



200606220109

Skagit County Auditor

6/22/2006 Page

1 of

7 3:28PM

CHICAGO TITLE CO.

1C 39304

AFTER RECORDING, RETURN TO:

~~Heather D. Shand Perkins~~ John Diamond~~SHAND PERKINS & ASSOCIATES, PLLC~~~~411 Main Street~~ 23430 Diamond Rd.~~Mount Vernon, Washington 98273~~ Sedro Woolley, WA 98284

GRANTOR(S) (Borrower):

AVIS, LLC

GRANTEE(S) (Secured Party):

DUKES HILL RESOURCE, INC.

TAX PARCEL NUMBER:

350507-0-035-0105/ P101465

LEGAL DESCRIPTION:

Ptn. S/2 Govt Lot 3

and ptn. NE SW 7-35-5

SWFC - Ptn of the S 1/2 of Government Lot 3 lying East of Old Secondary State Hwy 1-A and West of a Creek which runs generally in a Southeasternly direction; EXCEPT that portion of Government Lot 3 and Portion of NE 1/4 of the SW 1/4 of Section 7; DAF South 214 feet of Government Lot 3, together with the South 214 feet of the NE 1/4 of the SW 1/4 of said Section, EXCEPT that portion thereof lying East of the Creek and EXCEPT any portion lying West of the Easterly BDY of SR 9.

REFERENCE NUMBERS OF ASSIGNED OR RELEASED:

N/A

CONVEYANCE:

DEED OF TRUST

DEED OF TRUST★ P.O. Box 25 ARUNGTON WA
98223

THIS DEED OF TRUST, made this 21st day of JUNE, 2006, between AVIS, LLC, a Washington Limited Liability Company, GRANTOR, whose address is ~~506 35th Street, Anacortes, Washington 98221~~ CHICAGO TITLE, a Corporation, TRUSTEE, whose address is 809 South Burlington Boulevard, Burlington, WA 98233, and DUKE HILL

RESOURCES, INC., a Washington Corporation, BENEFICIARY, whose address is 24340 Diamond Rd, Sedro Woolley, WA 98284, WITNESSETH:

Grantor hereby bargains, sells and conveys to Trustee in Trust, with power of sale, the following described real property in Skagit County, Washington:

SWFC – Ptn of the S ½ of Government Lot 3 lying East of Old Secondary State Hwy 1-A and West of a Creek which runs generally in a Southeasterly direction; EXCEPT that portion of Government Lot 3 and Portion of NE ¼ of the SW ¼ of Section 7; DAF South 214 feet of Government Lot 3, together with the South 214 feet of the NE ¼ of the SW ¼ of said Section, EXCEPT that portion thereof lying East of the Creek and EXCEPT any portion lying West of the Easterly BDY of SR 9.

See legal description attached.

Which property is not used principally for agricultural activities, together with all the tenements, hereditaments, and appurtenances now or hereafter thereunto belonging or in any wise appertaining, and the rents, issues and profits thereof.

This Deed is for the purposes of securing performances of each agreement of Grantor herein contained, and payment of the sum of TWO HUNDRED THOUSAND DOLLARS (\$200,000.00) with interest, in accordance with the terms of the Promissory Note of even date herewith, payable to Beneficiary or order, and made by Grantor and all renewals, modifications and extensions thereof, and also such further sums as may be advanced or loaned by Beneficiary to Grantor, or any their successors or assigns, together with interest thereon at such rate as shall be agreed upon.

To protect the security of this Deed of Trust, Grantor covenants and agrees:

1. To keep the property in good condition and in repair; to permit no waste thereof; to complete any building, structure or improvement being built on or about to be built thereon; to restore promptly any building or structural improvement thereon which may be damaged or destroyed; and to comply with all laws, ordinances, regulations, covenants, conditions and restrictions affecting the property.

2. To pay before delinquent all lawful taxes and assessments upon the property and upon this Deed of Trust or upon the money or debts secured thereby; to keep the property free and clear of all other encumbrances impairing the security of this Deed of Trust.

3. To keep all buildings now and hereafter erected on the property described herein continuously insured against loss by fire or other hazards in an amount not less than the total debt secured by this Deed of Trust; all policies shall be held by the Beneficiary and be in such companies as the Beneficiary may approve and have loss payable first to the Beneficiary as its interest may appear and then to the Grantor. The amount collected under any insurance policy may be applied upon any indebtedness hereby secured in such order as the Beneficiary shall determine. Such application by the Beneficiary shall not cause discontinuance of any proceedings to foreclose this Deed of Trust. In the event of



200606220109

Skagit County Auditor

foreclosure, all rights of the Grantor in insurance policies then in force shall pass to the purchaser at the foreclosure sale.

4. To defend any action or proceeding purporting to affect the security hereof or the rights or powers of the Beneficiary or Trustee, and to pay all costs and expenses, including cost of title search and attorney's fees in a reasonable amount, in any such action or proceeding including but not limited to any proceeding initiated under the Bankruptcy Act, any proceeding to condemn all or part of the property, and any proceeding brought by Beneficiary to foreclose this Deed of Trust.

