

SURFACE MINE PERMIT AND LEASE

This Surface Mine Permit and Lease ("the Lease") is made and entered into on or about the 27th day of January, 1997, by and between POPE RESOURCES, A Delaware Limited Partnership ("LESSOR"), and SHINE QUARRY, INC. ("LESSEE"). For and in consideration of the mutual covenants contained herein, the parties agree as follows:

1. **PURPOSE AND PREMISES.** Lessor owns certain real property, situate in Jefferson County, Washington, legally described in Exhibit A, attached hereto and incorporated herein by this reference ("the Premises"). Lessee desires to surface mine sand, gravel, basalt and/or hard rock (hereafter collectively referred to as "minerals") located on the Premises and otherwise use the Premises in accordance with the terms and conditions of this Lease. The purpose of this Lease is to set forth the terms, conditions and understanding of the parties with regard to use of the Premises.

2. **LEASE.** Subject to the terms and conditions hereof, Lessor leases the Premises to Lessee and Lessee accepts the same, for a term commencing January 1, 1997 ("commencement date"), and ending December 31, 2001.

3. **USE OF PREMISES.** The Premises are leased to the Lessee for the following purposes only: operate a surface mined pit for the removal of sand, gravel and rock, burning of stumps and the sale of culvert material. Lessee shall not use the Premises for any other purpose without the express written consent of the Lessor. Lessee further agrees not to use or permit the use of the Premises for any illegal or immoral purposes, nor to commit or permit any act or conduct forbidden by law or regulation now or hereafter in effect.

Subject to the terms and conditions herein, Lessee shall have the exclusive right during the term of this Lease to excavate and remove such quantities of minerals as Lessee shall deem fitting or desirable; provided, however, that Lessor shall have the right to limit or otherwise restrict mining of minerals in the event of an order, directive or other mandate of a public governmental agency and/or an emergency involving health or safety concerns.

In addition, Lessee shall have the right to install and maintain upon the Premises bunkers, stockpiles of minerals, and other structures, machinery, equipment, and facilities as may be reasonably necessary in pursuit of the permitted uses herein. Any stockpiles of minerals remaining on the Premises at the termination of this Lease, and any structures, machinery, equipment or other fixtures placed upon the Premises by the Lessee shall be removed therefrom within thirty (30) days from and after the termination of this Lease.

4. MINIMUM RENT AND ROYALTY.

A. **Minimum Rent.** Lessee shall pay Lessor annual minimum rent in the amount of One Thousand Two Hundred Dollars (\$ 1,200) ("annual minimum rent"). The initial annual minimum rent shall be paid to Lessor within thirty (30) days after the commencement date. Annual Minimum Rent paid to Lessor shall be credited against Royalty payments otherwise due and payable to Lessor pursuant to subparagraph 4(b) below.

B. **Royalty.** Lessee shall pay Lessor a Royalty equal to _____ of gross receipts from minerals excavated on the Premises from the commencement date through the termination date of the Lease. The Royalty paid to Lessor shall not be less than _____ per ton of minerals excavated from the Premises. All Royalties are due and payable by the 15th of the month following removal.

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5. VERIFICATION AND AUDIT.

~~A. Aerial Photographs. Lessor shall provide an aerial photograph of the Premises prior to the commencement date. Thereafter, Lessee shall provide to Lessor an aerial photograph of the Premises annually within thirty (30) days of each anniversary of the commencement date.~~

