

**STEPHEN L. FARNELL
WINSTON & CASHATT
601 West Riverside Avenue, Suite 1900
Spokane, WA 99201**



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**Grantor: McCarthy Investments, LLC
Beneficiary: Heron Ventures, Ltd
Trustee: Land Title Company of Skagit County
Abbr. Legal Description: Lt. 2, Blk. 22, Syndicate Add. To City of La Conner,
Skagit County, State of Washington
Assessor's Tax Parcel No.: P74397**

DEED OF TRUST

THIS DEED OF TRUST is granted as of December 11, 2007 by **MCCARTHY INVESTMENTS, LLC**, ("**Grantor**"), whose address is 117 Maple Avenue, La Conner, Washington 98257, to **LAND TITLE COMPANY OF SKAGIT COUNTY** ("**Trustee**"), whose address is 111 East George Hopper Road, P. O. Box 445, Burlington, Washington 98233, in trust for **HERON VENTURES, LTD.**, a Washington Limited Liability Company ("**HVL**") whose address is 10A Eagle Nest Drive, La Conner, Washington 98257, and is made with reference to the **Watergrass Online, LLC Operating Agreement dated February 2007 and the First Amended Watergrass Online, LLC Operating Agreement** of even date herewith between **HERON INN, INC.** ("Heron Inn") and **HVL**. Grantor agrees as follows:

1. **CONVEYANCE.** Grantor hereby irrevocably grants, bargains, sells and conveys to Trustee, in trust, with power of sale, all of Grantor's right, title and interest in the real property legally described in **Exhibit A** attached ("**Property**"), whether now owned or later acquired by Grantor, together with all buildings, structures and improvements now or later attached to, or used or adapted for use in the ownership, operation or maintenance of, the Property. **THE REAL PROPERTY CONVEYED BY THIS DEED OF TRUST IS NOT USED PRINCIPALLY FOR AGRICULTURAL PURPOSES.**

2. **SECURED OBLIGATIONS.** This Deed of Trust secures performance of that certain Watergrass Online, LLC Operating Agreement dated February 2007 and the First Amended Watergrass Online, LLC Operating Agreement of even date herewith executed by Heron Inn together with all other existing and future obligations of Heron Inn to HVL if the future obligation by its terms states that it is secured by this Deed of Trust (collectively the "**Secured Obligations**"), including all renewals, modifications

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and extensions thereof and substitutions therefore. Both Heron Inn and Grantor are 100% owned by George and Martha McCarthy and Grantor acknowledges that it is in Grantor's best interest to grant this Deed of Trust and that there is adequate consideration for doing so.

3. **AFFIRMATIVE COVENANTS.** Grantor shall, unless waived in writing by HVL:

(a) Maintenance of Property and Title. Maintain and preserve the Property in good condition and repair, and not commit or permit any waste thereof; and maintain the Property free and clear of all liens and encumbrances other than the encumbrance of this Deed of Trust and the encumbrances of record as of the date this Deed of Trust is recorded and any lien for taxes or assessments not delinquent. Failure to maintain and preserve the Property in good condition and repair shall constitute "waste" by the Grantor as that term is used in R.C.W. 61.24.100.

(b) Compliance with Laws. Comply with all laws, ordinances, regulations, covenants, conditions and restrictions affecting the Property;

(c) Payment of Debts and Taxes. Pay promptly all obligations secured by the Property; all taxes, assessments and governmental liens or charges levied against the Property; and all claims for labor, materials, supplies or otherwise which, if unpaid, might become a lien or charge upon the Property.

(d) Insurance.

i. Casualty. Insure continuously with financially sound and reputable insurers acceptable to HVL (which approval shall not be unreasonably withheld), all improvements on the Property against all risks, casualties and losses through standard fire and extended coverage insurance or otherwise, including, without limitation, insurance against fire, theft, casualty, vandalism and any other risk HVL may reasonably request. The insurance policies shall be in an aggregate amount of not less than the full replacement cost of all improvements on the Property, including the cost of demolition and removal of debris;

ii. Flood. Obtain flood insurance if the Property is located in a designated flood hazard area and where federally subsidized flood insurance is available.

iii. Liability. Maintain comprehensive general public liability insurance insuring against liability from risks associated with the use, ownership and operation of the property.

