STATE OF WASHINGTON
DEPARTMENT OF NATURAL RESOURCES
DOUG SUTHERLAND, Commissioner of Public Lands

AQUATIC LANDS COMMERCIAL LEASE

TABLE OF CONTENTS

SECTION **PAGE**

BACKGROUND 1

1. PROPERTY 1

1.1 PROPERTY DEFINED 1
1.2 SURVEY, MAPS, AND PLANS 1
1.3 INSPECTION 1

2. USE 2

2.1 PERMITTED USE 2
2.2 RESTRICTIONS ON USE 2
2.3 CONFORMANCE WITH LAWS 2
2.4 LIENS AND ENCUMBRANCES 2

3. TERM 2

3.1 TERM DEFINED 2
3.2 RENEWAL OF THE LEASE 2
3.3 DELAY IN DELIVERY OF POSSESSION 3
3.4 END OF TERM 3
3.5 HOLD OVER. 3

4. RENT 3

4.1 ANNUAL RENT 3
4.2 PAYMENT PLACE 3
4.3 ADJUSTMENT BASED ON USE 3
4.4 RENT ADJUSTMENTS FOR WATER-DEPENDENT USES 4
4.5 RENT ADJUSTMENTS FOR WATER-DEPENDENT USES 4
4.6 RENT ADJUSTMENT PROCEDURES 5

5. OTHER EXPENSES 5
5.1 UTILITIES 5
5.2 TAXES AND ASSESSMENTS 5
5.3 RIGHT TO CONTEST 5
5.4 PROOF OF PAYMENT 5
5.5 FAILURE TO PAY 5
6. LATE PAYMENTS AND OTHER CHARGES 6
6.1 LATE CHARGE 6
6.2 INTEREST PENALTY FOR PAST DUE RENT AND OTHER SUMS OWED 6
6.3 NO ACCORD AND SATISFACTION 6
6.4 NO COUNTERCLAIM, SETOFF, OR ABATEMENT OF RENT. 6
7. IMPROVEMENTS 6
7.1 EXISTING IMPROVEMENTS 6
7.2 TENANT-OWNED IMPROVEMENTS 6
7.3 CONSTRUCTION 7
7.4 REMOVAL 7
7.5 UNAUTHORIZED IMPROVEMENTS 7
8. ENVIRONMENTAL LIABILITY/RISK ALLOCATION 8
8.1 DEFINITION 8
8.2 USE OF HAZARDOUS SUBSTANCES 8
8.3 CURRENT CONDITIONS, DUTY OF UTMOST CARE, AND DUTY TO INVESTIGATE 8
8.4 NOTIFICATION AND REPORTING 9
8.5 INDEMNIFICATION 10
8.6 CLEANUP 11
8.7 SAMPLING BY STATE, REIMBURSEMENT, AND SPLIT SAMPLES 11
8.8 RESERVATION OF RIGHTS 12
9. ASSIGNMENT AND SUBLETTING 12
9.1 STATE CONSENT REQUIRED 12
9.2 EVENT OF ASSIGNMENT 13
9.3 RENT PAYMENTS FOLLOWING ASSIGNMENT 13
9.4 TERMS OF SUBLEASES 13
9.5 ROUTINE SUBLEASING OF MOORAGE SLIPS 14
10. INDEMNITY, FINANCIAL SECURITY, INSURANCE 14
10.1 INDEMNITY 14
10.2 FINANCIAL SECURITY 14
10.3 INSURANCE 15
10.4 STATE'S ACQUISITION OF INSURANCE 17
11. MAINTENANCE AND REPAIR 17
11.1 STATE'S REPAIRS 17
11.2 TENANT'S REPAIRS, ALTERATION, MAINTENANCE AND REPLACEMENT 17

DNR-00000394

12. DAMAGE OR DESTRUCTION 18
13. CONDEMNATION 18
13.1 DEFINITIONS 18
13.2 EFFECT OF TAKING 19
13.3 ALLOCATION OF AWARD 19
14. DEFAULT AND REMEDIES 19
15. ENTRY BY STATE 20
16. DISCLAIMER OF QUIET ENJOYMENT 20
17. NOTICE 21
18. MISCELLANEOUS 21
18.1 AUTHORITY 21
18.2 SUCCESSORS AND ASSIGNS 21
18.3 HEADINGS 21
18.4 ENTIRE AGREEMENT 21
18.5 WAIVER 21
18.6 CUMULATIVE REMEDIES 22
18.7 TIME IS OF THE ESSENCE 22
18.8 LANGUAGE 22
18.9 INVALIDITY 22
18.10 APPLICABLE LAW AND VENUE 22
18.11 RECORDATION 22
18.12 MODIFICATION 22

EXHIBIT A: LEGAL DESCRIPTION AND SURVEY
EXHIBIT B: PLAN OF OPERATIONS AND MAINTENANCE

DNR-00000395

STATE OF WASHINGTON
DEPARTMENT OF NATURAL RESOURCES
DOUG SUTHERLAND, Commissioner of Public Lands

AQUATIC LANDS LEASE
(Commercial)

AQUATIC LANDS LEASE NO. 22-A02332

THIS LEASE is made by and between the STATE OF WASHINGTON, acting through the Department of Natural Resources ("State"), and SEVEN J'S INVESTMENT LIMITED PARTNERSHIP, a partnership ("Tenant").

BACKGROUND

Tenant desires to lease the aquatic lands commonly known as Port Washington Narrows, which is a harbor area located in Kitsap County, Washington, from State, and State desires to lease the property to Tenant pursuant to the terms and conditions of this Lease.

THEREFORE, the parties agree as follows:

SECTION 1 PROPERTY

1.1 Property Defined. State leases to Tenant and Tenant leases from State the real property described in Exhibit A together with all the rights of State, if any, to improvements on and easements benefiting the Property, but subject to the exceptions and restrictions set forth in this Lease (collectively the "Property"). This Lease is subject to all valid interests of third parties noted in the records of Kitsap County, or on file in the office of the Commissioner of Public Lands, Olympia, Washington; rights of the public under the Public Trust Doctrine or federal navigation servitude; and treaty rights of Indian Tribes. Not included in this Lease are any right to harvest, collect or damage any natural resource, including aquatic life or living plants, any water rights, or any mineral rights, including any right to excavate or withdraw sand, gravel, or other valuable materials. State reserves the right to grant easements and other land uses on the Property to others when the easement or other land uses will not unreasonably interfere with Tenant's Permitted Use.

1.2 Survey, Maps, and Plans. In executing this Lease, State is relying on the surveys, plats, diagrams, and/or legal descriptions provided by Tenant. Tenant is not relying upon and State is not making any representations about any survey, plat, diagram, and/or legal description provided by State.

1.3 Inspection. State makes no representation regarding the condition of the Property, improvements located on the Property, the suitability of the Property for Tenant's Permitted Use, compliance with governmental laws and regulations, availability of utility rights, access to the Property or the existence of hazardous substances on the Property. Tenant has inspected the Property and accepts it "AS IS."

DNR-00000396

SECTION 2 USE

2.1 Permitted Use. Tenant shall use the Property for recreational and commercial vessel moorage and a marine pump out facility (the "Permitted Use"), and for no other purpose. The Permitted Use is described or shown in greater detail in Exhibit B, the terms and conditions of which are incorporated by reference and made a part of this Lease. The parties agree that this is a mixed use, with 174,000 square feet of water-dependent use and 2,831 square feet of nonwater-dependent use.

2.2 Restrictions on Use. Tenant shall not cause or permit any damage to natural resources on the Property. Tenant shall also not cause or permit any filling activity to occur on the Property. This prohibition includes any deposit of rock, earth, ballast, refuse, garbage, waste matter (including chemical, biological or toxic wastes), hydrocarbons, any other pollutants, or other matter in or on the Property, except as approved in writing by State. Tenant shall neither commit nor allow waste to be committed to or on the Property. If Tenant fails to comply with all or any of the restrictions on the use of the Property set out in this Subsection 2.2, State shall notify Tenant and provide Tenant a reasonable time to take all steps necessary to remedy the failure. If Tenant fails to do so in a timely manner, then State may take any steps reasonably necessary to remedy this failure. Upon demand by State, Tenant shall pay all costs of such remedial action, including but not limited to the costs of removing and disposing of any material deposited improperly on the Property. This section shall not in any way limit Tenant's liability under Section 8, below.

2.3 Conformance with Laws. Tenant shall, at all times, keep current and comply with all conditions and terms of any permits, licenses, certificates, regulations, ordinances, statutes, and other government rules and regulations regarding its use or occupancy of the Property.

2.4 Liens and Encumbrances. Tenant shall keep the Property free and clear of any liens and encumbrances arising out of or relating to its use or occupancy of the Property.

SECTION 3 TERM

3.1 Term Defined. The term of this Lease is thirty (30) years (the "Term"), beginning on the 1st day of November, 2004 (the "Commencement Date"), and ending on the 31st day of October, 2034 (the "Termination Date"), unless terminated sooner under the terms of this Lease.