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B. Audit. During the term of this Lease, and from time-to-time, the Lessor shall have the right to request an audit of Lessee(s) pertinent records for purposes of verifying quantities of minerals excavated, and provide Lessee with a list of not fewer than three (3) qualified civil engineers from the Puget Sound Chapter of the American Society of Civil Engineers, capable of measuring and determining the actual quantities. Lessee shall notify Lessor in writing within five (5) days of receipt of such list as to which engineer from the list is acceptable to Lessee to perform the evaluation. If Lessee does not so notify Lessor within that time period, then Lessor may designate which engineer from the list will perform such audit. Within ten (10) days after the engineer is designated, Lessee shall provide the engineer with all the information, records and supporting documentation as the engineer deems necessary to make a certified evaluation. The engineer shall report to the parties within sixty (60) days after being chosen. The report shall be final and binding upon both parties, and payments required to make adjustments in rent to conform to the report shall be made within five (5) days after receipt of the report. The cost of the evaluation and report shall be borne by either or both parties depending upon the difference in Royalty shown to be due, as follows: (i) Less than two percent (2%) additional due - by Lessor; (ii) from two percent (2%) to four percent (4%) additional due - by Lessor and Lessee equally; and (iii) over four percent (4%) additional due - by Lessee. If the evaluation discloses any wilful or substantial inaccuracies in sales and/or amounts disclosed, then Lessor shall have the option to terminate the Lease.

C. Records. Lessee shall maintain all records reflecting sales for a period of not less than two (2) years following expiration of this Lease.

6. LIABILITY TO THIRD PERSONS.

A. Liens. Lessee shall pay as due all claims for work done on and for services rendered or material furnished to the Premises and shall keep the Premises free from any liens. If Lessee fails to pay any such claims or to discharge any lien, Lessor may do so and collect the cost as additional rent. Any amount so added shall bear interest from the date expended by Lessor and shall be payable on demand. Such action by lessor shall not constitute a waiver of any right or remedy which Lessor may have on account of Lessee's default. Lessee may withhold payment of any third-party claim in connection with a good-faith dispute over the obligation to pay, so long as Lessor's property interests are not jeopardized. If a lien is filed as a result of nonpayment, Lessee shall, within ten (10) days after knowledge of the filing, secure the discharge of the lien or deposit with Lessor cash or a bond sufficient to discharge the lien plus any costs, attorneys' fees and other charges that could accrue as a result of a foreclosure or sale under the lien.

B. Indemnification. Lessee shall indemnify, defend and hold harmless Lessor from any claim, loss or liability (including attorneys' fees and costs) arising out of or related to any activity of Lessee or Lessee's agents, employees, or invitees on the Premises, and any condition of the Premises in the possession or under the control of the Lessee. Lessee's duty to indemnify shall not apply to damage to Lessee or Lessee's property resulting from Lessor's intentional acts or gross negligence.

C. Liability Insurance. Prior to use of the Premises, Lessee shall procure and thereafter

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during the term of the Lease shall continue to carry the following insurance at lessee's cost:

(i) A policy of comprehensive public liability insurance issued by a company acceptable to Lessor and insuring Lessee and Lessor against any liability, including without limitation personal injury to any person arising out of the ownership, use, occupancy or maintenance of the Premises or any structures or improvements located thereon. Such insurance shall be in an amount not less than the following: Comprehensive General Liability with limits of not less than \$1,000,000 for bodily injury to or death of one person in each occurrence; and \$1,000,000 for bodily injury to or death of two or more persons in each occurrence; and Comprehensive General Property Damage Insurance with limits of not less than \$1,000,000 for each occurrence, and \$1,000,000 in the aggregate. The limits of the insurance shall not, however, limit the liability of Lessee hereunder. Such policies shall name Lessor as additional insured and shall provide that they may not be canceled or changed materially without such prior written notice to Lessor. Lessor shall be furnished with a certificate evidencing insurance of such policy of liability insurance, which certificate shall recite that the policy may not be canceled or changed materially without such prior written notice to Lessor. If Lessee fails to maintain said insurance, Lessor may but shall not be required to procure and maintain the same, at the expense of Lessee.

(ii) Workmen's Compensation from Washington State or from a responsible private carrier. Private insurance shall provide the schedule of employee benefits required by law and shall provide employer's liability coverage within limits of at least \$100,000. Lessee shall supply Lessor with satisfactory evidence of public coverage or with certificates of private coverage in the same form as required above for Lessee's general liability insurance.

