

Return Address:
Northwest Farm Credit Services, FLCA
PO Box 966
Burlington, WA 98233



200607120058
Skagit County Auditor

7/12/2006 Page 1 of 5 11:24AM

Please print neatly or type information

Document 1 Title: Mortgage

Reference #s: _____

Additional Reference #s on page _____

Grantors:

Smith and Morrison Farms, L.L.C.

Additional grantors on page _____

Grantees:

Northwest Farm Credit Services, FLCA

Additional grantees on page _____

Document 2 Title: Fixture Filing

Reference #s: _____

Additional Reference #s on page _____

Grantors:

Smith and Morrison Farms, L.L.C.

Additional grantors on page _____

Grantees:

Northwest Farm Credit Services, FLCA

Additional grantees on page _____

Legal description (abbreviated form: i.e. lot, blk, plat or S,T,R quarter/quarter):

Ptn of SW1/4SW1/4 Section 5, Twn 33N., Range 4 East, W.M., Skagit County, WA.

Additional legal is on page 2

Assessor's Property Tax Parcel/Account Numbers:

330405-3-005-0001

After Recording Return to:
Farm Credit Services - Burlington
265 E. George Hopper Road
PO Box 966
Burlington, WA 98233

Mortgage

THIS MORTGAGE IS ALSO INTENDED TO BE A FIXTURE FILING.

On July 11, 2006, Smith and Morrison Farms, L.L.C., a limited liability company, hereinafter called Mortgageors, whose address is

PO Box 2328
Mount Vernon, WA 98273

grant, convey, warrant, transfer and assign to Northwest Farm Credit Services, PCA, a corporation organized under the Farm Credit Act of 1971, as amended, hereinafter called Mortgagee, whose address is 1700 South Assembly Street, P.O. Box 2515, Spokane, Washington 99220-2515, a mortgage and security interest in property in Skagit County(ies), State of Washington, more particularly described as follows:

The Southwest 1/4 of the Southwest 1/4 of Section 5, Township 33 North, Range 4 East, W.M., EXCEPT that portion of said property described as follows:

Beginning at a point on the West line of said Section 5 which bears North 1°30'00" East 1,120.77 feet from the Southwest corner of said Section 5; East a distance of 30 feet to the East right of way line of PSH No. 99, said point being the true point of beginning; East a distance of 208.71 feet; East parallel with the West line of said Section, a distance of 417.42 feet; East a distance of 208.71 feet; West a distance of 208.71 feet to the East right of way line of PSH No. 99; thence South 1°30'00" West along said East right of way line 417.42 feet to the true point of beginning;

EXCEPT that portion conveyed to the State of Washington by deed recorded December 15, 1971, under Auditor's File No. 761886.

Situate in the County of Skagit, State of Washington.

Account No. 330405-3-005-0001;

All now owned or hereafter acquired equipment, machinery, appliances, tools and parts which are a part of the potato storage facility, including without limitation all temperature control systems, all humidification systems, all refrigeration systems, and all air distribution control systems. Also, all property and goods similar to those described herein which at any time may be acquired by Mortgageors, including all additions, replacements, substitutions, and accessions thereof, and all accounts, general intangibles and proceeds arising therefrom.

and including all rents, issues, profits, buildings and improvements thereon and in all tenements, hereditaments, rights, privileges, easements, rights of way and appurtenances, (including without limitation private roads, grazing, privileges, water rights, ditches and conduits and rights of way therefor, all plumbing, lighting, heating, cooling, ventilating, elevating, and irrigating apparatus and other equipment and fixtures, now or hereafter belonging to or used in connection therewith), all of which is hereinafter called the "Property."

The following described Note(s), Membership Agreements, security documents and any other documents or instruments signed in connection with the Note(s) and security documents and any amendments thereto are collectively called the "Loan Documents." "Advances" shall include any amounts provided to Mortgageor under the terms of the Loan Documents and any amounts expended by Mortgagee to protect the Property or enforce its rights under the Loan Documents. This conveyance is intended to secure performance of the covenants and agreements contained herein, and in any Loan Documents, and payment of the indebtedness under the terms of the Note(s) made by Mortgageors to the order of Mortgagee, with interest and charges as provided therein and in the Loan Documents, and any extensions, modifications or renewals thereof.

