or the consent by Grantor to the appointment of a receiver, trustee, or custodian of Grantor or of any of Grantor's property; an assignment for the benefit of creditors by Grantor; the making or suffering by Grantor of a fraudulent transfer under applicable federal or state law; concealment by Grantor of any of its property in fraud of creditors; the making or suffering by Grantor of a preference within the meaning of the federal bankruptcy law; the imposition of a lien through legal proceedings; or Grantor's failure generally to pay its debts as such debts become due. The events of default in this paragraph shall apply and refer to Grantor and to each of the individuals or entities that are collectively referred to as "**Grantor**" in the Trust Deed.

(e) Failure of Grantor to perform any other obligation under this Trust Deed, the Note or the Loan Commitment within 30 days after receipt of written notice from Beneficiary specifying the nature of the default or, if the default cannot be cured within 30 days, failure within such time to commence and pursue curative action with reasonable diligence.

(f) Any act of default of any of the Note or the Construction Loan under the terms thereof, which is not cured within any applicable cure period as provided in the Note, Construction Loan or this Trust Deed, respectively.

12. RIGHTS AND REMEDIES ON DEFAULT.

12.1 **Remedies.** Upon the occurrence of any event of default and at any time thereafter, Trustee or Beneficiary may exercise any one or more of the following rights and remedies:

(a) Beneficiary may declare the entire Loan immediately due and payable.

(b) The Trustee shall have the right to foreclose by notice and sale, and Beneficiary shall have the right to foreclose by judicial foreclosure, in either case in accordance with applicable law.

(c) With respect to all or any part of the Security Property that constitutes personalty, Beneficiary shall have all the rights and remedies of a secured party under the Uniform Commercial Code.

(d) Beneficiary shall have the right, without notice to Grantor, to take possession of the Security Property and collect the Income, including amounts past due and unpaid, and apply the net proceeds, over and above Beneficiary's costs, against the Loan. In furtherance of this right, Beneficiary may require any tenant or other user to make payments of rent or use fees directly to Beneficiary. If the Income is collected by Beneficiary, then Grantor irrevocably designates Beneficiary as Grantor's attorney in fact to endorse instruments received in payment thereof in the name of Grantor and to negotiate the same and collect the proceeds. Payments by tenants or other users to Beneficiary in response to Beneficiary's demand shall

satisfy the obligation for which the payments are made, whether or not any proper grounds for the demand existed. Beneficiary may exercise its rights under this paragraph either in person, by agent or through a receiver.

(e) Beneficiary shall have the right to have a receiver appointed to take possession of any or all of the Security Property, with the power to protect and preserve the Security Property, to operate Property preceding foreclosure or sale, to collect the Income from Security Property and apply the proceeds, over and above cost of the receivership, against the Loan. The receiver may serve without bond if permitted by law. Beneficiary's right to the appointment of a receiver shall exist whether or not apparent value of any or altogether the Security Property exceeds the Loan by a substantial amount. Employment by Beneficiary shall not disqualify a person from serving as a receiver.

(f) In the event Grantor remains in possession of the Security Property after the Security Property, or any portion thereof, is sold as provided above or Beneficiary otherwise becomes entitled to possession of such the Security Property upon default of Grantor, Grantor shall become a tenant at will of Beneficiary or the purchaser of the Security Property and shall pay a reasonable rental for use of the Security Property while in Grantor's possession.

(g) Trustee and Beneficiary shall have any other right or remedy provided in this Trust Deed, the Loan Commitment, the Note or any other instrument delivered by Grantor in connection therewith, or available at law, in equity or otherwise.

12.2 Rights of Receiver or Mortgagee-in-Possession. Upon taking possession of all or any part of the Property, the receiver or Beneficiary may:

(a) Use, operate, manage, control and conduct business on the Security Property and make expenditures for all maintenance and improvements as in its judgment are proper;

(b) Collect the Income from the Security Property and apply such sums to the expenses of use, operation, and management;

(c) At Beneficiary's option, complete any construction in progress on the Security Property, and in that connection pay bills, borrow funds, employ contractors and make any changes in plans or specifications as Beneficiary deems appropriate.