7. ENVIRONMENTAL PROTECTION.

A. Hazardous/Toxic Substances.

(i) Lessee represents and warrants that no Hazardous Materials will be generated, stored, deposited, disposed of, or released in, on or under the Premises except as is reasonably necessary for Lessee to carry on its business on the Premises. Lessee further represents and warrants that Lessee's improvements and equipment on the Premises shall not incorporate lead, asbestos, or PCBs. Lessee agrees to indemnify Lessor against and hold Lessor harmless from any loss, damage, liability, cost or expense, including reasonable attorneys' and consultants' fees, arising out of any breach of the foregoing warranties, including without limitation (a) those related to any claims of third parties for personal injury, property damage, or other harm, and (b) any response costs and costs of remedial, restoration or cleanup actions suffered or incurred by Lessor arising out of or related to such introduction, use or incorporation of Hazardous Materials in, on or under the Premises by Lessee. The terms, covenants, representations and warranties contained herein shall survive the termination or expiration of this Lease.

The term "Hazardous Materials" means hazardous or toxic substance, materials or wastes, including but not limited to any substance, material or waste which is (a) petroleum; (b) asbestos; (c) polychlorinated biphenyls (PCBs); (d) designated as "Dangerous Waste" or "Extremely Hazardous Waste" by the State of Washington under authority of the Hazardous Waste Disposal Act, RCW Chapter 70-105, and associated regulations, WAC Chapter 173-303; (e) designated as a "Hazardous Substance" pursuant to the Comprehensive Environmental Response, Compensation and Liability Act, 42 U.S.C. (special character) 9601, et seq.; (f) designated as a "Hazardous Waste" pursuant to the Resource Conservation and Recovery Act, 42 U.S.C. (special character) 6901, et seq.; (g) designated as a "Hazardous Substance" under the Clean Water Act, 33 U.S.C. (special character) 1321, or listed pursuant to 33 U.S.C. (special character)

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1317; (h) listed by the U.S. Department of Transportation at 49 C.F.R. 172.101 or by the U.S. Environmental Protection Agency under 40 C.F.R. Part 302; and (i) any other substance, waste or material which is regulated as hazardous or dangerous by any federal, state or local agency.

(ii) In the event that Lessee utilizes Hazardous Substances with regard to its operations, then it shall fully comply with all federal, state and local laws, regulations, statutes, and ordinances, now in existence or as subsequently enacted or amended relating to such substances.

(iii) Lessee shall:

(a) Immediately notify Lessor of any of the following arising from Lessee's operations on the premises; (1) all spills or releases of any Hazardous Substance in, on, about or adjacent to the premises; (2) any failure by Lessee to comply with any federal, state or local law, regulation or ordinance, as now enacted or subsequently enacted or amended insofar as such relate to Hazardous Substances, in, on, about, or adjacent to the premises; (3) all inspections of Lessee's operations by, or any correspondence, orders, citations, or notifications from any regulatory entity concerning Hazardous Substances in, on, about, or adjacent to the premises; (4) any regulatory order or fine or any response or interim cleanup actions taken by or proposed to be taken by any government entity or private party in, on, or about, the premises; and

(b) Provide copies to Lessor of any and all correspondence, pleadings, and/or reports received by or required of Lessee with respect to the use, presence, transportation or generation of Hazardous Substances in, on, or about, the premises by Lessee in connection with Lessee's operations thereon; and

(c) Lessee shall fully comply with applicable laws, regulations and rules, and shall conduct operations hereunder in a prudent manner having due regard for the prevention of waste and the restoration and conservation of the Premises for future use in accordance with the other terms hereof and shall take all reasonable steps to avoid unnecessary damage to soils, timber, fish and fish habitat, and wildlife and wildlife habitat;

(d) To Lessor's knowledge there has not ever been a release of any Hazardous Substance on the Premises, the Premises have never been used as a facility for handling, treatment, storage or disposal of Hazardous Substances, and there have not been and are not now any conditions on the Premises constituting a violation of any applicable environmental law, and Lessor hereby agrees to indemnify and hold Lessee harmless from and against any cost or liability imposed or asserted against Lessee as a result of any violation or breach of any provision of this subparagraph.