DATE	PRINCIPAL AMOUNT	INSTALLMENT DATE
July 11, 2006	\$405,000.00	January 1 2010

Mortgage (53185-241) 2



Skagit County Auditor

The terms of the Note(s) and Loan Documents, described above, provide that the interest rate, payment terms or amounts due may be indexed, adjusted, renewed or renegotiated.

Mortgagors and each of them REPRESENT, WARRANT, COVENANT and AGREE:

1. That they have title to the Property free from encumbrances, except as described above, they have good right and lawful authority to convey and encumber the same; they will warrant and defend the same forever against the lawful claims and demands of all persons whomsoever; and they agree this covenant shall not be extinguished by foreclosure or other transfers. Mortgagor authorizes Mortgagee to file a financing statement and any continuations thereof, describing any personal property or fixtures described herein, without further signature by Mortgagor.
2. To keep all buildings and other improvements, now or hereafter existing, in good repair, not to remove or demolish or permit the removal or demolition of any building or other improvement; to restore promptly in a good and workmanlike manner, any building or improvement, which may be damaged or destroyed; to maintain and cultivate the Property in a good and husbandlike manner, using approved methods for preserving the fertility and productivity thereof; not to change or permit change in the use of the Property; and not to do anything which would reduce the value of the Property.
3. To maintain casualty insurance, naming Mortgagee as loss payee, on all buildings and improvements, against loss or damage by fire or other risks; to maintain liability insurance; to obtain flood insurance at any time it is determined that any building or improvement is located in whole or in part within a special flood hazard area; to pay all premiums and charges on all such insurance when due; and to provide Mortgagee satisfactory evidence of such insurance upon request. All such insurance shall be in such form(s), with such company(ies) and in such amount(s) as shall be satisfactory to Mortgagee.
4. Not to apply or enter into any federal, state, local or other program, license, easement, or other agreement which limits or restricts the use of the Property, in any way, without prior written consent of Mortgagee.
5. To pay all debts and money, secured hereby, when due; to pay, when due, all taxes, assessments, rents and other charges upon the Property and to suffer no other encumbrance, charge or lien on the Property, which would be superior to this mortgage, except as stated above.
6. To specifically assign and deliver to Mortgagee all rents, royalties, damages and payments of every kind, including without limitation insurance reimbursements and condemnation awards, at any time accruing, for any transfer, loss or seizure of the Property, any portion thereof or any rights therein; and Mortgagee may, at its option, apply such amounts in any proportion to any of the indebtedness hereby secured; and Mortgagee shall have the right to enter upon the Property to make full inspection of the Property.
7. To comply with all laws, ordinances, regulations, covenants, conditions and restrictions affecting the Property and its use, including without limitation all environmental laws; not to use or permit the use of the Property for any unlawful or objectionable purpose or for any purpose that poses an unreasonable risk of harm, or that impairs or may impair the value of the Property, or any part thereof; not to apply residue from waste water treatment facilities to the Property without prior written notice to Mortgagee; to remedy any environmental contamination or violation of environmental laws that may occur or be discovered in the future; to allow Mortgagee access to the Property to inspect its condition and to test and monitor for compliance with applicable laws (any inspections or tests made by Mortgagee shall be for Mortgagee's purposes only and shall not be construed to create any responsibility or liability on the part of Mortgagee to Mortgagors or to any other person), to forward copies of any notices received from any environmental agencies to Mortgagee; to provide Mortgagee copies of any independent test or inspection reports on the environmental status of the Property; and to indemnify and hold Mortgagee, its directors, employees, agents and its successors and assigns, harmless from and against any environmental claims of any kind, and all costs and expenses incurred in connection therewith, including, without limitation, attorney's fees.
8. That neither Mortgagors nor, to the best of the Mortgagor's knowledge, any prior owner has created or permitted conditions on the Property, which may give rise to environmental liability; no enforcement actions are pending or threatened; no underground tanks are located on the Property except as already disclosed; any such underground tanks currently or previously located on the Property do not now and never have leaked and no contaminated soil is located on the Property; and Mortgagor's representations, warranties, covenants and indemnities herein and in the Loan Documents shall survive satisfaction of the Note(s) and Loan Documents, foreclosure of this mortgage, acceptance of a deed in lieu of foreclosure or any transfer or abandonment of the Property.
9. To perform all terms and conditions of each water or other contract, described above, if any, and to promptly pay all sums due or to become due under each contract so that no delinquency or default will occur under such contract(s); to perform all acts necessary to perfect and maintain any water permit, certificate, license or other water interest, however designated, described in or used in conjunction with the real property described above; any assignment of any such interest during the term of this mortgage, naming Mortgagee as an assignee shall be for security purposes and shall not alter Mortgagors' obligations hereunder; and any failure of Mortgagors to perform any such obligation shall constitute an event of default.