3.2 Renewal of the Lease. Tenant shall have the option to renew this Lease for zero (0) additional terms of N/A years each. The initial Term of this Lease, and all renewal terms, shall not exceed Thirty (30) years in the aggregate. Tenant shall exercise this option by providing written notice of its election to renew at least ninety (90) days prior to the Termination Date of the initial Term or any renewal term of this Lease. Tenant shall not be entitled to renew if it is in default under the terms of this Lease at the time the option to renew is exercised. The terms and conditions of any renewal term shall be the same as set forth in this Lease, except that rent shall be recalculated, the required amounts of financial security may be revised, and provisions dealing with hazardous waste or impacts to natural resources may be changed at the time of the renewal.

3.3 Delay in Delivery of Possession. If State, for any reason whatsoever, cannot deliver possession of the Property to Tenant on the Commencement Date, this Lease shall not be void or voidable, nor shall State be liable to Tenant for any loss or damage resulting from the delay in delivery of possession. In such event, the date of delivery of possession shall be the Commencement Date for all purposes, including the payment of rent. In the event Tenant takes possession before the Commencement Date, the date of possession shall be the Commencement Date for all purposes, including the payment of rent. If the Lease Term commences earlier or later than the scheduled Commencement Date, the Termination Date shall be adjusted accordingly.

3.4 End of Term. Upon the expiration or termination of the Term or extended term, as applicable, Tenant shall surrender the Property to State in the same or better condition as on the Commencement Date, reasonable wear and tear excepted.

3.5 Hold Over. If Tenant remains in possession of the Property after the Termination Date, the occupancy shall not be an extension or renewal of the Term. The occupancy shall be a month-to-month tenancy, on terms identical to the terms of this Lease, which may be terminated by either party on thirty (30) days written notice. The monthly rent during the holdover shall be the same rent which would be due if the Lease were still in effect and all adjustments in rent were made in accordance with its terms. If State provides a notice to vacate the Property in anticipation of the termination of this Lease or at any time after the Termination Date and Tenant fails to do so within the time set forth in the notice, then Tenant shall be a trespasser and shall owe the State all amounts due under RCW 79.01.760 or other applicable law.

SECTION 4 RENT

4.1 Annual Rent. Until adjusted as set forth below, Tenant shall pay to State an annual rent, consisting of One Thousand One Hundred Ninety Two Dollars and Forty Seven Cents ($1,192.47) related to the water-dependent use, and Seven Hundred Sixteen Dollars and Thirty Cents ($716.30) related to the non water-dependent use. The annual rent, as it currently exists or as adjusted or modified (the "Annual Rent"), shall be due and payable in full on or before the Commencement Date, and on or before the same date of each year thereafter.

4.2 Payment Place. Payment is to be made to Financial Management Division, 1111 Washington St SE, PO Box 47041, Olympia, WA 98504-7041.

4.3 Adjustment Based on Use. Annual Rent is based on Tenant's Permitted Use of the Property, as described in Section 2 above. If Tenant's Permitted Use changes, the Annual Rent shall be adjusted as appropriate for the changed use.

DNR-00000398

4.4 Rent Adjustments for Water-Dependent Uses.

(a) Inflation Adjustment. State shall adjust water-dependent rent annually pursuant to RCW 79.90.450 -902, except in those years in which the rent is revalued under Subsection 4.4(b) below. This adjustment shall be effective on the anniversary of the Commencement Date.

(b) Revaluation of Rent. State shall, at the end of the first four-year period of the Term, and at the end of each subsequent four-year period, revalue the water-dependent Annual Rent in accordance with RCW 79.90.450-.902.

(c) Rent Cap. After the initial year's rent is determined under Subsection 4.1, rent may increase by operation of Subsection 4.4(a) or 4.4(b). If application of the statutory rent formula for water-dependent uses would result in an increase in the rent attributable to such uses of more than fifty percent (50%) in any one year, the actual increase implemented in such year shall be limited to fifty percent (50%) of the then-existing rent, in accordance with RCW 79.90.490. The balance of the increase determined by the formula shall be deferred to subsequent years and added to the next and subsequent years' rental increases until the full amount of the increase is lawfully implemented.

4.5 Rent Adjustments for Nonwater-Dependent Uses.

(a) Inflation Adjustment. Except in those years in which the rent is revalued under Subsection 4.5 (b), below, State shall adjust the nonwater-dependent rent annually on the anniversary of the Commencement Date by an amount equal to the percentage increase in the most recently published Consumer Price Index, All Urban Consumers, for the Seattle-Everett SMSA, over the Consumer Price Index for the preceding anniversary of the Commencement Date. All items 1982-84 = 100, as published by the US Department of Labor, Bureau of Labor Statistics. If publication of the Consumer Price Index is discontinued, a reliable governmental or other nonpartisan publication evaluating the information used in determining the Consumer Price Index shall be used.

(b) Revaluation of Rent. State shall, at the end of the first four-year period of the Term, and at the end of each subsequent four-year period, revalue the nonwater-dependent Annual Rent to reflect the then-current fair market rent. In the event that agreement cannot be reached between State and Tenant on the fair market rental value, the valuation shall be submitted to a review board of appraisers. The board shall consist of three members, one selected by and at the cost of Tenant; a second member selected by and at the cost of State; and a third member selected by the other two members with the cost shared equally by State and Tenant. The decision of the majority of the board shall be binding on both parties. Until the new rent is established by agreement or by the review board, Tenant shall pay rent in the same amount established for the preceding year. If additional rent is

DNR-00000399

required as a result of this review, Tenant shall pay the additional rent within ten (10) days of the board's decision. If a refund is required as a result of this review, State shall pay the refund within ten (10) days of the board's decision.

4.6 Rent Adjustment Procedures.

(a) Notice of Rent Adjustment.
Notice of any adjustments to the Annual Rent that are allowed by Subsection 4.4 (b) and 4.5 (b) shall be provided to Tenant in writing no later than ninety (90) days after the anniversary date of the Lease.

(b) Procedures on Failure to make Timely Adjustment.
In the event the State fails to provide the notice required in Subsection 4.6(a), it shall be prohibited from collecting any adjustments to rent only for the year in which it failed to provide notice. No failure by State to adjust Annual Rent pursuant to Subsection 4.6(a) shall affect the State's right to establish Annual Rent for a subsequent lease year as if the missed or waived adjustment had been implemented. The State may adjust, bill, and collect Annual Rent prospectively as if any missed or waived adjustments had actually been implemented. This includes the implementation of any inflation adjustment and any rent revaluations that would have been authorized for previous lease years.

SECTION 5 OTHER EXPENSES

During the Term, Tenant shall pay the following additional expenses:

5.1 Utilities. Tenant shall pay all fees charged for utilities in connection with the use and occupancy of the Property, including but not limited to electricity, water, gas, and telephone service.

5.2 Taxes and Assessments. Tenant shall pay all taxes (including leasehold excise taxes), assessments, and other governmental charges, of any kind whatsoever, applicable or attributable to the Property, Tenant's leasehold interest, the improvements, or Tenant's use and enjoyment of the Property.

5.3 Right to Contest. Tenant may, in good faith, contest any tax or assessment at its sole cost and expense. At the request of State, Tenant shall furnish reasonable protection in the form of a bond or other security, satisfactory to State, against any loss or liability by reason of such contest.

5.4 Proof of Payment. Tenant shall, if required by State, furnish to State receipts or other appropriate evidence establishing the payment of any amounts required to be paid under the terms of this Lease.

5.5 Failure to Pay. If Tenant fails to pay any of the amounts due under this Lease, State may pay the amount due, and recover its cost in accordance with the provisions of Section 6.

SECTION 6 LATE PAYMENTS AND OTHER CHARGES

6.1 Late Charge. If any rental payment is not received by State within ten (10) days of the date due, Tenant shall pay to State a late charge equal to four percent (4%) of the amount of the payment or Fifty Dollars ($50), whichever is greater, to defray the overhead expenses of State incident to the delay.

6.2 Interest Penalty for Past Due Rent and Other Sums Owed. If rent is not paid within thirty (30) days of the date due, then Tenant shall, in addition to paying the late charges determined under Subsection 6.1, above, pay interest on the amount outstanding at the rate of one percent (1%) per month until paid. If State pays or advances any amounts for or on behalf of Tenant, including but not limited to leasehold taxes, taxes, assessments, insurance premiums, costs of removal and disposal of unauthorized materials pursuant to Section 2 above, costs of removal and disposal of improvements pursuant to Section 7 below, or other amounts not paid when due, Tenant shall reimburse State for the amount paid or advanced and shall pay interest on that amount at the rate of one percent (1%) per month from the date State notifies Tenant of the payment or advance.