(e) Hazardous Waste. Notify HVL within 72 hours of any release of a reportable quantity of any Hazardous Substance, or of the receipt by Grantor of any notice, order or communication from any governmental authority which relates to the existence or potential for environmental pollution of any kind existing on the Property, or



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results from the use of the Property or any surrounding property. Grantor shall indemnify, defend and hold HVL and its successors and assigns harmless from and against any and all claims, demands, penalties, fees, liens, damages, losses, expenses, and liabilities arising out of or in any way connected with any alleged or actual future presence on or under the Property of any Hazardous Substance that has resulted from any activities of Grantor. This indemnification shall not apply to any Hazardous Substances which originated on or under the Property through no fault of the Grantor. "Hazardous Substances" shall mean any substance or material which may be hazardous to the health or safety of any person; including without limitation any substance or material which is now or hereafter becomes regulated under any federal, state, or local statute, ordinance, rule, regulation or other law relating to environmental protection, contamination or cleanup; and

(f) Site Visits, Observation and Testing. Permit HVL and its agents and representatives, at any reasonable time, to enter and visit the Property for the purpose of performing appraisals and/or inspecting the Property, taking and removing soil, groundwater and other samples, and conducting tests on any part of the Property. Grantor agrees that HVL neither has nor undertakes any duty or obligation to examine or inspect the Property, and that any inspection by HVL is solely for the purpose of protecting its security and its rights under this Deed of Trust. If HVL believes it has an obligation to disclose any report or findings made as a result of its inspection of the Property, then HVL may make such disclosure.

(g) Costs and Expenses. Pay, reimburse and indemnify HVL for all of HVL's reasonable costs and expenses incurred in connection with the enforcement of HVL's rights and Grantor's obligations under this Deed of Trust, foreclosing upon this Deed of Trust, defending any action or proceeding purporting to affect the rights or duties of HVL or Trustee under this Deed of Trust, or managing the Property and collecting the Payments, including, without limitation, all reasonable attorneys' fees and value of the services of staff counsel, legal expenses, collection costs, costs of title search, and trustee's and receiver's fees.

4. **EMINENT DOMAIN.** In the event any portion of the Property is taken through eminent domain, the amount of the award to which Grantor is entitled shall be applied first to the Secured Obligations in order of their priority.

5. **PROTECTION OF HVL'S INTEREST.** If Grantor shall fail to pay any amounts which may become a lien on the Property, pursuant to Section 3.(c), or fail to maintain adequate insurance on the Property, as required by Section 3.(d), HVL may at its sole option pay such obligations and/or obtain such insurance.

6. **ADDITIONS TO SECURED OBLIGATIONS.** Any payments required under Sections 3.(d), 3.(e) or 3.(g), but not made when demanded, shall immediately be deemed added to the Secured Obligations, and shall accrue interest at the rate of 12% per annum.



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7. **RECONVEYANCE.** Trustee shall reconvey such portion of the Property to the person entitled thereto upon written request of HVL, or upon satisfaction of the Secured Obligations and written request for reconveyance made by HVL or any person interested in the Property, accompanied by Trustee's standard reconveyance fee, which fee shall be Grantor's obligation.

8. **SUCCESSOR TRUSTEE.** In the event of death, incapacity, disability, dissolution, resignation or refusal to act by the Trustee, HVL may appoint a successor trustee and, upon the recording of such appointment in the records of the county in which this Deed of Trust is recorded, the successor trustee shall be vested with all powers of the original Trustee.

9. **EVENTS OF DEFAULT.** The occurrence of any of the following events shall, at HVL's option, and at any time without regard to any previous knowledge on HVL's part, constitute a default under the terms of this Deed of Trust and the Secured Obligations:

(a) Heron Inn shall default in making any payment of the Secured Obligations when due; or

(b) Grantor shall fail to make any payments or to perform any obligations required by this Deed of Trust securing payment of the Secured Obligations; or

(c) An involuntary petition is filed against Grantor, Heron Inn or any guarantor of the Secured Obligations under any bankruptcy, reorganization or other insolvency laws, or a custodian, receiver or trustee is appointed to take possession, custody or control of the Collateral or any other properties or assets of Grantor, Debtor or of any guarantor of the Loan, and such petition or appointment is not set aside, withdrawn or dismissed within thirty (30) days from the date of filing or appointment.