If the revenues produced by the Security Property are insufficient to pay expenses, the receiver may borrow, from Beneficiary (if Beneficiary, in its sole discretion, agrees to lend) or otherwise, or Beneficiary may borrow or advance, such sums as the receiver or Beneficiary may deem necessary for the purposes stated in this paragraph. The amounts borrowed or advanced shall bear interest from the date of expenditure until repaid at the Default Rate as provided in the Note. Such sums shall become a part of the Loan secured by this Trust Deed and shall be payable by Grantor on demand.

12.3 Sale of the Security Property. In exercising its rights and remedies, the Trustee or Beneficiary may cause all or any part of the Property to be sold as a whole or in parcels, and

certain portions of the Property may be sold without selling other portions. Beneficiary may bid at any public sale on all or any portion of the Property.

12.4 **Notice of Sale.** Beneficiary shall give Grantor reasonable notice of the time and place of any public sale of any personal property that is a portion of the Property or of the time after which any private sale or other intended disposition of such personal property is to be made. Reasonable notice shall mean notice given at least 10 days before the time of the sale or disposition.

12.5 **Waiver; Election of Remedies.** A waiver by either party of a breach of a provision of this Trust Deed shall not constitute a waiver of or prejudice the party's right otherwise to demand strict compliance with that provision or any other provision. Election by Beneficiary to pursue any remedy shall not exclude pursuit of any other remedy, and all remedies of Beneficiary under this trust deed are cumulative and not exclusive. An election to make expenditures or take action to perform an obligation of Grantor shall not affect Beneficiary's right to declare a default and exercise its remedies under this Trust Deed.

12.6 **Attorneys' Fees; Expenses.** In the event of default under this Trust Deed, Grantor agrees to pay all reasonable costs and expenses which may be incurred by Beneficiary with respect to such default, including without limitation all costs and expenses of investigating the same and circumstances and events surrounding or relating thereto, reasonable fees charged by and expenses of professional consultants and advisers, including attorneys and accountants, costs of searching records, obtaining title reports, surveyor's reports, attorney's opinions, title insurance, trustee's fees, and all other reasonable expenses incurred by Beneficiary that are necessary at any time in Beneficiary's opinion for the protection of its interest and the enforcement of its rights. Attorneys' fees shall include costs and expenses of legal advice with respect to the event of default, rights and remedies, negotiations with the Grantor and any other parties in interest, such as guarantors, other encumbrancers under the this Trust Deed or otherwise, receivers, trustees and the like, and reasonable attorneys' fees and expenses with respect to any action which Beneficiary may commence or in which it might appear, whether for the purpose of protecting or preserving Beneficiary's rights or to realize upon the lien of any security interest upon real or personal property, or both, included in Security Property by foreclosure or otherwise (including, without limitation, bankruptcy proceedings and proceedings for special relief therein), and all attorneys' fees and expenses in any review of or appeal from any such action. All such amounts shall become a part of the Loan payable on demand and shall bear interest from the date of expenditure until repaid at the Default Rate as set forth in the Note.

13. MISCELLANEOUS.

13.1 **Time of Essence.** Time is of the essence for performance of this Trust Deed.

13.2 **Binding Upon Successors and Assigns.** Subject to the limitations stated in this trust deed on transfer of Grantor's interest and subject to the provisions of applicable law with respect to successor trustees, this trust deed shall be binding upon and inure to the benefit of the parties, their successors and assigns.

13.3 **Security Agreement.** In construing this Trust Deed, the term “**Trust Deed**” shall encompass the term “**security agreement**” when the instrument is being construed with respect to any portion of the Security Property that is not real property.

13.4 **Expenditure by Beneficiary.** If Grantor fails to comply with any provision of this Trust Deed, Beneficiary may elect to take the required action on Grantor’s behalf, and any amount that Beneficiary expends in so doing shall be added to the Loan. Amounts so added shall be payable on demand with interest from the date of expenditure at the Default Rate under the Note, but not in any event at a rate higher than the maximum rate permitted by law. Such action by Beneficiary shall not constitute a cure or waiver of the default or any other right or remedy which Beneficiary may have on account of Grantor’s default.

WARNING

Unless you (Grantor) provide us (Beneficiary) with evidence of the insurance coverage as required by our contract or loan agreement, 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 effect 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.