6.3 No Accord and Satisfaction. If Tenant pays, or State otherwise receives, an amount less than the full amount then due, State may apply such payment as it elects. In the absence of an election, the payment or receipt shall be applied first to accrued taxes which State has advanced or may be obligated to pay, then to other amounts advanced by State, then to late charges and accrued interest, and then to the earliest rent due. State may accept any payment in any amount without prejudice to State's right to recover the balance of the rent or pursue any other right or remedy. No endorsement or statement on any check, any payment, or any letter accompanying any check or payment shall constitute or be construed as accord and satisfaction.

6.4 No Counterclaim, Setoff, or Abatement of Rent. Except as expressly set forth elsewhere in this Lease, rent and all other sums payable by Tenant pursuant to this Lease shall be paid without the requirement that State provide prior notice or demand, and shall not be subject to any counterclaim, setoff, deduction, defense or abatement.

SECTION 7 IMPROVEMENTS

7.1 Existing Improvements. On the Commencement Date, the following improvements are located on the Property: sixty three (63) pilings, a bulkhead and filled retaining wall, and two buildings ("Existing Improvements"). The above improvements are not owned by State. Also located on the property is a bulkhead and abutting filled parking area ("State-Owned Improvements"). The bulkhead abutting the filled parking area, and the filled parking area are owned by State.

7.2 Tenant-Owned Improvements. So long as this Lease remains in effect, Tenant shall retain ownership of all Existing Improvements, and all authorized improvements and trade fixtures it may place on the Property (collectively "Tenant-Owned Improvements"). Tenant-Owned Improvements shall not include any construction, reconstruction, alteration, or addition

DNR-00000401

to any Unauthorized Improvements as defined in Subsection 7.5 below. No Tenant-Owned Improvements shall be placed on the Property without State's prior written consent.

7.3 Construction. Prior to any construction, alteration, replacement, removal or major repair of any improvements (whether State-Owned or Tenant-Owned), Tenant shall submit to State plans and specifications which describe the proposed activity. Construction shall not commence until State has approved those plans and specifications in writing and Tenant has obtained a performance and payment bond in an amount equal to 125% of the estimated cost of construction. The performance and payment bond shall be maintained until the costs of construction, including all laborers and material persons, have been paid in full. State shall have sixty (60) days in which to review the proposed plans and specifications. The plans and specifications shall be deemed approved and the requirement for State's written consent shall be treated as waived, unless State notifies Tenant otherwise within the sixty (60) days. Upon completion of construction, Tenant shall promptly provide State with as-built plans and specifications. State's consent and approval shall not be required for any routine maintenance or repair of improvements made by the Tenant pursuant to its obligation to maintain the Property in good order and repair that does not result in the construction, alteration, replacement, removal, or major repair of any improvements on the Property.

7.4 Removal. Tenant-Owned Improvements shall be removed by Tenant by the Termination Date unless State notifies Tenant that the Tenant-Owned Improvements may remain. If the State elects for the Tenant-Owned Improvements to remain on the Property after the Termination Date, they shall become the property of State without payment by State (if the provisions of RCW 79.94.320 or RCW 79.95.040 apply, Tenant shall be entitled to the rights provided in the statute). To the extent that Tenant-Owned Improvements include items of personal property which may be removed from the leasehold premises without harming the Property, or diminishing the value of the Property or the improvements, the State asserts no ownership interest in these improvements unless the parties agree otherwise in writing upon termination of this Lease. Any Tenant-Owned Improvements specifically identified as personal property in Exhibit A or B shall be treated in accordance with this provision. Tenant shall notify State at least one hundred eighty (180) days before the Termination Date if it intends to leave the Tenant-Owned Improvements on the Property. State shall then have ninety (90) days in which to notify Tenant that it wishes to have the Tenant-Owned Improvements removed or elects to have them remain. Failure to notify Tenant shall be deemed an election by State that the Tenant-Owned Improvements will remain on the Property. If the Tenant-Owned Improvements remain on the Property after the Termination Date without State's actual or deemed consent, they still will become the property of the State but the State may remove them and Tenant shall pay the costs of removal and disposal upon State's demand.

7.5 Unauthorized Improvements. Improvements made on the Property without State's prior consent pursuant to Subsection 7.3 or which are not in conformance with the plans submitted to and approved by State ("Unauthorized Improvements") shall immediately become the property of State, unless State elects otherwise. Regardless of ownership of Unauthorized Improvements, State may, at its option, require Tenant to sever, remove, and dispose of them,

DNR-00000402

charge Tenant rent for the use of them, or both. If Tenant fails to remove an Unauthorized Improvement upon request, State may remove it and charge Tenant for the cost of removal and disposal.

SECTION 8 ENVIRONMENTAL LIABILITY/RISK ALLOCATION

8.1 Definition. "Hazardous Substance" means any substance which now or in the future becomes regulated or defined under any federal, state, or local statute, ordinance, rule, regulation, or other law relating to human health, environmental protection, contamination or cleanup, including, but not limited to, the Comprehensive Environmental Response, Compensation and Liability Act of 1980 ("CERCLA"), 42 U.S.C. 9601 *et seq.*, and Washington's Model Toxics Control Act ("MTCA"), RCW 70.105D.010 *et seq.*

8.2 Use of Hazardous Substances. Tenant covenants and agrees that Hazardous Substances will not be used, stored, generated, processed, transported, handled, released, or disposed of in, on, under, or above the Property, except in accordance with all applicable laws.

8.3 Current Conditions, Duty of Utmost Care, and Duty to Investigate.

(a) State makes no representation about the condition of the Property. Hazardous Substances may exist in, on, under, or above the Property. With regard to any Hazardous Substances that may exist in, on, under, or above the Property, State disclaims any and all responsibility to conduct investigations, to review any State records, documents or files, or to obtain or supply any information to Tenant.

(b) Tenant shall exercise the utmost care with respect to both Hazardous Substances in, on, under, or above the Property as of the Commencement Date, and any Hazardous Substances that come to be located in, on, under, or above the Property during the Term of this agreement, along with the foreseeable acts or omissions of third parties affecting those Hazardous Substances, and the foreseeable consequences of those acts or omissions. The obligation to exercise utmost care under this Subsection 8.3 includes, but is not limited to, the following requirements:

(1) Tenant shall not undertake activities that will cause, contribute to, or exacerbate contamination of the Property;

(2) Tenant shall not undertake activities that damage or interfere with the operation of remedial or restoration activities on the Property or undertake activities that result in human or environmental exposure to contaminated sediments on the Property;

(3) Tenant shall not undertake any activities that result in the mechanical or chemical disturbance of on-site habitat mitigation;

DNR-00000403

(4) If requested, Tenant shall allow reasonable access to the Property by employees and authorized agents of the Environmental Protection Agency, the Washington State Department of Ecology, or other similar environmental agencies; and

(5) If requested, Tenant shall allow reasonable access to potentially liable or responsible parties who are the subject of an order or consent decree which requires access to the Property. Tenant's obligation to provide access to potentially liable or responsible parties may be conditioned upon the negotiation of an access agreement with such parties, provided that such agreement shall not be unreasonably withheld.

(c) It shall be Tenant's obligation to gather sufficient information concerning the Property and the existence, scope, and location of any Hazardous Substances on the Property, or adjoining the Property, that allows Tenant to effectively meet its obligations under this lease.

8.4 Notification and Reporting.

(a) Tenant shall immediately notify State if Tenant becomes aware of any of the following:

(1) A release or threatened release of Hazardous Substances in, on, under, or above the Property, any adjoining property, or any other property subject to use by Tenant in conjunction with its use of the Property;

(2) Any problem or liability related to, or derived from, the presence of any Hazardous Substance in, on, under, or above the Property, any adjoining property, or any other property subject to use by Tenant in conjunction with its use of the Property;

(3) Any actual or alleged violation of any federal, state, or local statute, ordinance, rule, regulation, or other law pertaining to Hazardous Substances with respect to the Property, any adjoining property, or any other property subject to use by Tenant in conjunction with its use of the Property;

(4) Any lien or action with respect to any of the foregoing; or,

(5) Any notification from the US Environmental Protection Agency (EPA) or the Washington State Department of Ecology (DOE) that remediation or removal of Hazardous Substances is or may be required at the Property.

(b) Upon request, Tenant shall provide State with copies of any and all reports, studies, or audits which pertain to environmental issues or concerns associated with the Property, and which were prepared for Tenant and submitted to any federal, state or

DNR-00000404

local authorities pursuant to any federal, state or local permit, license or law. These permits include, but are not limited to, any National Pollution Discharge and Elimination System Permit, any Army Corps of Engineers permit, any State Hydraulics permit, any State Water Quality certification, or any Substantial Development permit.

