

EXHIBIT 1

PORT OF ANACORTES  
NON-PREFERENTIAL REVOCABLE LEASE AGREEMENT

THIS NON-PREFERENTIAL, REVOCABLE LEASE AGREEMENT made and entered into by and between the PORT OF ANACORTES, a municipal corporation of the State of Washington, hereinafter referred to as "Port" and Frontier Industries Inc. hereinafter referred to as "Lessee".

WITNESSETH:

In consideration of their mutual promises the parties hereto do hereby mutually agree as follows:

1. LEASED PREMISES: The Port hereby leases to Lessee, and Lessee hereby hires and leases from the Port, the following described premises situated in Skagit County, State of Washington:

Port property shown on Exhibit "A", (outlined in red) attached hereto, this being an area of 70,000 square feet. These premises shall be designated as a "sorting yard."

To provide access to the leased premises, Lessee shall have the right to ingress and egress in common with others over Port owned property.

- a. The Port retains for its own use and that of its designees secondary right to the entire premises. Such secondary use shall not exceed a level that would interfere with Frontier Industries' operating needs.
- b. The Port will assume no responsibility for the receipt delivery, care, custody and control of logs when delivered, sorted, stocked or scaled on leased premises shown on Exhibit A.
- c. It is understood by the parties that relocating of the sorting yard may be necessitated by changes in log volumes. Every effort will be made by Frontier Industries Inc. to maximize the efficient use of the square footage assigned to sorting yard operations.

2. TERM: The term of the lease for the premises shall be on a month to month basis beginning the 1st day of APRIL 1986. Either party, at its option, may terminate this Agreement by giving written notice to the other party at least thirty (30) days prior to such termination. Lessee acknowledges that this is a non-preferential, revocable lease agreement and Lessor reserves the right to make alternate use as required of the leased premises that are in the best interest of the Port District with sufficient prior notice to Lessee.

3. RENT: In consideration of the premises herein demised the Lessee agrees to pay the Port a monthly rent of two hundred thirty-three dollars and thirty-three cents (\$233.33) plus leasehold tax at the rate set by the State of Washington, currently 12.84% on the monthly rent. (See Exhibit B attached - Rent Calculation) Rent shall be remitted in advance on or before the first day each and every month of the lease term at such place as the Port may designate. Rent is calculated on a basis of four (4) cents per square foot. All amounts not paid by the Lessee when due shall bear interest at the maximum legal rate, or 12% per annum, whichever amount is greater.

4. USE OF PREMISES: The premises are hereby leased to the Lessee upon the express condition that Lessee shall use said premises for receipt of, sorting and scaling of logs for export. Lessor shall provide for initial preparation of ground for sorting yard use as newly purchased or existing Port property is required for such use, and for no other purpose without the written consent of the Port.

5. ACCEPTANCE OF PREMISES: Lessee has examined the premises and accepts them in their present condition "as is".

a. It is understood by the Parties that services provided by Frontier Industries to the shippers of logs and to the Port of Anacortes are essential to the economic progress of the port district. Port takes full note of Frontier Industries relation to shippers, loggers, trucking contractors and part suppliers and considers Frontier Industries' presence and function in the Port of Anacortes as partial consideration for use of port premises.

b. Frontier Industries and the Port of Anacortes agree that they shall from time to time meet to discuss rates and charges levied by both parties against the receipt, and movement of logs for export. It shall be the Parties intent at all times to maintain the competitiveness of the Port of Anacortes as a log export facility relative to other log export facilities and market conditions.

6. RIGHT TO ENTER PREMISES: The Port may enter upon the premises at any reasonable time for any purpose necessary, incidental to or connected with the performance of its obligations, in the exercise of its governmental function, and/or for all other reasonable purposes.

7. MAINTENANCE: Maintenance of the sorting yard including grading and applications of rock is recognized by the parties to be a periodic necessity. All rock required for periodic maintenance will be provided by Lessee. The Port will pay for fifty (50) percent of the cost of the rock. Labor and equipment for spreading rock once it is delivered to the leased premises will be provided by Lessee with no cost to the Port.

