

RONALD A. HAMMETT
ATTORNEY AT LAW
1024 CLEVELAND STREET, SUITE 2
MOUNT VERNON, WASHINGTON 98273
TELEPHONE (206) 336-2188

8.00
L E A S E

8104060033

THIS LEASE is made and entered into by and between JOHN CHICORATICH and MARILYN CHICORATICH, husband and wife, hereinafter called the "Lessor," and BLANCHARD-EDISON WATER ASSOCIATION, hereinafter called the "Lessee."

1. Premises. The Lessor hereby leases to the Lessee and the Lessee hereby leases from the Lessor those certain premises in Skagit County, Washington, more particularly described in the exhibit attached hereto, marked Exhibit "A", and by reference made a part hereof.

2. For Public Use. Lessor and Lessee agree that the subject property shall during the term of this lease not be used for residual building purposes and that it is to be used for "public use" in that Lessee shall only use the property for purposes allowed under its by-laws as a non-profit water association.

3. Term. The term of this lease shall be 99 years commencing on the date hereof.

4. Rent. Lessee agrees to pay rent in the sum of \$1.00 per year payable on the 1st day of July in each calendar year during the term of this lease.

5. Insolvency. If any proceedings in bankruptcy or insolvency be filed against the Lessee or if any writ of attachment or writ of execution be levied upon the interest herein of the Lessee and such proceedings or levy shall not be released or dismissed within 60 days thereafter, or if any sale of the leasehold interest hereby created or any part thereof should be made under any execution or other judicial process, or if the Lessee shall make any assignment for benefit of creditors or shall voluntarily institute bankruptcy or insolvency proceedings, the Lessor, at Lessor's election, may re-enter and take possession of said premises and remove all persons therefrom and may, at Lessor's option, terminate this lease.

6. Attorney's Fees. In the event of any litigation between the parties hereto arising out of this lease, or the leased premises, the prevailing party therein shall be allowed all reasonable attorney's fees expended or incurred in such litigation to be recovered as a part of the costs therein.

7. Utilities and Services. The Lessee agrees to pay for all water, fuel, gas, oil, heat, electricity, power, materials, and services which may be furnished to it or used by it in or about the demised premises and to keep said demised premises free and clear of any lien or encumbrance of any kind whatsoever created by Lessee's act or omission.

8. Entry and Inspection. The Lessee shall permit Lessor and his agents to enter the demised premises at all reasonable times for any of the following purposes: to inspect the same; to make such repairs to the demised premises as the Lessor is obligated or may elect to make; to post notices of nonresponsibility for alterations or additions or repairs. The Lessor shall have such right of entry and the right to fulfill the purpose thereof without any rebate of rent to the Lessee for any loss of occupancy or quiet enjoyment of the demised premises thereby occasioned.

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9. Alterations. It is understood that Lessee intends to use the real property for the purpose of drilling water wells thereon. It is agreed that any improvements placed upon the real property by Lessee shall remain the property of Lessee and at the termination of this lease may be removed by Lessee at its option. However, it is expressly agreed that any well casings placed in the ground shall at the termination of this lease be left in the ground and by Lessee and become the property of Lessor.

10. Condemnation. If the whole of the premises hereby demised shall be taken or condemned by any competent authority for any public use or purpose, then the term hereby granted shall cease on the day prior to the taking of possession by such authority or on the day prior to the vesting of title in such authority, whichever first occurs, and rent hereunder shall be paid to and adjusted as of that day.

If a portion of said demised premises shall be taken or condemned and, as a result thereof, the premises become unsuitable for Lessee to use in the same manner as theretofore used, then and in that event, the Lessee may either cancel or terminate this lease, as of the date when the part of the premises so taken or condemned shall be required for such public purpose, or said Lessee may continue to occupy the remaining portion, provided, however, the Lessee shall give written notice to the Lessor, within 15 days after the date of any taking or vesting of title, of its election. In the event the Lessee shall remain in possession and occupation of the remaining portion, all the terms and conditions of this lease shall remain in full force and effect with respect to such remaining portion.

The entire award of damages or compensation for the premises taken, or the amount paid pursuant to private purchase in lieu thereof, whether such condemnation or sale be total or partial, shall belong to and be the property of the Lessor, and Lessee hereby assigns to Lessor any and all such award or purchase price. Nothing herein contained shall be deemed or construed to prevent Lessee from interposing and prosecuting in any condemnation proceeding a claim for the value of any trade fixtures, wells, or other personal property placed on the demised premises by the Lessee and in the case of a partial condemnation of the demised premises, the cost, loss, or damages sustained by Lessee as the result of any alterations, modifications, or repairs which may be reasonably required of the Lessee in order to place remaining portion of the demised premises not so condemned in a suitable condition for Lessee's further occupancy.

11. Abandonment. The Lessee agrees not to vacate or abandon the premises at any time during the demised term. Should the Lessee vacate or abandon said premises or be dispossessed by process of law or otherwise, such abandonment, vacation, or dispossession shall be a breach of this lease and, in addition to any other rights which the Lessor may have, the Lessor may remove any personal property belonging to the Lessee which remains on the demised premises and store the same, such removal and storage to be for the account of the Lessee.

12. Laws and Regulations. The Lessee, at his own cost and expense, shall comply promptly with all laws, rules, and orders of all federal, state, and municipal governments or departments, which may be applicable to the leased premises.