10. **REMEDIES UPON DEFAULT.** If any default occurs and is continuing, and subject to any applicable notice and cure period provided for below, HVL may, at its option:

(a) Accelerate. Declare any or all of the Secured Obligations, together with all accrued interest, to be immediately due and payable without presentment, demand, protest or notice of any kind, all of which are expressly waived by Grantor;

(b) Payments. Pay such sums as may be necessary to obtain a current appraisal, to inspect and test the Property, and to pay any tax, assessment, insurance premium, lien, encumbrance or other charge against the Property, all without prejudice to HVL's right to accelerate the Secured Obligations and foreclose upon this Deed of Trust. Grantor shall reimburse HVL upon demand, for all such amounts paid by HVL, with interest thereon from the date of such payment at the highest rate that is, from time to time, applicable on any of the Secured Obligations. All unreimbursed amounts shall be added to and become a part of the Secured Obligations;



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(c) Trustee's Sale. Direct the Trustee, upon written request, to sell the Property and apply the sale proceeds in accordance with Washington's Deed of Trust Act (RCW §61.24.010, *et seq.*). Any person, except Trustee, may bid at the Trustee's sale; and

(d) Other Remedies. Pursue all other available legal and equitable remedies, including, without limitation, foreclosing upon this Deed of Trust as a mortgage. Notwithstanding the foregoing, HVL will not take any of the foregoing steps on default (a) because of a monetary default by Heron Inn on the Secured Obligations unless the default is not cured within ten (10) days of the date on which HVL mails or delivers written notice of the default to Heron Inn and Grantor or (b) because of a non-monetary default by Grantor under this Deed of Trust or the Secured Obligations, unless the default is not cured within thirty (30) days of the date on which HVL mails or delivers written notice of the default to Grantor. If the non-monetary default is capable of being cured and cannot reasonably be made within the thirty (30) day cure period, the cure period shall be extended up to ninety (90) days so long as Grantor has commenced action to cure within the thirty (30) day cure period, and in HVL's opinion, Grantor is proceeding to cure the default with due diligence. None of the foregoing shall be construed to obligate HVL to forbear in any other manner from exercising its remedies and HVL may pursue any other rights or remedies which HVL may have because of the default.

11. **WAIVER.** No waiver by HVL of any deviation by Grantor from full performance of this Deed of Trust or from Heron Inn's performance of the Secured Obligations, as the case may be, shall constitute a waiver of HVL's right to require prompt payment or to assert any other right or remedy provided for in this Deed of Trust or the Secured Obligations on the basis of the same or similar failure to perform.

12. **SUCCESSORS/APPLICABLE LAW.** This Deed of Trust shall be binding upon the Grantor and the Grantor's successors and assigns. The enforcement of this Deed of Trust and HVL's rights hereunder shall be governed by and construed in accordance with the laws of the State of Washington and any action brought to enforce the same shall be brought in Skagit County Superior Court.

GRANTOR: MCCARTHY INVESTMENTS, LLC

By: George McCarthy
GEORGE MCCARTHY
Its: Managing Member



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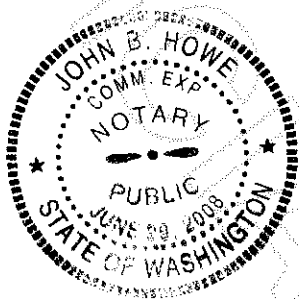
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STATE OF WASHINGTON)

) : ss.

County of Skagit)

On this 11th day of December, in the year 2007, before me John Howe, a Notary Public in and for the State of Washington, personally appeared GEORGE MCCARTHY, known or identified to me to be the Managing Member of McCarthy Investments, LLC, the limited liability company that executed the above instrument as Grantor and acknowledged to me that he/she executed the same. In witness whereof I have hereunto set my hand and affixed my official seal the day and year in this certificate first above written.



[Signature]
Notary Public in and for the State of
Washington, residing at: Skagit County
My appointment expires: 6/29/08

This jurat is Page 6 of six of that Deed of Trust granted by McCarthy Investments, LLC, Grantor, to Heron Ventures, Ltd., Beneficiary, dated November 11, 2007.

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[Signature]

EXHIBIT A

EXHIBIT ATTACHED TO AND FORMING A PART OF THAT DEED OF TRUST
DATED DECEMBER 11, 2007, GIVEN BY MCCARTHY INVESTMENTS, LLC,
GRANTOR, TO HERON VENTURES, LTD., BENEFICIARY.

LEGAL DESCRIPTION:

Lot Two (2), Block Twenty-Two (22), Syndicate Addition to the City of La
Conner, County of Skagit, State of Washington.

Parcel No.: P 74397

Commonly known as: 117 Maple Avenue
La Conner, WA 98257



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