B. Reclamation and Restoration. Lessee will also comply with all applicable laws and regulations in affect at the conclusion of this Lease concerning reclamation, restoration and clean-up of the Premises. If the lease is not renewed, prior to expiration of the Lease term, Lessor may, but shall not be required to, retain at Lessor's expense an environmental consultant to perform a Level 1 environmental audit. If Lessor performs the level 1 audit and the findings of the environmental audit reveals contamination related to Lessee's use of the Premises, then Lessee agrees to retain at Lessee's expense an environmental consultant to perform a Level 2 environmental audit and reimburse Lessor for the costs incurred for the Level 1 audit, and such further evaluation and remedial action as shall be required by any governmental entity with jurisdiction relating to said environmental issues. At the expiration of the term hereof or as the same may be extended, or as the term may earlier expire from Lessee's breach or default, Lessee will promptly, in

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accordance with a schedule that is satisfactory to Lessor and any governmental entity involved therewith, at Lessee's cost, fully reclaim and restore the Premises as required by any governmental permits, laws, regulations or governmental agency requirements. If not fully so restored, Lessor may, after notice of intent to do so, perform such restoration and charge Lessee for all costs thereof.

8. **REMOVAL OF TIMBER.** Lessee shall not remove merchantable timber without the advance written consent of Lessor, which will not be unreasonably withheld. It is expressly understood and agreed that all merchantable timber on the Premises shall be the sole property of Lessor and any permitted removal shall be for the sole benefit of Lessor. Where merchantable timber must be removed to accommodate Lessee's operations, Lessee agrees to notify Lessor at least 60 days prior to surface mining operations to allow Lessor time to remove timber or make arrangements for timber removal.

9. **GOVERNMENTAL APPROVAL.** Lessee shall prepare and maintain, at Lessee's sole cost and expense, appropriate application(s) to the Washington Department of Natural Resources for surface mining permit(s) associated with Lessee's operations on the Premises. Said application(s) shall be submitted to Lessor for advance written approval prior to submission, which approval shall not be unreasonably withheld. Without limitation of the generality of Lessor's right of approval, Lessor shall particularly have the right of specification of and approval of reclamation and restoration provisions of such application(s) and permit(s), including but not limited to the contouring and reforestation of the Premises with satisfactory drainage.

10. **LEASE BOUNDARIES.** Prior to commencement of operations, Lessor shall, at Lessor's sole cost and expense, locate by survey and mark with clearly visible markers all corners and lease area boundaries to enable Lessor, Lessee, Department of Natural Resources and/or other governmental agencies to monitor operations and/or reclamation efforts. Lessee shall maintain said markers through the term of the Lease.

11. **PREMISES PREPARATION.** Preparation of Premises shall be undertaken by Lessee, at its sole cost and expense, in accordance with plans approved in advance by Lessor, which approval shall not be unreasonably withheld. Non-merchantable trees, slash and debris shall be disposed of as directed by Lessor. Burnable slash and debris shall be piled and burned by Lessee in accordance with terms and timing of necessary permits therefor.

12. **INSPECTION.** Lessor shall have the right at any reasonable time or times to enter onto the Premises for purposes of inspection, making engineering profiles in confirmation of removal quantities, reviewing records of Lessee relating to extraction and sales, and other matters related to this Lease.

13. **LIMITED WARRANTIES.** Lessor warrants that it has the right to lease the Premises to Lessee, and Lessor will defend Lessee's right to quiet enjoyment of the Premises from the lawful claims of all persons during the term of the Lease. However, Lessee has had an adequate opportunity to inspect the Premises and accepts the same in its present condition as suitable for the desired purposes specified herein. Lessor makes no representation or warranty, express or implied, as to the quantity, quality or accessibility of useful sand or gravel for removal, nor as to the nature or extent of interfering overburden.