8. SERVICE AND UTILITIES: Lessee shall pay all charges for light, heat, water, gas, sewage, storm water drainage, phone, garbage, and janitorial service, which are charged against said Premises during the term of this lease and provide for any alterations or changes as well as repairs to such systems.

9. HOLD HARMLESS:

Lessee shall protect, indentify, defend and hold and save harmless the Port, its elected officials, agents and employees, their successors and assigns, heirs, executors, and administrators from and against all liabilities, obligations, fines, claims, claims for mechanics' liens, damages, penalties, causes of action, costs and expenses (including without limitation attorney's fees and expenses), and any and all claims by or on behalf of any person or persons, firm or corporation, in connection with any such items of actual or alleged injury or damage,

- arising out of acts or omissions of the Lessee, its servants, agents, invitees, guests and employees on or about Port property, or
- arising out of the use of Port property or any part thereof, including but not limited to, floats, docks or piers, ramps and approaches, buildings, sidewalks, curbs, parking lots, streets or ways, or
- due to or arising out of any failure on the part of the Lessee to perform or comply with any rule, ordinance, or law to be kept and performed.
- THE LESSEE HEREBY WAIVES (GIVES UP) ITS IMMUNITY UNDER THE INDUSTRIAL INSURANCE ACT RCW TITLE 51 AND/OR THE LONGSHOREMEN'S AND HARBOR WORKERS' COMPENSATION ACT.
- THE LESSEE HEREBY AGREES TO INDEMNIFY THE PORT FOR THE CONCURRENT NEGLIGENCE OF THE PORT AND LESSEE.

This indemnify agreement does not apply when such damage or injury be caused solely by negligent or intentional acts of the Port, its elected officials, agents and/or employees.

10. LIABILITY INSURANCE:

(a) Lessee shall procure and maintain, at its own expense, comprehensive liability insurance in full force and effect at all times while operating on or about Port property, insuring the Port from all claims, demands, and/or for damage to property and/or cargo be caused, sustained or alleged to have be sustained by said Lessee or by others as a result of any condition or occurrence whatsoever related in any way to said Lessee's operation on or about Port property, in such amounts as to meet the minimum liability coverage specified below. Such insurance shall be placed with a reputable insurance company(ies) or

underwriter(s) satisfactory to the Port. The insurance policy or policies shall be for standard comprehensive general liability (with watercraft exclusion deleted), including contractual liability coverage, or protection and indemnity coverage under marine insurance, or both, as solely determined by the Port, covering all operations of the Lessee so that the risks of liability created by the Lessee are covered. The Port shall be named as an additional insured by endorsement to the policy or policies. Lessee shall furnish the Port with appropriate documentation in form and content satisfactory to the Port evidencing the coverage required to be kept in full force and effect. The coverage shall not be less than \$500,000.00 combined single limit for property damage, bodily injury or death. The insurance policy or policies shall not be subject to cancellation except after written notice to the Port at least ten (10) days prior to cancellation or material change. The insurance requirement under this section shall, amongst other things, provide coverage for the indemnitor undertakings in the preceding section entitled "HOLD HARMLESS".

(b) The Lessee shall, if it desires coverage from loss, carry insurance against loss by fire or other insurable cause upon its fixtures, furniture and equipment situated on the leased premises during the term of this lease, and, at Lessee's election on Lessee's leasehold interest.

11. DAMAGE OR DESTRUCTION: If the premises are damaged or destroyed by fire or other casualty, the Port shall be under no obligation to repair or reconstruct same and the rent payable hereunder shall be proportionately paid to the time of such damage or destruction.

12. MECHANIC'S LIENS: Lessee agrees to pay when due all sums of money that may become due for or purporting to be due for, any labor, services, materials, supplies, or equipment alleged to have been furnished or to be furnished to or for the Lessee, in, upon or about the premises and which may be secured by any mechanic's materialsman's or other lien against the premises and/or Port's interest therein, and will cause each such lien to be fully discharged and released at the time the performance of any obligation secured by any such lien matures and/or becomes due.