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13. First Refusal Option. The Lessor hereby grants to the Lessee a first refusal option to purchase the leased premises, which first refusal option shall expire six months after the termination of the lease term or any renewal term. The Lessor shall give written notice to the Lessee of all the terms and conditions of any proposed sale, during the option period, and the Lessee shall have 30 days thereafter to exercise said option. Should the option not be exercised, the Lessor shall have 90 days thereafter to consummate said sale to third parties on the precise terms and conditions of said written notice. Any variation from said terms and conditions shall require a resubmission of the offer to the Lessee under this option. The Lessee's failure to exercise this option or the Lessee's written waiver of this option with respect to any proposed transaction shall not constitute a waiver of the option rights created herein with respect to any subsequent transaction.

14. Option to Renew. The Lessor hereby grants to the Lessee an option to renew this lease for an additional period of 99 years from expiration of the written lease, at the same rental and upon the same terms and conditions as contained in this lease.

To exercise this option, the Lessee must notify the Lessor in writing on or before the date of expiration of the within lease that it elects to exercise said option; provided, however, that if the Lessor desires an earlier determination concerning the Lessee's exercise of said option, the Lessor may serve a demand upon the Lessee in writing any time within 120 days from the date of expiration of said lease, for a determination by the Lessee concerning exercise of said option, in which event to exercise the option, the Lessee must notify the Lessor in writing within 30 days from receipt of said demand from the Lessor, that it elects to exercise said option.

15. Notices. All notices to be given to the Lessee shall be in writing, deposited in the United States Mail, certified or registered, with postage prepaid, and addressed to the Lessee at its business address.

16. Personal Property. The Lessor acknowledges that Lessor has no interest in any personal property or equipment or furniture and fixtures which may be installed by the Lessee upon the leased premises, and the Lessor agrees in the future to furnish the Lessee, upon request, such Landlord's Waiver or Mortgagee's Waiver or similar document as may be reasonably required by an institutional lender or equipment lessor in connection with the Lessee's acquisition or financing respecting such personal property, equipment, furniture and fixtures. The Lessee shall have the right to remove same at the termination of this lease, and shall be permitted five days after the effective date of termination of the term or any renewal or hold-over term within which to accomplish the removal.

17. Timber. Lessee may cut and remove any timber which in its opinion is necessary to fully use the property as it sees fit, however, all timber so cut shall remain the property of Lessor.

18. Miscellaneous. This lease shall be construed and enforced in accordance with the laws of the State of Washington.

Any addendum or amendments to this lease, including but not limited to the amendment fixing the term of this lease, may be signed by only one officer of the Lessee.

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19. Successors. All the terms, covenants, and conditions hereof shall be binding upon and inure to the benefit of the heirs, executors, administrators, successors, and assigns of the parties hereto.

20. Right to Purchase Share. The Lessor shall have the right at any time during the term of this lease to become a member of the Blanchard-Edison Water Association and purchase a membership certificate at the price then being charged by the Water Association, provided such purchase in no way interferes with Lessee's status as a non-profit tax exempt organization under the Internal Revenue Code and the laws of the State of Washington; and provided such certificate is purchased to provide water to land adjacent to the demised real estate; and further provided Lessor is otherwise eligible for membership under the by-laws of the organization.

21. Property Taxes. Lessee agrees to pay real estate property taxes and assessments which accrue during the term of this lease.

In Witness Whereof the Lessor and Lessee have executed this lease
JUNE 19TH, 1980.

BLANCHARD-EDISON WATER ASSOCIATION

By:

Lee J. Huse PRESIDENT
Commissioner

Ernest Peterson Vice President
Commissioner

Glenn Plambeck
Commissioner

Ronald H. Anderson
Commissioner

Danny Lonsdale
Commissioner

Commissioner

STATE OF WASHINGTON,)
: ss.
County of Skagit)

On this day personally appeared before me John Chicoratic and Marilyn Chicoratic, to me known to be the individuals described in

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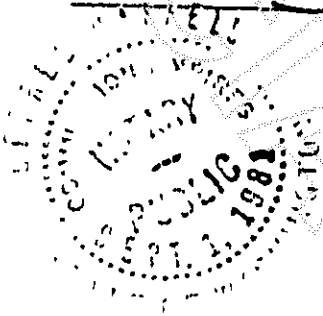
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WITNESS: REC'D

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and who executed the within and foregoing instrument, and acknowledged that they signed the same as their free and voluntary act and deed, for the uses and purposes therein mentioned.

GIVEN under my hand and official seal this 19TH day of JUNE, 1980.



Luella Mackel
Notary Public in and for the
State of Washington residing
at Bou.

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EXHIBIT "A"

THE EAST 300 FEET OF TRACT C OF SHORT PLAT NO. 64-78, APPROVED SEPTEMBER 25, 1978, RECORDED SEPTEMBER 26, 1978 IN BOOK 3 OF SHORT PLATS, AT PAGE 21, UNDER AUDITOR'S FILE NO. 888174. BEING A PORTION OF THE SOUTHEAST QUARTER OF THE SOUTHWEST QUARTER OF SECTION 35, TOWNSHIP 36 NORTH, RANGE 3 EAST, W.M., TOGETHER WITH AND SUBJECT TO EASEMENTS FOR ROAD PURPOSES AS CREATED BY INSTRUMENTS RECORDED APRIL 26, 1968, APRIL 10, 1969 UNDER AUDITOR'S FILE NOS. 713026, 727250 and 725251.

SITUATE IN THE COUNTY OF SKAGIT, STATE OF WASHINGTON.

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