8.5 Indemnification.

(a) Tenant shall fully indemnify, defend, and hold State harmless from and against any and all claims, demands, damages, natural resource damages, response costs, remedial costs, cleanup costs, losses, liens, liabilities, penalties, fines, lawsuits, other proceedings, costs, and expenses (including attorneys' fees and disbursements), that arise out of, or are in any way related to:

(1) The use, storage, generation, processing, transportation, handling, or disposal of any Hazardous Substance by Tenant, its subtenants, contractors, agents, employees, guests, invitees, or affiliates in, on, under, or above the Property, any adjoining property, or any other property subject to use by Tenant in conjunction with its use of the Property, during the Term of this Lease or during any time when Tenant occupies or occupied the Property or any such other property;

(2) The release or threatened release of any Hazardous Substance, or the exacerbation of any Hazardous Substance contamination, in, on, under, or above the Property, any adjoining property, or any other property subject to use by Tenant in conjunction with its use of the Property, which release, threatened release, or exacerbation occurs or occurred during the Term of this Lease or during any time when Tenant occupies or occupied the Property or any such other property, and as a result of:

(i) Any act or omission of Tenant, its subtenants, contractors, agents, employees, guests, invitees, or affiliates; or,

(ii) Any foreseeable act or omission of a third party unless Tenant exercised the utmost care with respect to the foreseeable acts or omissions of the third party and the foreseeable consequences of those acts or omissions.

(b) In addition to the indemnifications provided in Subsection 8.5(a), Tenant shall fully indemnify State for any and all damages, liabilities, costs or expenses (including attorneys' fees and disbursements) that arise out of or are in any way related to Tenant's breach of the obligations of Subsection 8.3(b). This obligation is not intended to duplicate the indemnity provided in Subsection 8.5(a) and applies only to damages, liabilities, costs, or expenses that are associated with a breach of Subsection 8.3(b) and which are not characterized as a release, threatened release, or exacerbation of Hazardous Substances.

DNR-00000405

8.6 Cleanup. If a release of Hazardous Substances occurs in, on, under, or above the Property, or other State-owned property, arising out of any action, inaction, or event described or referred to in Subsection 8.5, above, Tenant shall, at its sole expense, promptly take all actions necessary or advisable to clean up the Hazardous Substances. Cleanup actions shall include, without limitation, removal, containment and remedial actions and shall be performed in accordance with all applicable laws, rules, ordinances, and permits. Tenant's obligation to undertake a cleanup under this Subsection 8.6 shall be limited to those instances where the Hazardous Substances exist in amounts that exceed the threshold limits of any applicable regulatory cleanup standards. Tenant shall also be solely responsible for all cleanup, administrative, and enforcement costs of governmental agencies, including natural resource damage claims, arising out of any action, inaction, or event described or referred to in Subsection 8.5, above. Tenant may undertake a cleanup pursuant to the Washington State Department of Ecology's Voluntary Cleanup Program, provided that: (1) Any cleanup plans shall be submitted to State (DNR) for review and comment at least thirty (30) days prior to implementation (except in emergency situations), and (2) Tenant must not be in breach of this lease. Nothing in the operation of this provision shall be construed as an agreement by State that the voluntary cleanup complies with any laws or with the provisions of this Lease.

8.7 Sampling by State, Reimbursement, and Split Samples.

(a) State may conduct sampling, tests, audits, surveys, or investigations ("Tests") of the Property at any time to determine the existence, scope, or effects of Hazardous Substances on the Property, any adjoining property, any other property subject to use by Tenant in conjunction with its use of the Property, or any natural resources. If such Tests, along with any other information, demonstrates the existence, release, or threatened release of Hazardous Substances arising out of any action, inaction, or event described or referred to in Subsection 8.5, above, Tenant shall promptly reimburse State for all costs associated with such Tests.

(b) State's ability to seek reimbursement for any Tests under this Subsection shall be conditioned upon State providing Tenant written notice of its intent to conduct any Tests at least thirty (30) calendar days prior to undertaking such Tests, unless such Tests are performed in response to an emergency situation in which case State shall only be required to give such notice as is reasonably practical.

(c) Tenant shall be entitled to obtain split samples of any Test samples obtained by State, but only if Tenant provides State with written notice requesting such samples within twenty (20) calendar days of the date Tenant is deemed to have received notice of State's intent to conduct any non-emergency Tests. The additional cost, if any, of split samples shall be borne solely by Tenant. Any additional costs State incurs by virtue of Tenant's split sampling shall be reimbursed to State within thirty (30) calendar days after a bill with documentation for such costs is sent to Tenant.

Within thirty (30) calendar days of a written request (unless otherwise required pursuant to Subsection 8.4(b), above), either party to this Lease shall provide the other party with validated final data, quality assurance/quality control information, and chain of custody information, associated with any Tests of the Property performed by or on behalf of State or Tenant. There is no obligation to provide any analytical summaries or expert opinion work product.

8.8 Reservation of Rights. The parties have agreed to allocate certain environmental risks, liabilities, and responsibilities by the terms of Section 8. With respect to those environmental liabilities covered by the indemnification provisions of Subsection 8.5, that subsection shall exclusively govern the allocation of those liabilities. With respect to any environmental risks, liabilities, or responsibilities not covered by Subsection 8.5, the parties expressly reserve and do not waive or relinquish any rights, claims, immunities, causes of action, or defenses relating to the presence, release, or threatened release of Hazardous Substances in, on, under, or above the Property, any adjoining property, or any other property subject to use by Tenant in conjunction with its use of the Property, that either party may have against the other under federal, state, or local laws, including but not limited to, CERCLA, MTCA, and the common law. No right, claim, immunity, or defense either party may have against third parties is affected by this Lease and the parties expressly reserve all such rights, claims, immunities, and defenses. The allocations of risks, liabilities, and responsibilities set forth above do not release either party from, or affect either party's liability for, claims or actions by federal, state, or local regulatory agencies concerning Hazardous Substances.

SECTION 9 ASSIGNMENT AND SUBLETTING

9.1 State Consent Required. Tenant shall not sell, convey, mortgage, assign, pledge, sublet, or otherwise transfer or encumber all or any part of Tenant's interest in this Lease or the Property without State's prior written consent, which shall not be unreasonably conditioned or withheld.

(a) In determining whether to consent, State may consider, among other items, the proposed transferee's financial condition, business reputation and experience, the nature of the proposed transferee's business, the then-current value of the Property, and such other factors as may reasonably bear upon the suitability of the transferee as a tenant of the Property. Tenant shall submit information regarding any proposed transferee to State at least thirty (30) days prior to the date of the proposed transfer.

(b) State reserves the right to condition its consent upon: (1) changes in the terms and conditions of this Lease, including the Annual Rent and other terms; and/or (2) the agreement of Tenant or transferee to conduct Tests for Hazardous Substances on the Property or on other property owned or occupied by Tenant or the transferee.

(c) Each permitted transferee shall assume all obligations under this Lease, including the payment of rent. No assignment, sublet, or transfer shall release, discharge, or otherwise affect the liability of Tenant.

DNR-00000407

9.2 Event of Assignment. If Tenant is a corporation, a dissolution of the corporation or a transfer (by one or more transactions) of a majority of the voting stock of Tenant shall be deemed to be an assignment of this Lease. If Tenant is a partnership, a dissolution of the partnership or a transfer (by one or more transactions) of the controlling interest in Tenant shall be deemed an assignment of this Lease.

9.3 Rent Payments Following Assignment. The acceptance by State of the payment of rent following an assignment or other transfer shall not constitute consent to any assignment or transfer.

9.4 Terms of Subleases. All subleases shall be submitted to State for approval and shall meet the following requirements:

(a) The sublease shall be consistent with and subject to all the terms and conditions of this Lease;

(b) The sublease shall confirm that if the terms of the sublease conflict with the terms of this Lease, this Lease shall control;

(c) The term of the sublease (including any period of time covered by a renewal option) shall end before the Termination Date of the initial Term or any renewal term;

(d) The sublease shall terminate if this Lease terminates, whether upon expiration of the Term, failure to exercise an option to renew, cancellation by State, surrender or for any other reason;

(e) The subtenant shall receive and acknowledge receipt of a copy of this Lease;

(f) The sublease shall prohibit the prepayment to Tenant by the subtenant of more than one month's rent;

(g) The sublease shall identify the rental amount to be paid to Tenant by the subtenant;

(h) The sublease shall confirm that there is no privity of contract between the subtenant and State;

(i) The sublease shall require removal of the subtenant's improvements and trade fixtures upon termination of the sublease; and,

(j) The subtenant's permitted use shall be within the Permitted Use authorized by this Lease.

DNR-00000408

9.5 Routine Subleasing of Moorage Slips. In the case of routine subleasing of moorage slips to recreational and commercial vessel owners for a term of one year or less, Tenant shall not be required to obtain State's written consent or approval pursuant to Subsection 9.1 or Subsection 9.4. Tenant shall be obligated to ensure that these moorage agreements conform to the sublease requirements in Subsection 9.4.