Mortgage (53185-241)

3



200607120058
Skagit County Auditor

10. That the term "Grazing Rights," as hereinafter used refers to that portion of the Property, if any, consisting of grazing leases, permits, licenses, privileges, and preferences, or any of them, which have or will be assigned, mortgaged or waived to Mortgagee, together with any additions, renewals, replacements or substitutions thereof; if any portion of the Grazing Rights is a leasehold interest in state lands, such leasehold shall be considered to be real property; such leasehold and all other real property portions of the Property constitute a single operating unit; and in the event of foreclosure, Mortgagee shall have the right to have such leasehold and the other real property sold as a unit and not in parcels; any statements and representations in any applications for Grazing Rights are true and correct; Mortgagee shall have received no notice that the Grazing Rights have or are to be terminated, cancelled or modified; and any termination or cancellation of any of the Grazing Rights shall constitute an event of default under this mortgage.

11. To execute any instrument deemed necessary by the Mortgagee to assign, mortgage or waive such Grazing Rights to the Mortgagee; to pay all fees and charges, and to perform all acts and things necessary to preserve and keep in good standing the Grazing Rights; to take no action which would adversely affect the Grazing Rights; to procure renewals of the Grazing Rights upon or prior to their expiration date; to operate the lands covered by the Grazing Rights in conjunction with the other real estate portion of the Property and not to convey or attempt to convey either separately; to forward to Mortgagee copies of any notices received by Mortgagee regarding the Grazing Rights; and in the event of foreclosure of this mortgage, to waive all claims for preference in the Grazing Rights upon demand from the purchaser of the Property at foreclosure sale, or from any successor to such purchaser.

12. That if the Property is within an irrigation block and/or subject to water service contract(s) governed by the provisions of "Federal reclamation law," and the regulations issued thereunder, Mortgagee shall comply with the terms and provisions of said laws, regulations and contracts; Mortgagee, and each of them, for themselves, their heirs, successors and assigns, hereby appoint Mortgagee their attorney-in-fact to select and designate the portion of the Property to be subject to a recordable contract, in the event Mortgagee become subject to the excess land limitation; if Mortgagee fail to comply with the terms of said law, regulations or contracts, or if the delivery of water for the irrigation of the Property is discontinued in whole or in part, Mortgagee shall be in default; in the event the Bureau of Reclamation determines that continued drainage maintenance on the Property is no longer feasible, and Mortgagee purchase other lands offered as a preference purchase right (as an adjustment for wetlands), Mortgagee shall execute a supplemental mortgage on such lands in favor of the Mortgagee; and failure to execute such mortgage on demand, shall constitute an event of default.

13. That in the event of default in any of the covenants or agreements herein, or in any of the Loan Documents, Mortgagee may, at its option perform the same, in whole or in part; any advances, including, without limitation, attorney fees or costs, paid or incurred by Mortgagee to protect or enforce its rights under the Loan Documents, in bankruptcy, appellate proceedings or otherwise, shall be payable on demand and shall become a part of the indebtedness secured by this mortgage.