5. To pay all costs, fees and expenses of this trust, including expenses of the Trustee incurred in enforcing this obligation, and Trustee's and attorney's fees actually incurred, as provided by statute.

6. Should Grantor fail to pay all taxes, assessments, insurance premiums, liens or other charges payable by the Grantor, Beneficiary may pay the same, and the amount so paid, with interest at the rate set forth in the note secured hereby, shall be added to and become a part of the debt secured by this Deed of Trust.

Grantor and Beneficiary, the language of the Deed of Trust to the contrary notwithstanding, mutually agree as follows:

1. This Deed of Trust is an "all inclusive" Deed of Trust securing an "all inclusive" Note, the original principal balance of which includes the balance of the underlying note or obligation and the underlying deed of trust or contract more fully described above. This deed of trust (or mortgage or contract) and/or note are referred to below, for convenience as "underlying deed of trust" and "underlying note"/"underlying obligation."

2. Grantor agrees to comply with all of the terms and conditions of the underlying deed of trust and underlying note other than with respect to the payment of interest and principal due under the underlying note or obligation, and Grantor's failure to do so shall constitute a default under this Deed of Trust. Any default under this Deed of Trust shall entitle Beneficiary to exercise, at its option, any one or more of the following remedies, in addition to any other remedies provided herein:

- (a) To declare the Note secured hereby immediately due and payable in full upon demand;
- (b) To judicially or non-judicially foreclose this Deed of Trust;
- (c) To perform such terms and conditions as are in default;
- (d) To make full or partial payments of principal or interest on the underlying deed of trust, or other encumbrances, if any; and/or
- (e) To purchase, discharge, compromise, or settle the underlying deed of trust or contract or any other lien or encumbrance, including liens for taxes and assessments.

In the event that the Beneficiary so elects to make any payment for any of the purposes herein authorized and/or perform any act upon which Grantor has defaulted, then at the option of the Beneficiary all monies paid and all costs and expenses incurred thereby,



200606220109

Skagit County Auditor

including reasonable attorneys' fees, may be added to the debt which is secured by this Deed of Trust and bear penalty interest as specified in the Note, or all monies so paid and all costs and expenses incurred thereby, including reasonable attorneys' fees, may be declared immediately due and payable and such sums shall bear interest at the penalty rate specified in the Note until paid, and Grantor's failure to reimburse Beneficiary upon demand therefore shall constitute a further event of default under this Deed of Trust.

3. (a) Provided the Grantor is not in default under the terms of this Deed of Trust or of the Note or obligation secured hereby and provided further that the Grantor is in compliance with all of the terms, covenants, conditions and provisions of the underlying deed of trust or contract and underlying note or obligation other than with respect to the payment of principal and interest due under the underlying note or obligation, Beneficiary will make first application each month of the funds received from Grantor as monthly payments upon the Note secured by this Deed of Trust, and pay out of such funds the amounts due each month to the holder of the underlying note or obligation and underlying deed of trust or contract according to the terms thereof.

(b) Grantor will not make any payments whatsoever directly to the holder of the underlying note or obligation and underlying deed of trust or contract, including any prepayment, or request any release, partial release, amendment or other modifications of the underlying note or obligation or underlying deed of trust or contract without the prior written consent of Beneficiary, its successors and assigns. Grantor agrees to pay to Beneficiary, its successors and assigns, any installments of reserves and all other sums, other than principal and interest, required to be paid to the holder of the underlying note and underlying deed of trust at least fifteen (15) days prior to the due dates thereunder.

(c) If Beneficiary shall default in making any required payment of principal or interest upon the underlying note, Grantor shall have the right to advance the funds necessary to cure such default and all funds so advanced, together with interest at twelve percent (12%) per annum, shall be credited against the next installment of interest and principal due under the Note secured by this Deed of Trust.

(d) Grantor agrees that, to the extent Beneficiary pays any installment of principal or interest, or any other sums due the holder of the underlying deed of trust or contract, Beneficiary shall (1) become entitled to a lien on the premises encumbered hereby but equal in rank and priority to the underlying deed of trust or contract; and (2) become subrogated to, receive, and enjoy all of the rights of the underlying beneficiary granted under the underlying deed of trust or contract; and (3) the underlying deed of trust or contract shall remain in existence to further secure any indebtedness hereunder.

4. With respect to any condemnation award or settlement in lieu thereof, or to any amount collected under any fire or other insurance policy, or to any prepayments made by Grantor with the prior written consent of Beneficiary, any proceeds or funds received by the holder of the underlying note or obligation and credited to the indebtedness secured by the underlying deed of trust or contract with the result that Beneficiary's obligation hereunder to pay to the holder of the underlying note the unpaid principal balance is reduced, and with respect to any proceeds or funds received by the Beneficiary hereunder from any condemnation award or settlement in lieu thereof, under any fire or other insurance policy, or any permitted payment, then such funds shall be credited to the unpaid principal balance of the Note secured hereby. All such credits shall be applied against the unpaid principal installments of the Note secured hereby in the inverse order of their due date.