SECTION 10 INDEMNITY, FINANCIAL SECURITY, INSURANCE

10.1 Indemnity. Tenant shall indemnify, defend, and hold harmless State, its employees, officers, and agents from any and all liability, damages (including bodily injury, personal injury and damages to land, aquatic life, and other natural resources), expenses, causes of action, suits, claims, costs, fees (including attorneys' fees), penalties, or judgments, of any nature whatsoever, arising out of the use, occupation, or control of the Property by Tenant, its subtenants, invitees, agents, employees, licensees, or permittees, except as may arise solely out of the willful or negligent act of State or State's elected officials, employees, or agents. To the extent that RCW 4.24.115 applies, Tenant shall not be required to indemnify, defend, and hold State harmless from State's sole or concurrent negligence. Tenant's liability to State for hazardous substances, and its obligation to indemnify, defend, and hold the State harmless for hazardous substances, shall be governed exclusively by Section 8.

10.2 Financial Security.

(a) At its own expense, Tenant shall procure and maintain a corporate surety bond or provide other financial security satisfactory to State (the "Bond") in an amount equal to Twenty Five Thousand Dollars ($25,000), which shall secure Tenant's full performance of its obligations under this Lease, with the exception of the obligations under Section 8 (Environmental Liability/Risk Allocation) above. The Bond shall be in a form and issued by a surety company acceptable to State. State may require an adjustment in the amount of the Bond:

(1) At the same time as revaluation of the Annual Rent;

(2) As a condition of approval of assignment or sublease of this Lease;

(3) Upon a material change in the condition of any improvements; or,

(4) Upon a change in the Permitted Use.

A new or modified Bond shall be delivered to State within thirty (30) days after adjustment of the amount of the Bond has been required by State.

(b) Upon any default by Tenant in its obligations under this Lease, State may collect on the Bond to offset the liability of Tenant to State. Collection on the Bond shall not relieve Tenant of liability, shall not limit any of State's other remedies, and shall not reinstate or cure the default or prevent termination of the Lease because of the default.

10.3 Insurance. At its own expense, Tenant shall procure and maintain during the Term of this Lease, the insurance coverages and limits described in Subsections 10.3(a) and (b) below. This insurance shall be issued by an insurance company or companies admitted and licensed by the Insurance Commissioner to do business in the State of Washington. Insurers must have a rating of B+ or better by "Best's Insurance Reports," or a comparable rating by another rating company acceptable to State. If non-admitted or non-rated carriers are used, the policies must comply with Chapter 48.15 RCW.

(a) Types of Required Insurance.

(1) Commercial General Liability Insurance. Tenant shall procure and maintain Commercial General Liability insurance and, if applicable, Marina Operators Legal Liability insurance covering claims for bodily injury, personal injury, or property damage arising on the Property and/or arising out of Tenant's operations. If necessary, commercial umbrella insurance covering claims for these risks shall be procured and maintained. Insurance must include liability coverage with limits not less than those specified below:

Description	
Each Occurrence	$1,000,000
General Aggregate Limit	$2,000,000

State may impose changes in the limits of liability:

(i) As a condition of approval of assignment or sublease of this Lease;

(ii) Upon any breach of Section 8, above;

(iii) Upon a material change in the condition of the Property or any improvements; or,

(iv) Upon a change in the Permitted Use.

New or modified insurance coverage shall be in place within thirty (30) days after changes in the limits of liability are required by State.

(2) Property Insurance. Tenant shall procure and maintain property insurance covering all real property located on or constituting a part of the Property in an amount equal to the replacement value of all improvements on the Property. Such insurance may have commercially reasonable deductibles.

(3) Worker's Compensation/Employer's Liability Insurance. Tenant shall procure and maintain:

DNR-00000410

(i) State of Washington Worker's Compensation coverage, as applicable, with respect to any work by Tenant's employees on or about the Property and on any improvements;

Employers Liability or "Stop Gap" insurance coverage with limits not less than those specified below. Insurance must include bodily injury coverage with limits not less than those specified below:

Each Employee By Accident	By Disease	Policy Limit By Disease
$1,000,000	$1,000,000	$1,000,000

Longshore and Harbor Worker's Act and Jones Act coverage, as applicable, with respect to any work by Tenant's employees on or about the Property and on any improvements.

(4) Builder's Risk Insurance. As applicable, Tenant shall procure and maintain builder's risk insurance in an amount reasonably satisfactory to State during construction, replacement, or material alteration of the Property or improvements on the Property. Coverage shall be in place until such work is completed and evidence of completion is provided to State.

(5) Business Auto Policy Insurance. As applicable, Tenant shall procure and maintain a business auto policy. The insurance must include liability coverage with limits not less than those specified below:

Description	Each Accident
Bodily Injury and Property Damage	$1,000,000

(b) Terms of Insurance. The policies required under Subsection 10.3 shall name the State of Washington, Department of Natural Resources as an additional insured (except for State of Washington Worker's Compensation coverage, and Federal Jones' Act and Longshore and Harbor Worker's Act coverages). Furthermore, all policies of insurance described in Subsection10.3 shall meet the following requirements:

(1) Policies shall be written as primary policies not contributing with and not in excess of coverage that State may carry;

(2) Policies shall expressly provide that such insurance may not be canceled or nonrenewed with respect to State except upon forty-five (45) days prior written notice from the insurance company to State;

DNR-00000411

(3) To the extent of State's insurable interest, property coverage shall expressly provide that all proceeds shall be paid jointly to State and Tenant;

(4) All liability policies must provide coverage on an occurrence basis; and

(5) Liability policies shall not include exclusions for cross liability.

(c) Proof of Insurance. Tenant shall furnish evidence of insurance in the form of a Certificate of Insurance satisfactory to the State accompanied by a checklist of coverages provided by State, executed by a duly authorized representative of each insurer showing compliance with the insurance requirements described in section 10, and, if requested, copies of policies to State. The Certificate of Insurance shall reference the State of Washington, Department of Natural Resources and the lease number. Receipt of such certificates or policies by State does not constitute approval by State of the terms of such policies. Tenant acknowledges that the coverage requirements set forth herein are the minimum limits of insurance the Tenant must purchase to enter into this agreement. These limits may not be sufficient to cover all liability losses and related claim settlement expenses. Purchase of these limits of coverage does not relieve the Tenant from liability for losses and settlement expenses greater than these amounts.

10.4 State's Acquisition of Insurance. If Tenant fails to procure and maintain the insurance described above within fifteen (15) days after Tenant receives a notice to comply from State, State shall have the right to procure and maintain comparable substitute insurance and to pay the premiums. Tenant shall pay to State upon demand the full amount paid by State, together with interest at the rate provided in Subsection 6.2 from the date of State's notice of the expenditure until Tenant's repayment.

SECTION 11 MAINTENANCE AND REPAIR

11.1 State's Repairs. State shall not be required to make any alterations, maintenance, replacements, or repairs in, on, or about the Property, or any part thereof, during the Term.

11.2 Tenant's Repairs, Alteration, Maintenance and Replacement.

(a) Tenant shall, at its sole cost and expense, keep and maintain the Property and all improvements (regardless of ownership) in good order and repair, in a clean, attractive, and safe condition.

(b) Tenant shall, at its sole cost and expense, make any and all additions, repairs, alterations, maintenance, replacements, or changes to the Property or to any improvements on the Property which may be required by any public authority.

(c) All additions, repairs, alterations, replacements or changes to the Property and to any improvements on the Property shall be made in accordance with, and ownership shall be governed by, Section 7, above.

SECTION 12 DAMAGE OR DESTRUCTION

(a) In the event of any damage to or destruction of the Property or any improvements, Tenant shall promptly give written notice to State. Unless otherwise agreed in writing, Tenant shall promptly reconstruct, repair, or replace the Property and any improvements as nearly as possible to its condition immediately prior to the damage or destruction.

(b) Tenant's duty to reconstruct, repair, or replace any damage or destruction of the Property or any improvements on the Property shall not be conditioned upon the availability of any insurance proceeds to Tenant from which the cost of repairs may be paid.

(c) Unless this Lease is terminated by mutual agreement, there shall be no abatement or reduction in rent during such reconstruction, repair, and replacement.

(d) Any insurance proceeds payable by reason of damage or destruction shall be first used to restore the real property covered by this Lease, then to pay the cost of the reconstruction, then to pay the State any sums in arrears, and then to Tenant.

(e) In the event Tenant is in default under the terms of this Lease at the time damage or destruction occurs, State may elect to terminate the Lease and State shall then have the right to retain any and all insurance proceeds payable as a result of the damage or destruction.

SECTION 13 CONDEMNATION

13.1 Definitions.

(a) Taking. The term "taking," as used in this Lease, means the taking of all or any portion of the Property and any improvements thereon under the power of eminent domain, either by judgment or settlement in lieu of judgment. Taking also means the taking of all or a portion of the Property and any improvements thereon to the extent that the Permitted Use is prevented or, in the judgment of State, the Property is rendered impractical for the Permitted Use. A total taking occurs when the entire Property is taken. A partial taking occurs when the taking does not constitute a total taking as defined above.