13.5 **Notices.** Any notice under this trust deed shall be in writing and shall be effective when either delivered in person or, if mailed, shall be deemed effective on the second day after deposited as registered or certified mail, postage prepaid, addressed to the party at the address stated in this trust deed. Either party may change its address for notices by written notice to the other.

13.6 **Invalid Provisions to Affect No Others.** If any of the provisions contained in the Note, the Loan Commitment or this Trust Deed shall be invalid, illegal or unenforceable in any respect, the validity of the remaining provisions in this Trust Deed, the Loan Commitment and the Note shall not be affected.

13.7 **Changes in Writing.** This Trust Deed and any of its terms may only be changed, waived, discharged or terminated by an instrument in writing signed by the party against which enforcement of the change, waiver, discharge or termination is sought. Any agreement

subsequently made by Grantor or Beneficiary relating to this Trust Deed shall be superior to the rights of the holder of any intervening lien or encumbrance.

13.8 **Annual Reports.** Within 60 days following the close of each fiscal year of Grantor, Grantor shall furnish to Beneficiary a statement of net operating income received from the Security Property during Grantor's previous fiscal year, in such detail as Beneficiary may require. "**Net operating income**" shall mean all cash receipts from the Security Property less all cash expenditures made in connection with the operation of the Security Property.

13.9 **Applicable Law.** The law of the state of Oregon shall be applicable for the purpose of construing and determining the validity of this Trust Deed and, to the fullest extent permitted by the law of Oregon, determining the rights and remedies of Beneficiary on default.

13.10 **Joint and Several Liability.** If Grantor consists of more than one person or entity, the obligations imposed upon Grantor under this trust deed shall be joint and several.

13.11 **Recitals Incorporated.** The Recitals are incorporated as part of this Trust Deed and its terms and conditions by this reference.

13.12 **Second Lien Behind Prior Deed of Trust.** The following is applicable to the trust deed and assignment of leases and rents by Grantor or its affiliate on the Construction Loan ("**Prior Deed of Trust**") in favor of the construction lender ("**Prior Lender**"), and the promissory note given in connection therewith (the Prior Deed of Trust, such note and other construction loan documents are, individually and collectively, "**Prior Loan Instrument(s)**").

(A) **Obligations of Grantor under Prior Loan Instruments.** Grantor agrees to perform all obligations required of it under the Prior Loan Instruments, irrespective of any notice and/or grace period which would allow Grantor to make such payments or perform such obligations at a later date, and to take all action necessary to avoid a default thereunder. Grantor agrees to notify Beneficiary promptly of: (i) the occurrence of any default or Event of Default under a Prior Loan Instrument; (ii) the receipt of any notice (written or oral) from Prior Lender noting or claiming a default thereunder or noting any event which, with the passage of time or the giving of notice, or both, would constitute a default or Event of Default under a Prior Loan Instrument; or (iii) any notice (written or oral) of actual or pending arbitration, acceleration or foreclosure or realization against the property by the holder of a Prior Loan Instrument.

(B) **Remedies on Default (Generally).** Grantor acknowledges and agrees that, upon the occurrence of an Event of Default under any of the Prior Loan Instruments, Beneficiary shall have the right to exercise any and all of its rights and remedies under this Trust Deed as against Grantor and/or the Security Property, all of which remedies may (at Beneficiary's option) be exercised concurrently or separately, and cumulatively, as Beneficiary may elect in its discretion.

(C) **Non-Impairment of Beneficiary's Remedies.** Grantor expressly agrees that the remedies and rights of Beneficiary shall in no way be affected or impaired by reason of the occurrence of any of the following events: (i) the waiver by Beneficiary of the performance or observance by the Grantor or any other party of any terms of the Prior

Loan Instruments; (ii) the extension, in whole or in part, of the time for payment by Grantor or any other party of any terms of the Prior Loan Instruments; (iii) any failure, delay or inability of Beneficiary in enforcing any remedies or any other provisions under this Trust Deed or the Prior Loan Instruments; (iv) the inability of Grantor or any other party to perform (or the release of any performance obligation) under the any instrument that secures or is additional collateral or indemnity with respect to the Prior Loan Instruments.