13. LAWS, REGULATIONS, AND PERMITS: The Lessee shall observe and comply with any and all Federal, State or local law, statutes, ordinances, regulations and standards applicable to the Lessee and its use of the Premises, including, rules and regulations that may be duly promulgated from time to time by the Port, and shall, at its own expense, obtain and keep in effect all certificates, licenses and permits necessary to conduct said business and pay all fees applicable to this Lease and the purpose described herein.

14. TAXES: Lessee shall be liable for and shall pay all taxes and assessments, general and special, ordinary and extraordinary, of every kind and nature whatsoever, including taxes now imposed on leasehold interest created by this Lease, which may be levied, assessed or imposed upon the Leased Premises, or any part thereof, or upon any improvements at any time situated thereon, or any personal property of Lessee, or any trade fixtures, accruing or becoming due and payable during the term of this Lease.

15. DEFAULT: If Lessee should, after notice, fail to remedy any default (A) in the payment of any sum due under this lease for ten (10) days or (B) in the keeping of any other term, covenant or condition herein with all reasonable dispatch, not exceeding thirty (30) days, then in any of which event, Port shall have the right, at its option, in addition to and not exclusive of any other remedy Port may have by operation of law, without any further demand or notice, to re-enter the premises and eject all persons therefrom, using all necessary force so to do, and declare this lease at an end.

16. LEGAL CLAIMS: The Lessee shall promptly report to the Port any claim or suit against the Lessee arising out of or in connection with the operation of Lessee's business on the Premises. Except to the extent that the Port seeks indemnity from Lessee for the same, the Port shall have the right to compromise and defend the same to the extent of its own interest. The Lessee is an independent contractor in every respect, and not the agent of the Port.

17. ASSIGNMENT OR SUBLEASE: Lessee shall not assign or transfer this lease or any interest therein nor sublet the whole or any part of the premises, nor shall this lease or any interest thereunder be assignable or transferable by operation of law or by any process or proceedings of court, or otherwise, without the written consent of the Port first had and obtained. If Lessee is a corporation, Lessee further agrees that if at any time during the term of this lease more than one-half (1/2) of the outstanding shares of any class of stock of Lessee's corporation shall belong to any stockholders other than those who own more than one-half (1/2) of the outstanding shares of that class of stock at the time of the execution of this lease or to members of their immediate families, such change in the ownership of the stock of Lessee shall be deemed an assignment of this lease within the meaning of this paragraph. If the Port shall give its consent to any assignment or sublease, this paragraph shall nevertheless continue in full force and effect and no further assignment or sublease shall be made without the Port's consent.

18. QUIET ENJOYMENT: So long as tenant is not in default under the covenants and agreements of this Lease, Tenant's quiet and peaceable enjoyment of the leased Premises is warranted by the Port.

19. TERMINATION AND SURRENDER OF POSSESSION:

A. Upon the expiration or other termination of this Lease, the Lessee's rights to use the Premises herein agreed upon shall cease and the Lessee shall forthwith upon such expiration or termination, surrender the same and shall yield and deliver to the Port possession of, and all keys to the Leased Premises herein at the termination date.

B. If Lessee becomes insolvent, voluntarily or involuntarily bankrupt, or if a receiver officer is appointed for the business of Lessee, then the Port may cancel or terminate this lease at its option.

20. NON-WAIVER OF BREACH: The waiving of any of the covenants of this lease by either party shall be limited to the particular instance and shall not be deemed to waive any other breaches of such covenants. The consent shall not be deemed to waive consent to any subsequent similar act by Lessee.