(b) Voluntary Conveyance. The terms "total taking" and "partial taking" shall include a voluntary conveyance, in lieu of formal court proceedings, to any agency, authority, public utility, person, or corporate entity empowered to condemn property.

DNR-00000413

(c) Date of Taking. The term "date of taking" shall mean the date upon which title to the Property or a portion of the Property passes to and vests in the condemnor or the effective date of any order for possession if issued prior to the date title vests in the condemnor.

13.2 Effect of Taking. If during the Term there shall be a total taking, the leasehold estate of Tenant in the Property shall terminate as of the date of taking. If this Lease is terminated, in whole or in part, all rentals and other charges payable by Tenant to State and attributable to the Property taken shall be paid by Tenant up to the date of taking. If Tenant has pre-paid rent, Tenant will be entitled to a refund of the pro rata share of the pre-paid rent attributable to the period after the date of taking. In the event of a partial taking, there shall be a partial abatement of rent from the date of taking in a percentage equal to the percentage of Property taken.

13.3 Allocation of Award. State and Tenant agree that in the event of any condemnation, the award shall be allocated between State and Tenant based upon the ratio of the fair market value of Tenant's leasehold estate and Tenant-Owned Improvements on the Property and State's interest (a) in the Property, (b) in the reversionary interest in Tenant-Owned Improvements, and (c) in State-Owned Improvements. In the event of a partial taking, this ratio will be computed on the basis of the portion of Property or improvements taken. If Tenant and State are unable to agree on the allocation, it shall be submitted to binding arbitration in accordance with the rules of the American Arbitration Association.

SECTION 14 DEFAULT AND REMEDIES

(a) Tenant shall be in default of this Lease on the occurrence of any of the following:

(1) Failure to pay Annual Rent or other expenses when due;

(2) Failure to comply with any law, regulation, policy, or order of any lawful governmental authority;

(3) Failure to comply with any other provision of this Lease;

(4) Two or more defaults over a period of time, or a single serious default, that demonstrates a reasonable likelihood of future defaults in the absence of corrective action by Tenant; or

(5) Proceedings are commenced by or against Tenant under any bankruptcy act or for the appointment of a trustee or receiver of Tenants' property.

(b) A default shall become an event of default ("Event of Default") if Tenant fails to cure the default within sixty days after State provides Tenant with written notice of default, which specifies the nature of the default. 14 (b) here (OPTIONAL)

DNR-00000414

(c) Upon an Event of Default, State may terminate this Lease and remove Tenant by summary proceedings or otherwise. State may also, without terminating this Lease, relet the Property on any terms and conditions as State in its sole discretion may decide are appropriate. If State elects to relet, rent received by it shall be applied: (1) to the payment of any indebtedness other than rent due from Tenant to State; (2) to the payment of any cost of such reletting; (3) to the payment of the cost of any alterations and repairs to the Property; and, (4) to the payment of rent and leasehold excise tax due and unpaid under this Lease. Any balance shall be held by State and applied to Tenant's future rent as it becomes due. Tenant shall be responsible for any deficiency created by the reletting during any month and shall pay the deficiency monthly. State's reentry or repossession of the Property under this subsection shall not be construed as an election to terminate this Lease or cause a forfeiture of rents or other charges to be paid during the balance of the Term, unless State gives a written notice of termination to Tenant or termination is decreed by legal proceedings. State may at any time after reletting elect to terminate this Lease for the previous Event of Default.

SECTION 15 ENTRY BY STATE

State shall have the right to enter the Property at any reasonable hour to inspect for compliance with the terms of this Lease.

SECTION 16 DISCLAIMER OF QUIET ENJOYMENT

As indicated in Section 1.1, this Lease is subject to all valid recorded interests of third parties, as well as rights of the public under the Public Trust Doctrine or federal navigation servitude, and treaty rights of Indian Tribes. State believes that its grant of the Lease is consistent with the Public Trust Doctrine and that none of the identified interests of third parties will materially and adversely affect Tenant's right of possession and use of the Property as set forth herein, but makes no guaranty or warranty to that effect. Tenant and State expressly agree that Tenant shall be responsible for determining the extent of its right to possession and for defending its leasehold interest. Consequently, State expressly disclaims and Tenant expressly releases State from any claim for breach of any implied covenant of quiet enjoyment with respect to the possession of the Property. This disclaimer includes, but is not limited to, interference arising from or in connection with access or other use rights of adjacent property owners or the public over the water surface or in or under the water column, including rights under the Public Trust Doctrine; rights held by Indian Tribes; and the general power and authority of State and the United States with respect to aquatic lands, navigable waters, bedlands, tidelands, and shorelands. In the event Tenant is evicted from the Property by reason of successful assertion of any of these rights, this Lease shall terminate as of the date of the eviction. In the event of a partial eviction, Tenant's rent obligations shall abate as of the date of the partial eviction, in direct proportion to the extent of the eviction, but in all other respects, this Lease shall remain in full force and effect.

DNR-00000415

SECTION 17 NOTICE

Any notices required or permitted under this Lease may be personally delivered, delivered by facsimile machine, or mailed by certified mail, return receipt requested, to the following addresses or to such other places as the parties may direct in writing from time to time:

State: DEPARTMENT OF NATURAL RESOURCES
Shoreline District Aquatics Region
950 Farman Avenue North
Enumclaw, WA 98022-9282

Tenant: SEVEN J'S INVESTMENT LIMITED PARTNERSHIP
PO Box 687
Burley, WA 98322

A notice shall be deemed given and delivered upon personal delivery, upon receipt of a confirmation report if delivered by facsimile machine, or three (3) days after being mailed as set forth above, whichever is applicable.

SECTION 18 MISCELLANEOUS

18.1 Authority. Tenant and the person or persons executing this Lease on behalf of Tenant represent that Tenant is qualified to do business in the State of Washington, that Tenant has full right and authority to enter into this Lease, and that each and every person signing on behalf of Tenant is authorized to do so. Upon State's request, Tenant will provide evidence satisfactory to State confirming these representations. This Lease is entered into by State pursuant to the authority granted it in Chapters 79.90 to 79.96 RCW and the Constitution of the State of Washington.

18.2 Successors and Assigns. This Lease shall be binding upon and inure to the benefit of the parties, their successors and assigns.

18.3 Headings. The headings used in this Lease are for convenience only and in no way define, limit, or extend the scope of this Lease or the intent of any provision.

18.4 Entire Agreement. This Lease, including the exhibits and addenda, if any, contains the entire agreement of the parties. All prior and contemporaneous agreements, promises, representations, and statements relating to this transaction or to the Property, if any, are merged into this Lease.

18.5 Waiver. The waiver by State of any breach or default of any term, covenant, or condition of this Lease shall not be deemed to be a waiver of such term, covenant, or condition; of any subsequent breach or default of the same; or of any other term, covenant, or condition of this Lease. State's acceptance of a rental payment shall not be construed to be a waiver of any preceding or existing breach other than the failure to pay the particular rental payment that was accepted.

DNR-00000416

18.6 Cumulative Remedies. The rights and remedies of State under this Lease are cumulative and in addition to all other rights and remedies afforded to State by law or equity or otherwise.

18.7 Time is of the Essence. TIME IS OF THE ESSENCE as to each and every provision of this Lease.

18.8 Language. The word "Tenant" as used in this Lease shall be applicable to one or more persons, as the case may be. The singular shall include the plural, and the neuter shall include the masculine and feminine. If there is more than one Tenant, their obligations shall be joint and several. The word 'persons," whenever used, shall include individuals, firms, associations, and corporations.

18.9 Invalidity. If any provision of this Lease shall prove to be invalid, void, or illegal, it shall in no way affect, impair, or invalidate any other provision of this Lease.

18.10 Applicable Law and Venue. This Lease shall be interpreted and construed in accordance with the laws of the State of Washington. Any reference to a statute shall mean that statute as presently enacted or hereafter amended or superseded. Venue for any action arising out of or in connection with this Lease shall be in the Superior Court for Thurston County, Washington.

18.11 Recordation. Tenant shall record this Lease or a memorandum documenting the existence of this Lease in the county in which the Property is located, at Tenant's sole expense. The memorandum shall, at a minimum, contain the Property description, the names of the parties to the Lease, the State's lease number, and the duration of the Lease. Tenant shall provide State with recording information, including the date of recordation and file number. Tenant shall have thirty (30) days from the date of delivery of the final executed agreement to comply with the requirements of this subsection. If Tenant fails to record this Lease, State may record it and Tenant shall pay the costs of recording upon State's demand.

18.12 Modification. Any modification of this Lease must be in writing and signed by the parties. State shall not be bound by any oral representations or statements.

THIS AGREEMENT requires the signature of all parties and is executed as of the date of the last signature below.