200606220109
Skagit County Auditor

5. Grantor and Beneficiary agree to send promptly to the other, copies of any notices of default or otherwise received by them from the holder of the underlying deed of trust.

6. Irrespective of any provision of this Deed of Trust to the contrary notwithstanding, any demand for sale delivered to Trustee for the foreclosure of this Deed of Trust, and any complaint for judicial foreclosure of this Deed of Trust, shall be reduced by such unpaid balances, if any, of principal, interest and charges existing upon the underlying note or obligation referred to above, as exist at the time of sale upon such foreclosure, satisfactory evidence of which unpaid balances must be submitted prior to such sale.

7. Upon default by Grantor in the payment of any indebtedness secured hereby or in the performance of any agreement contained herein, all sums secured hereby shall immediately become due and payable at the option of the Beneficiary. Trustee shall sell the trust property, in accordance with the Deed of Trust Act of the State of Washington, at public auction to the highest bidder. Any person except Trustee may bid at Trustee's sale. Trustee shall apply the proceeds of the sale as follows: (1) to the expense of sale, including a reasonable Trustee's fee and attorney's fee; (2) the obligation secured by this Deed of Trust; (3) the surplus, if any, shall be distributed to the persons entitled thereto.

8. Trustee shall deliver to the purchaser at the sale its deed, without warranty, which shall convey to the purchaser the interest in the property which Grantor had or had the power to convey at the time of their execution of this Deed of Trust and such as he may have acquired thereafter. Trustee's deed shall recite the facts showing that the sale was conducted in compliance with all the requirements of law and of this Deed of Trust, which recital shall be prima facie evidence of such compliance and conclusive evidence thereof in favor of bona fide purchasers and encumbrancers for value.

9. The power of sale conferred by this Deed of Trust and by the Deed of Trust Act of the State of Washington is not an exclusive remedy and when not exercised, Beneficiary may foreclose this Deed of Trust as a mortgage.

10. In the event of the death, incapacity or disability, or resignation of Trustee, Beneficiary may appoint in writing a successor trustee, and upon the recording of such appointment in the mortgage records of the county in which this Deed of Trust is recorded, successor trustee shall be vested with all powers of the original trustee. The Trustee is not obligated to notify any party hereto of pending sale under any other Deed of Trust or of any action or proceeding in which Grantors, Trustee or Beneficiary shall be a party unless such action or proceeding is brought by the Trustee.

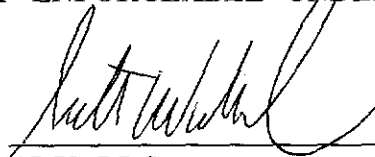
11. This Deed of Trust applies to, inures to the benefit of, and is binding not only on the parties hereto, but on their heirs, devisees, legatees, administrators, executors, successors and assigns. The term Beneficiary shall mean the holder and owner of the note secured hereby, whether or not named as Beneficiary herein.



200606220109

Skagit County Auditor

ORAL AGREEMENTS OR ORAL COMMITMENTS TO LOAN
MONEY, EXTEND CREDIT, OR TO FORBEAR FROM ENFORCING
REPAYMENT OF A DEBT ARE NOT ENFORCEABLE UNDER
WASHINGTON LAW.



AVIS, LLC

By: Scott Waldal

Its: Managing Member

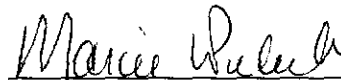
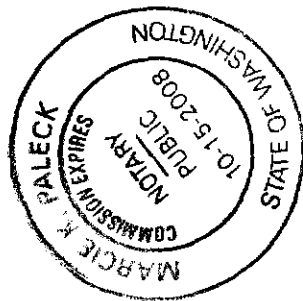
STATE OF WASHINGTON)

:SS

COUNTY OF SKAGIT)

On this day personally appeared before me Scott Waldal, to me known to be the individual described in and who executed the within and foregoing instrument, and acknowledged that she signed the same as her free and voluntary act and deed for uses and purposes therein mentioned.

GIVEN under my hand and official seal this 21st day of June, 2006.



NOTARY PUBLIC in and for the
State of Washington,

residing at: Mount Vernon

My commission expires: October 15, 2008

Printed Name: _____

MARCIE K. PALECK



200606220109

Skagit County Auditor

EXHIBIT A

The South Half of Government Lot 3 and the South 22 acres of the Northeast Quarter of the Southwest Quarter of Section 7, Township 35 North, Range 5 East of the Willamette Meridian;

EXCEPT that portion lying West of the East line of Secondary State Highway 9;

AND EXCEPT the South 214 feet.

Situated in Skagit County, Washington.



200606220109

Skagit County Auditor