21. PRIOR AND COLLATERAL AGREEMENTS: This lease shall constitute the entire agreement between the parties and no other stipulation, agreement or understanding, written or oral, expressed or implied of the parties hereto or of their agents, relating to the subject matter of this lease shall limit or modify its terms. This lease shall, as of the commencement date hereof, cancel and supercede all prior agreements, written or oral, expressed or implied, between the parties for the use and occupancy of the said premises. This lease shall not be subject to modification or change except by written instrument duly signed.

22. INVALIDITY OF PARTICULAR PROVISIONS: If any term or provision of this lease or the application thereof to any person or circumstance shall, to any extent, be invalid or unenforceable, the remainder of this lease or the application of such term or provision to person or circumstances other than as to which it is held invalid or unenforceable shall not be effected thereby and shall continue in full force and effect.

23. NOTICES: All payments, demands, and notices required herein shall be deemed to be properly served if hand delivered, or if sent by certified or registered mail, postage prepaid, to the last address previously furnished by the parties hereto. Until hereafter changed by the parties in writing, notices shall be addressed as follows:

PORT: PORT OF ANACORTES  
P. O. Box 297  
Anacortes, Wa. 98221

LESSEE: FRONTIER INDUSTRIES, INC.  
820 - 4TH Street  
Anacortes, Wa. 98221

Date of service of such notice shall be date such notice is deposited in a Post Office of the U. S. Post Office Department.

24. PARAGRAPH HEADINGS: Paragraph headings contained herein are for convenience in reference and are not intended to define or limit the scope of any provision of this Agreement.

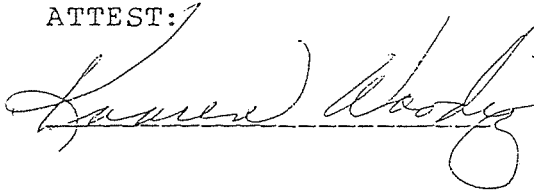
25. CLEAN UP AND INSPECTION: Lessee shall be responsible for cleanup of the leased premises to the satisfaction of Lessor upon inspection. Premises shall be left in the same condition as were originally accepted by Lessee at the commencement of the lease period.

IN WITNESS WHEREOF, the parties hereto have signed this lease as of the day and year first above written.

ATTEST:

  
\_\_\_\_\_  
Port Auditor

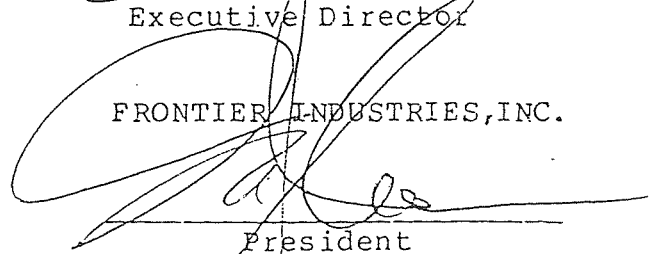
ATTEST:

  
\_\_\_\_\_

PORT OF ANACORTES

  
\_\_\_\_\_  
Executive Director

FRONTIER INDUSTRIES, INC.

  
\_\_\_\_\_  
President

Owners/Officers are signing individually and as officers of the Lessee Corporation as to responsibilities and obligations of performance herein recited.

EXHIBIT "A"