Tenant: SEVEN J'S INVESTMENT LIMITED PARTNERSHIP

Dated: January 31, 20 05

By: Steve C Johnson
STEVEN JOHNSON

Title: Limited Partner

Address: PO Box 687
Burley, WA 98322

STATE OF WASHINGTON
DEPARTMENT OF NATURAL RESOURCES

Dated: 2/25/5, 20

By: Doug Sutherland
DOUG SUTHERLAND

Title: Commissioner of Public Lands

Address: 950 Farman Avenue North
Enumclaw, WA 98022-9282

SEAL OF THE COMMISSIONER OF PUBLIC LANDS STATE OF WASHINGTON

Standard Commercial Lease
Approved as to Form July, 2003
by Mike Grossmann
Assistant Attorney General
State of Washington

PROOFED
DWK

DNR-00000418

TENANT ACKNOWLEDGMENT

STATE OF Washington)
) ss
COUNTY OF Snohomish)

On this 3 day of February, 2005, before me personally appeared STEVEN JOHNSON to me known to be the Limited Partner of the partnership that executed the within and foregoing instrument, and acknowledged said instrument to be the free and voluntary act and deed of said partnership, for the uses and purposes therein mentioned, and on oath stated that he was authorized to execute said instrument.

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

JOHN L. CLARK
STATE OF WASHINGTON
NOTARY --•-- PUBLIC
My Commission Expires 1-22-08

John L Clark

[John L. Clark]
(Type/Print Name)

Notary Public in and for the State of Washington
residing at: Everett.
My Commission Expires: 1/22/2008.

DNR-00000419

STATE ACKNOWLEDGMENT

STATE OF WASHINGTON)
)ss
County of Thurston)

On this 25th day of February, 2005 personally appeared before me DOUG SUTHERLAND, to me known to be the Commissioner of Public Lands of the Department of Natural Resources, State of Washington, who executed the within and foregoing instrument on behalf of the State of Washington, and acknowledged said instrument to be the free and voluntary act and deed of the State of Washington for the uses and purposes therein mentioned, and on oath stated that [he/she] was authorized to execute said instrument and that the seal affixed is the official seal of the Commissioner of Public Lands for the State of Washington.

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

BONITA R. HILL
COMMISSION EXPIRES
NOTARY
PUBLIC
5-19-05
STATE OF WASHINGTON

Bonita R Hill

[Bonita R Hill]
(Type/Print Name)
Notary Public in and for the State of Washington
residing at: Olympia.
My Commission Expires: 5-19-05.

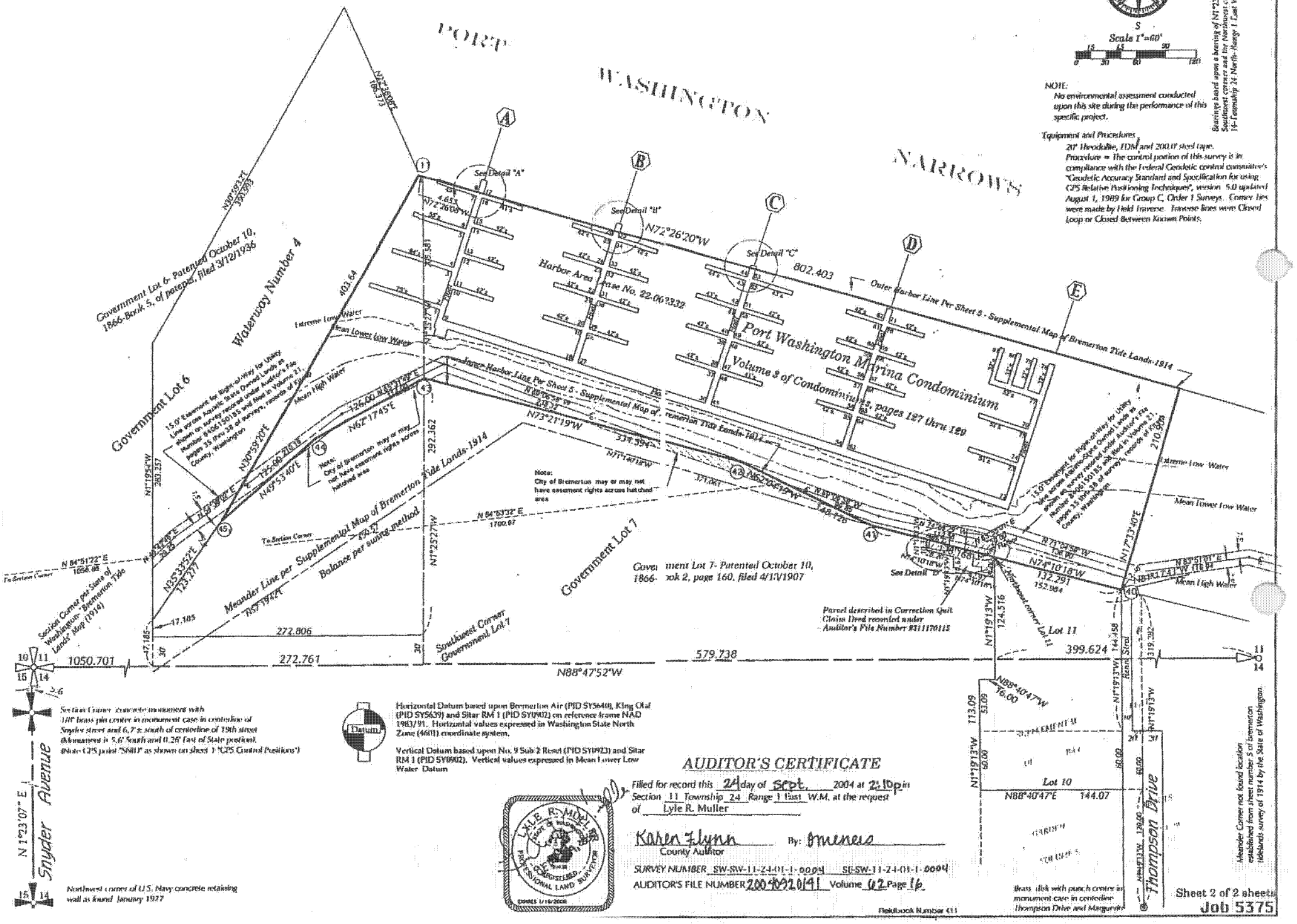
DNR-00000420

EXHIBIT A

Page 1 of 2

Aquatic Lands Lease Number 22-A02332

portion of Sections 11 Township 24 North- Range 1 East W.M.
Kitsap County, Washington



AUDITOR'S CERTIFICATE

Filed for record this 24 day of Sept. 2004 at 2:10 pm
Section 11 Township 24 Range 1 East W.M. at the request
of Lyle R. Muller

Karen Flynn By: Omeneis
County Auditor

SURVEY NUMBER SW-SW-11-24-01-1-0004 SE-SW-11-24-01-1-0004
AUDITOR'S FILE NUMBER 200409020141 Volume 42 Page 16

LYLE R. MULLER STATE OF WASHINGTON 18818 REGISTERED PROFESSIONAL LAND SURVEYOR EXPIRES 1/16/2006

Fieldbook Number 411

DNR-00000421

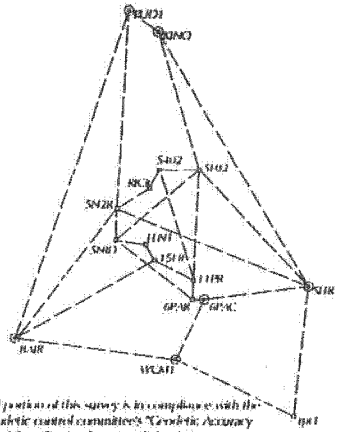
EXHIBIT A

Aquatic Lands Lease Number 22-A02332
portion of Sections 11 Township 24 North- Range 1 East W.M.
Kitsap County, Washington

Description

Beginning at a point on the Inner Harbor Line, said point also being the Northwest corner of Lot 11, supplemental plat of Bay View Garden Tracts, a recorded plat in said government Lot 7 and running thence along said Inner Harbor Line, North 75 degrees 43' 57.8" West, a distance of 128.168 feet; thence continuing along said Inner Harbor Line North 63 degrees 38' 00" West, a distance of 148.126 feet; thence continuing along said Inner Harbor Line North 74 degrees 55' 00" West, a distance of 334.594 feet; thence continuing along said Inner Harbor Line South 60 degrees 44' 00' West, a distance of 126.00 feet; thence continuing along said Inner Harbor Line South 48 degrees 20' 00" West, a distance of 125.00 feet; thence North 29 degrees 25' 40" East a distance of 403.64 feet to a point on the Outer Harbor Line; thence South 74 degrees 00' 00" East along said outer harbor line, a distance of 802.403 feet; thence South 16 degrees 00' 00" West, a distance of of 210.901 feet across the Harbor Area to the Inner Harbor Line; thence North 75 degrees 43' 57.8" West, a distance of 132.290 feet to the Point of Beginning as shown on the official maps of Bremerton tidelands on file in the Office of the Commissioner of Public Lands at Olympia, Washington. Contains 176,838 square feet more or less.