14. **DEFAULT.**

The following shall be events of default under this Lease:

A. **Default in Rent.** Failure of Lessee to pay any rent, royalty or other amounts due hereunder within forty-five (45) days after it is due;

B. **Default in Other Covenants.** Failure of Lessee to comply with any term or condition or fulfill any obligation of the Lease (other than the payment of rent or other charges) within forty

five (45) days after written notice by Lessor specifying the nature of the default with reasonable particularity. If the default is of such a nature that it cannot be completely remedied within the ten (10) day period, it shall not constitute an event of default as long as the Lessee begins correction of the default within the ten (10) day period and thereafter proceeds with reasonable diligence and in good faith to effect the remedy as soon as practicable.

C. **Insolvency.** Insolvency of Lessee; an assignment for the benefit of creditors; filing by Lessee of a voluntary petition in bankruptcy; an adjudication that Lessee is bankrupt or the appointment of a receiver of the properties of Lessee; the filing of an involuntary petition of bankruptcy and failure of Lessee to secure a dismissal of the petition within thirty (30) days after filing.

D. **Abandonment.** Failure of Lessee for sixty (60) days or more to occupy the Premises for one or more of the purposes permitted under this Lease unless such failure is excused under the provisions of this Lease.

15. **REMEDIES ON DEFAULT.** In the event of any such event of default, Lessor may, at any time thereafter, in its sole discretion, with or without notice or demand and without limiting Lessor in the exercise of any other right or remedy which Lessor may have by reason of such default:

A. Terminate Lessee's right to possession of the Premises by any lawful means, in which case this Lease shall terminate and Lessee shall thereafter have no further rights hereunder or in the Premises; provided, however, that upon such termination Lessor shall be entitled to recover from Lessee all damages incurred by Lessor by reason of Lessee's default, including but not limited to the cost of recovering possession of the Premises; expenses of reletting, including necessary reclamation, restoration, cleanup, refurbishing, renovation, removal of Lessee's property and fixtures, and alterations of the Premises; reasonable broker commissions and advertising costs; reasonable attorneys' fees; all accrued and unpaid rent, royalties and other rents provided for herein and other amounts due from Lessee with interest thereon as provided herein;

B. Maintain Lessee's right to possession, in which case this Lease shall continue in effect whether or not Lessee abandons the Premises, and Lessor shall be entitled to enforce all of Lessor's rights and remedies under this Lease, including the right to recover the rent, royalties and any other charges due or to become due hereunder with interest as provided herein; and/or

C. Pursue any other remedy or remedies now or hereafter available to Lessor under the laws or judicial decisions of the state in which the Premises are located.

16. **RE-ENTRY AFTER TERMINATION.** If the Lease is terminated for any reason, Lessee's liability to Lessor for damages shall survive such termination and Lessor may re-enter, take possession of the Premises and remove any persons or property by legal action or by self-help with the use of reasonable force and without liability for damages. Following re-entry or abandonment, Lessor may relet the Premises.

17. **SURRENDER AT EXPIRATION.** Upon expiration or earlier termination of the Lease, Lessor shall vacate the Premises immediately, except with regard to any reclamation and/or restoration work required, remove any property including fixtures that Lessee is required to remove, deliver all gate and other keys to the Lessor and surrender the Premises in the condition first existing at the time of this Lease.

18. **MISCELLANEOUS.**

A. **Non-Waiver.** Waiver by either party of strict performance of any provision of this Lease shall not be a waiver of, or prejudice, the party's right to require strict performance of the same provision in the future or of any other provision.

B. **Attorneys Fees.** In the event of litigation between the parties arising out of, or relating

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to, the terms and conditions of this Lease, then the prevailing party shall be entitled to recover in addition to costs incurred, such sum as the court may adjudge reasonable as attorney fees. In addition, if it becomes necessary for Lessor to employ an attorney by reason of any default on the part of Lessee where no suit or action is commenced, Lessee agrees to pay on demand from Lessor all costs or expenses incurred by Lessor in connection with such default including attorneys' fees.

C. **Notices.** All notices necessary or appropriate hereunder shall be in writing and delivered personally or by postage-paid mail properly addressed to the parties at their respective addresses set forth below, or at such other address as may have been so notified to the other party. Notices so mailed shall be deemed received on the next business day following such dispatch.