GUENES CHANNEL

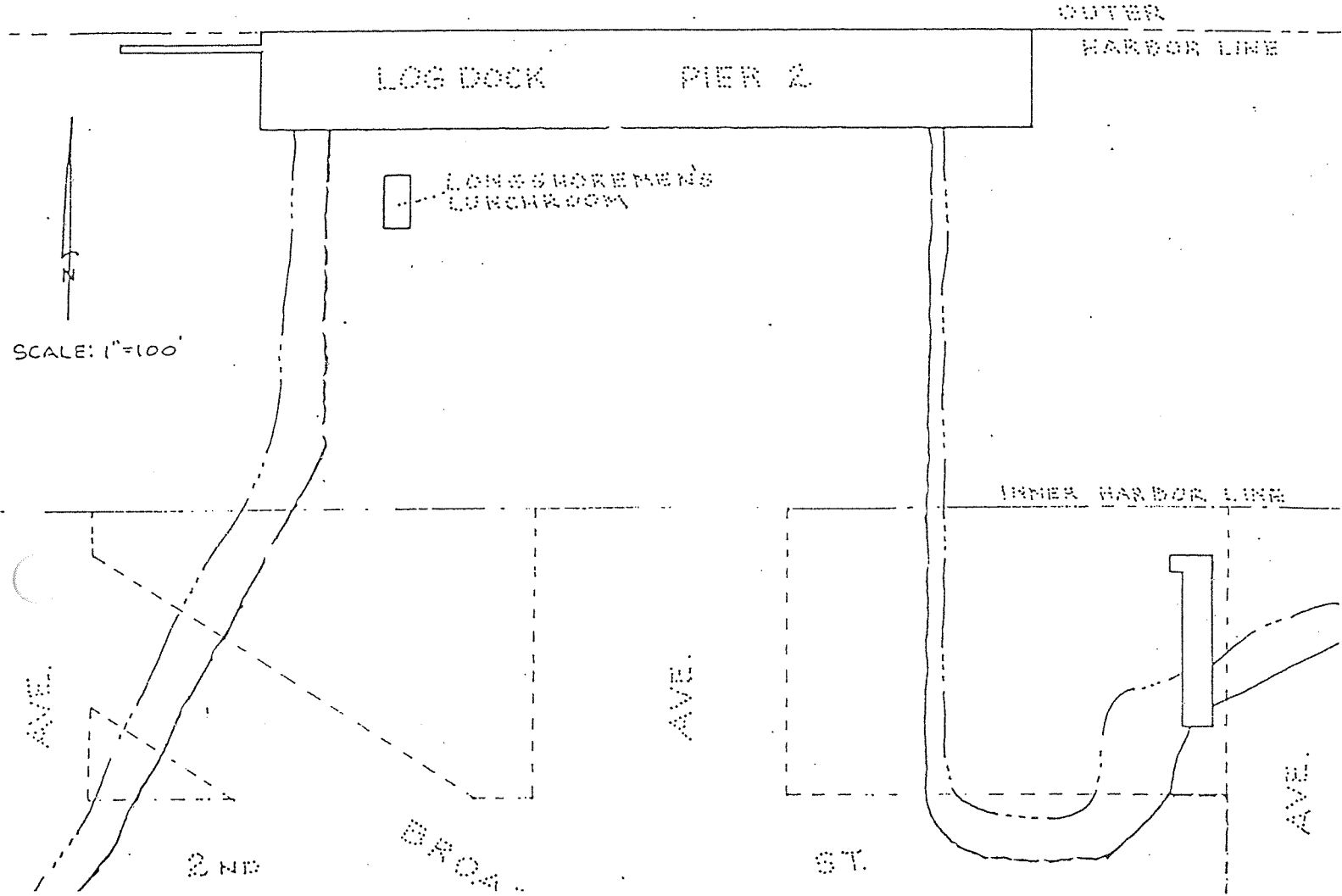




EXHIBIT "B"

70,000 Square Feet at a cost of \$.04 cents per square foot  
per year.

\$ 2,800.00 per year

\$ 233.33 per month

\$ 29.96 lease hold tax per month (12.84%)

TOTAL \$ 263.29 per month

ACKNOWLEDGEMENT FOR INDIVIDUAL LESSEE

STATE OF WASHINGTON )

:SS

COUNTY OF SKAGIT )

On this 1st day of April, 1986, before me personally appeared MIKE JOHNSON and \_\_\_\_\_, to me known to be the individual(s) described in and who executed the within and foregoing instrument, and acknowledged they signed and sealed the same as their free and voluntary act and deed for the uses and purpose therein mentioned.

IN WITNESS WHEREOF I have hereunto set my hand and affixed my official seal the day and year first above written.

Lawrence F. Wooding

Notary Public in and for the State of Washington, residing at Anacortes.

My appointment expires: 4/1/87