14. That the indebtedness and obligations secured by this mortgage are personal to the Mortgagee and are not assignable by Mortgagee; Mortgagee relied upon the credit of Mortgagee, the interest of Mortgagee in the Property and the financial market conditions then existing when making this loan; if Mortgagee sell, transfer or convey or contract to sell, transfer or convey the Property, or any portion thereof, or if the ownership of any corporation or partnership, owning all or any portion of the Property shall be changed either by voluntary or involuntary sale or transfer or by operation of law, without prior written consent of Mortgagee, or if Mortgagee default in the payment of the indebtedness, or with respect to any warranty, covenant or agreement in the Loan Documents or if a receiver or trustee for any part of the Property is appointed, or if any proceedings under the bankruptcy or insolvency laws is commenced by or against Mortgagee, or if Mortgagee become insolvent, or if any action is commenced to foreclose or enforce a lien on any portion of the Property, then, Mortgagee shall be in default hereunder.

15. That time is of the essence and in the event of default, at Mortgagee's option, the entire indebtedness secured hereby shall forthwith become due and payable and bear interest at the rate set forth in the Loan Documents for delinquent payments; Mortgagee shall have the right to foreclose the lien of this mortgage, to have a receiver appointed in any court proceeding; to collect any rents, issues and profits from the Property and apply them against the indebtedness hereby secured and to exercise any rights and remedies available under the Uniform Commercial Code for the state in which the property is located; and reasonable notice if required by such Code shall be five (5) days.

16. That the failure of Mortgagee to exercise any right or option provided herein, at any time shall not preclude Mortgagee from exercising any of such rights at any other time; the covenants and agreements contained herein shall be binding on and inure to the benefit of the parties and their respective heirs, successors and assigns; all rights conferred on Mortgagee are cumulative and additional to any rights conferred by law; and if any provision is found to be invalid or unenforceable, such invalidity or unenforceability shall not affect any other provision hereof and the mortgage shall be construed as though such provision had been omitted.

17. That Mortgagee and each of them join in this instrument for the purpose of subjecting each of their right, title and interest, if any, in the Property, whether of record or otherwise and including any right to possession, to the lien of this mortgage.

18. That Mortgagor warrants that Mortgagor's state of formation is the State of Washington; and Mortgagor's exact legal name is as set forth herein.

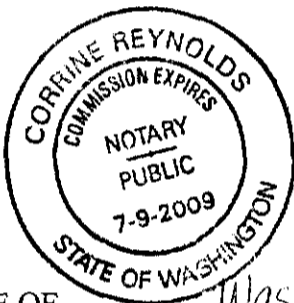
Smith and Morrison Farms, L.L.C.

By: Darrin L. Morrison
Darrin L. Morrison, manager

By: Richard H. Smith
Richard H. Smith, manager

STATE OF Washington)
County of Skagit)ss.

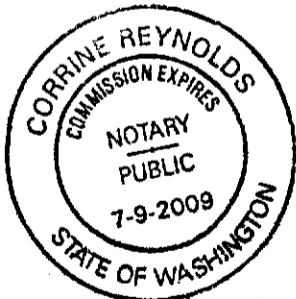
On this 11th day of July, 2006, before me personally appeared Darrin L. Morrison, to me known to be a manager in the limited liability company which executed the within instrument, and acknowledged that he/she executed the same as one of the managers and in the limited liability company name freely and voluntarily.



Corrine Reynolds
Printed name Corrine Reynolds
Notary Public for the State of Washington
Residing at LaConner
My commission expires 7/9/09

STATE OF Washington)
County of Skagit)ss.

On this 11th day of July, 2006, before me personally appeared Richard H. Smith, to me known to be a manager in the limited liability company which executed the within instrument, and acknowledged that he/she executed the same as one of the managers and in the limited liability company name freely and voluntarily.



Corrine Reynolds
Printed name Corrine Reynolds
Notary Public for the State of Washington
Residing at LaConner
My commission expires 7/9/09

Mortgagee acknowledges that this mortgage is subject to a security interest in favor of CoBank, ACB (Bank) and by its acceptance hereof and pursuant to and in confirmation of certain agreements and assignments by and between Mortgagee and Bank, does assign, transfer and set over the same unto Bank, its successors and assigns, to secure all obligations of Mortgagee to Bank, provided that pursuant to such agreements and assignments Mortgagee has authority to perform all loan servicing and collection actions and activities hereunder, including, without limitation thereto, releasing in whole or in part and foreclosing judicially or otherwise this mortgage until the Bank, by instrument recorded in the office in which this mortgage is recorded, revokes such authority.