To Lessor:
Pope Resources
Attn: Vice President - Commercial Properties
Post Office Box 1780
Poulsbo, Washington 98370
To Lessee:
Shine Quarry, Inc.
9861 Highway 104
Port Ludlow, WA 98365

or such other address as may be specified from time-to-time by either of the parties in writing.

D. **Sale of Premises.** In the event Lessor sells or exchanges the Premises and assigns Lessor's interest in this Lease, Lessor shall be and is hereby entirely freed and relieved of any liability under any and all of its covenants and obligations contained in or derived from this Lease or arising out of any act, occurrence or omission relating to the Premises or to this Lease occurring after the consummation of such sale, exchange or assignment.

E. **Exemption of Lessor From Liability.** Lessor shall not be liable for injury to Lessee's business or any loss of income therefrom or for damage to the goods, wares, merchandise or other property of Lessee or Lessee's employees, invitees, customers, or any other person in or about the Premises; nor in any way related to use of any private or primitive roads serving the Premises, nor shall Lessor be liable for personal injury to Lessee or Lessee's employees, agents, contractors and invitees, whether said damage or injury results from conditions arising upon the Premises or from other sources or places, and regardless of whether the cause of such damage or injury or the means of repairing the same is inaccessible to Lessor or Lessee. It is expressly understood and agreed that the Premises and any private roadways serving the same are primitive and that Lessee assumes all risks and liability regarding use thereof.

F. **Taxes.** Lessor shall pay all real property taxes levied, assessed or charged against the Premises, except those levied, assessed, charged or imposed as a direct result of Lessee's operations or use of the Premises. Lessee shall be responsible for all personal property taxes relating to personal property utilized on the Premises.

Lessee shall pay or cause to be paid before delinquency any and all taxes levied or assessed and which become payable during the term hereof upon all Lessee's equipment, furniture, fixtures, and any other personal property located in the Premises. In the event any or all of Lessee's equipment, furniture, fixtures, and other personal property shall be assessed and taxed with the real property, Lessee shall pay to Lessor its share of such taxes within ten (10) days after delivery to Lessee by Lessor of a statement in writing setting forth the amount of such taxes applicable to Lessee's property.

G. **Interest.** If Lessee shall fail to pay, when due, any rent, royalties or other amounts or charges required to be paid to Lessor hereunder, such unpaid amounts shall bear interest from the date due

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to the date of payment at the rate of twelve percent (12%) per annum.

H. **Subordination.** Lessee agrees that this Lease shall be subordinate to any mortgage or deed of trust now or at any time hereafter constituting a lien upon the Premises and to any and all ~~advances made or to be made thereunder, and to the interest thereon, and to all renewals, replacements and extensions thereof~~, if the mortgagee or the beneficiary named in such mortgage or deed of trust agrees therein or in a separate instrument to recognize this Lease in the event of foreclosure where Lessee is not in default hereunder and agrees to attorn to the mortgagee or any purchaser at a foreclosure sale. Upon demand by Lessor, Lessee shall execute any documents that may be required by such mortgagees or beneficiaries to further evidence subordination of this Lease to any such mortgages or deeds of trust, and shall execute estoppel certificates as requested by Lessor from time-to-time in the standard form of any such mortgagee or beneficiary.

I. **Non-Assignment/Binding Effect.** Because Lessor is placing substantial reliance upon the responsibility of Lessee, Lessee's rights and obligations hereunder may not be assigned, delegated or sublet in whole or in part except with Lessor's written approval. This instrument is binding upon and for the benefit of the parties and, except as rights of assignment be limited as aforesaid, their respective successors and assigns.

19. **OPTION TO RENEW.** Lessee shall have the option to renew this Lease for one (1) successive period of five (5) years, on the same terms and conditions as set forth in this Lease, except as follows:

(a) Lessee shall give Lessor written notice of the exercise of the option to renew during the "Option Exercise Period", which shall be at least one hundred twenty (120) days but no more than one hundred eighty (180) days prior to the commencement of the first renewal term.