(D) **Beneficiary's Right to Perform Obligation of Grantor.** If Grantor fails to perform any obligation required of Grantor under the Prior Loan Instruments or otherwise under this Trust Deed, Beneficiary without notice may take any steps necessary to remedy such failure. Grantor shall reimburse Beneficiary for the cost of such performance, together with interest from the date of expenditure until repaid at the Default Rate of interest under the Note. Such sums shall become a part of the Loan that is secured by this Trust Deed and be payable by Grantor on demand. Such action by Beneficiary shall not constitute a waiver of the default or any other right or remedy that Beneficiary may have on account of Grantor's default.

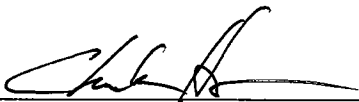
(E) **Condition to Consents or Approvals.** Whenever Beneficiary's consent or approval is required under this Trust Deed with respect to a matter involving the Security Property, Beneficiary may require as a condition to its consent that Grantor first obtain any consent or approval required from the Prior Lender to the proposed action which Grantor desires to take.

(F) **Representation And Confirmation of Status of Prior Loan Instruments.** Grantor represents and warrants that: (a) Grantor will not seek to increase the amounts owed on the Prior Loan Instruments from the principal balance outstanding as of the date hereof; and (b) Grantor will provide to Beneficiary from time to time, but not less frequently than annually, copies of any year-end statements prepared for the Prior Loan Instruments by the Prior Lender and such other information as Beneficiary may reasonably require to confirm the status of and amounts owed under the Prior Loan Instruments.

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

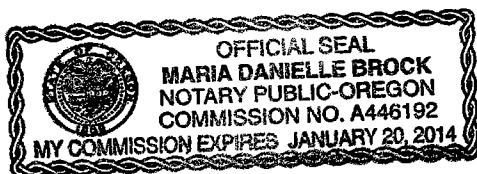
GRANTOR:

PAHLISCH HOMES, INC.,
an Oregon corporation

By: 
Chuck Hammagren

STATE OF Oregon)
County of Deschutes) ss.

This instrument was acknowledged before me on Sept 5, 2013, by Chuck Hammagren, as Treasurer of **Pahlisch Homes, Inc.**, an Oregon corporation on its behalf.



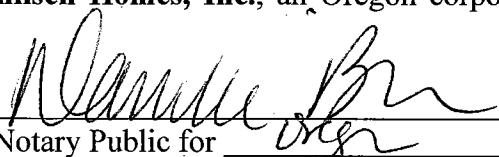

Notary Public for Oregon
My commission expires: 1-20-14

EXHIBIT "A"

Real Property Description

Lots 63-68 of Pheasant Run, Klamath County, Oregon.

EXHIBIT "B"

Personal Property Description

To the extent, if any, that Grantor has an interest in: all furnishings, fixtures (including trade fixtures), appliances furniture, supplies, equipment, inventory, and all other tangible and intangible personal property of Grantor, including (without limitation) accounts (including accounts receivable and contract rights, whether or not earned by performance), chattel paper, instruments, documents, and general intangibles from and relating to any leases, tenancies, occupancy or uses of the Security Property described below and any lease or other use agreement (if any should ever be considered personal property), located on or used in connection with the operation of the Improvements on each Lot in Klamath County, Oregon which real property is further described in the attached Exhibit A, whether now owned or hereafter acquired, and whether now existing or hereafter arising, and all accessions, parts, additions, replacements and substitutions for any of such property, and all proceeds (including insurance proceeds) from the sale or other disposition of any of such property.

REQUEST FOR RECONVEYANCE

To be used only when obligations have been paid.

TO: AmeriTitle, Trustee

The undersigned is the legal owner and holder of the Note secured by this Trust Deed. The entire Loan secured by this Trust Deed that affects Lot _____ has been paid and you are requested on payment to you of any sums to which you are entitled by the deed or applicable law to cancel evidences of Loan (which are delivered together with the deed) and to reconvey Lot _____ of the Security Property as required by law. The reconveyance and other documents should be mailed to _____.

DATED: _____, 20__

BENEFICIARY: PR KLAMATH OREGON LIMITED PARTNERHIP

EXHIBIT "A"
LEGAL DESCRIPTION

Lots 63, 64, 65, 66, 67 and 68, in Tract 1473, PHEASANT RUN, according to the official plat thereof on file in the office of the County Clerk of Klamath County, Oregon.