(b) The option to renew shall be exercisable only if Lessee is in good standing and there are no uncured defaults at the time Lessee exercises the option and at the beginning of the renewal term. Rent shall be renegotiated for the option term based on market comparable rents, but at minimum the annual percentage rent shall be equal to _____ % Lessee's gross receipts from minerals excavated from the Premises.

(c) In order to exercise the option to extend, Lessee shall provide Lessor at any time during the Designated period (as hereafter defined) with a written notice (the "Exercise Notice") (1) stating that is exercising its option to extend the term; and (2) specifying what Lessee believes to be an appropriate percentage (the "Lessee's Proposed Percentage") for purposed of calculating Percentage Rent during the option term, which shall not be less than _____ %

If Lessee fails to specify Lessee's Proposed Percentage in the Exercise Notice, then Lessee's Proposed Percentage shall be deemed to be _____ % year. If Lessor disagrees with Lessee's Proposed Percentage, the Lessor shall notify Lessee within thirty (30) days after receipt of the Exercise Notice of what Lessor believes to be the appropriate percentage (the "Lessor's Proposed Percentage"), which shall not be less than _____ % Lessor and Lessee shall thereafter negotiate in good faith to arrive on the appropriate percentage.

If the parties are unable to agree upon the appropriate percentage within sixty (60) days after Lessor's receipt of the Exercise Notice, then the parties shall submit such issue to arbitration. Within seventy-five (75) days after Lessor's receipt of the Exercise Notice, each party will appoint a qualified appraiser with at least ten (10) years active experience appraising real estate in the county in which the Premises are located to determine whether the Lessee's Proposed Percentage is closer to the fair market rental value of the Premises.

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If such appraisers are unable to agree upon which of the two proposals is closer to the fair market rental value of the Premises, then within ninety (90) days after Lessor's receipt of the Exercise Notice, they shall select a third qualified appraiser with at least ten (10) years active experience appraising real estate in such area. Within one hundred (100) days after Lessor's receipt of the Exercise Notice, the three appraisers shall render a decision of the majority of them as to which of the proposals is closer to the fair market rental value of the Premises, and such decisions shall be binding on the parties in the absence of fraud or manifest error.

Each party shall pay for its own appraiser and shall share the cost of the third appraiser. If a party fails to appoint an appraiser within the time frame specified above, then such party shall lose its rights to appoint such appraiser.

Notwithstanding anything to the contrary herein, the parties agree that no matter what the fair market rental value of the Premises is determined to be, the percentage rent during the option term shall be at least

(d) The option to renew is personal to the original Lessee and shall only apply if the original Lessee under the Lease is still the Lessee, even if Lessor has consented to an assignment or transfer of the original Lessee's interest in the Lease to a third party.

DATED this 27 day of January 1997.

LESSOR:

POPE RESOURCES, a Delaware Limited Partnership

BY [Signature]

Its Vice President Commercial Properties

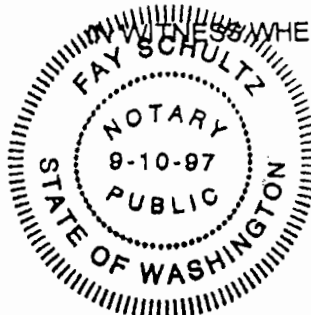
LESSEE:

BY [Signature]

Its [Signature]

STATE OF WASHINGTON)
) ss.
COUNTY OF Kitsap)

On this 27th day of January, 1997, before me, a Notary Public in and for the State of Washington, personally appeared Tom Griffin, personally known to me (or proved to me on the basis of satisfactory evidence) to be the person who signed this instrument; on oath stated that he was authorized to execute this instrument as VP Commercial Properties the corporation that executed this instrument; acknowledged this instrument to be the free and voluntary act and deed of said corporation for the uses and purposes therein mentioned; and on oath stated that he was duly elected, qualified, and acting as said officer of said corporation.



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[Signature]
NOTARY PUBLIC in and for the State of Washington, residing at Paris
My appointment expires 8-10-97

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