Note: Description bearings correspond to bearings contained in Port Washington Condominium as recorded under Auditor's File Number 8312290199 and filed in Volume 3, pages 127 thru 130 of Condominiums. Bearing based upon " Bremerton Tideland Survey of 1914" by State of Washington. To convert description to NAD 83/91 meridian rotate clockwise 1°33'40".



GPS CONTROL POSITIONS
METERS

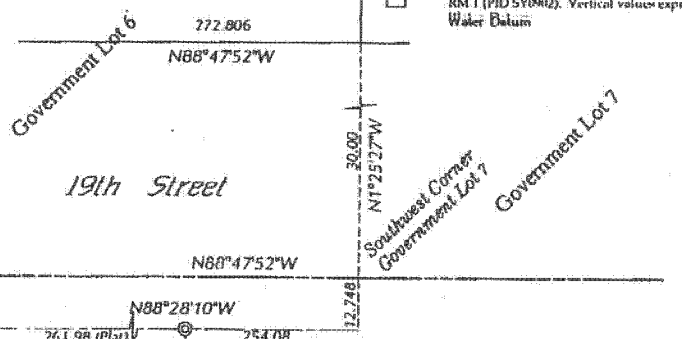
POINT NAME	NORTH	EAST	SCALE
11PR	N= 364815.435	E= 65058.751	0.999987519
15HI	N= 364013.754	E= 65486.752	0.999986913
6PAC	N= 365050.738	E= 64647.048	0.999988125
6PAR	N= 364804.239	E= 64653.819	0.999988123
BAIR	N= 355050.479	E= 57413.724	0.999989982
LENT	N= 363840.29	E= 65825.966	0.999988642
RICK	N= 363904.159	E= 67017.498	0.999984686
S402	N= 364109.105	E= 67403.756	0.999984125
SE02	N= 364918.581	E= 67193.336	0.999984113
SITR	N= 370653.883	E= 64926.786	0.999987517
SN2R	N= 363233.418	E= 66575.47	0.999985347
SNID	N= 363217.045	E= 65914.692	0.999986311
KINO	N= 363903.276	E= 63285.473	0.999964491
PUD1	N= 362516.941	E= 65544.075	0.999962241
RPT1	N= 380621.374	E= 44249.029	1.000002804
WOA1	N= 364104.167	E= 61753.998	0.999991258

The control portion of this survey is in compliance with the Federal Geodetic control committee's "Geodetic Accuracy Standard and Specification for using GPS Relative Positioning Techniques", version 5.0 updated August 1, 1989 for Group C, Order 1 Surveys.

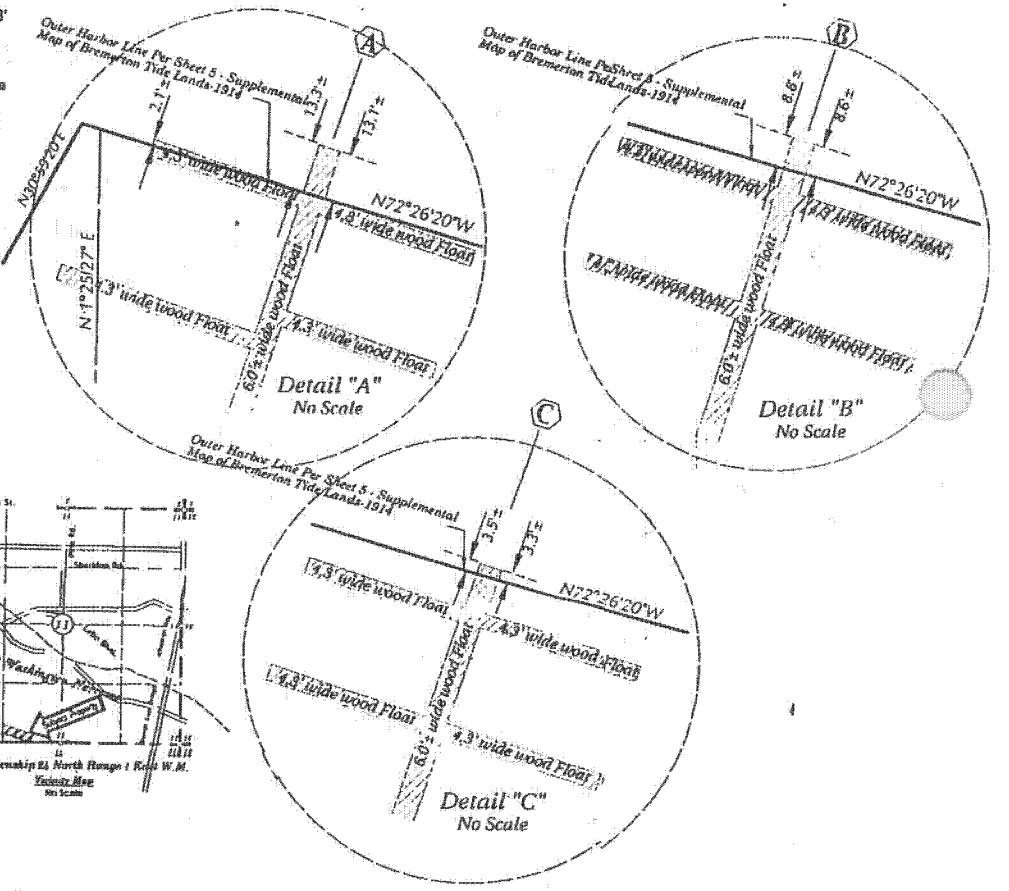
Datum

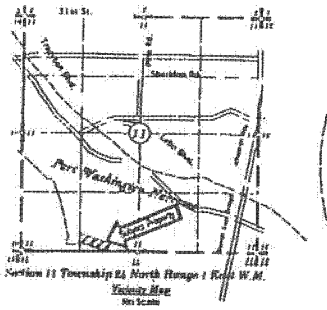
Horizontal Datum based upon Bremerton Air (PID SY8040), King Obl (PID SY5639) and Sitar RM 1 (PID SY0902) on reference frame NAD 1983/91. Horizontal values expressed in Washington State North Zone (4601) coordinate system.

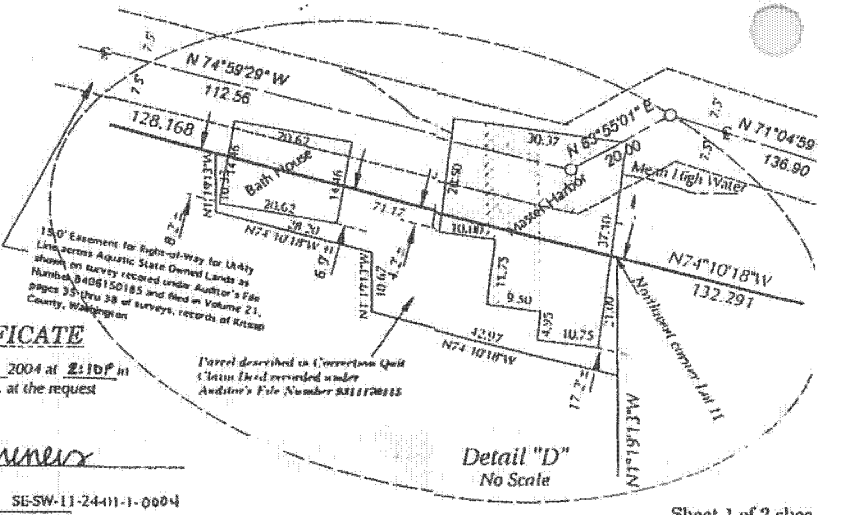
Vertical Datum based upon No. 9 Sub 2 Reset (PID SY0923) and Sitar RM 1 (PID SY0902). Vertical values expressed in Mean Lower Low Water Datum



Sketch showing relationship of Government Lot Line to monuments in 19th Street
NO SCALE







SURVEYOR'S CERTIFICATE

This map correctly represents a survey made by me or under my direction in conformance with the requirements of the SURVEY RECORDING ACT at the request of Seven JS Investments Limited Partnership

LYLE R. MULLER
STATE OF WASHINGTON
PROFESSIONAL LAND SURVEYOR
REGISTERED

Ward C. Muller and Associates-Licensed Land Surveyors
217 Sidney Avenue
Port Orchard, Wa 98366 Phone (360)876-3443

AUDITOR'S CERTIFICATE

Filed for record this 24 day of Sept 2004 at 2:10P in Section 11 Township 24 Range 1 East W.M. at the request of Lyle R. Muller

Karen Flynn County Auditor By: [illegible]

SURVEY NUMBER SW-SW-11-24-01-1-0004 SE-SW-11-24-01-1-0004

AUDITOR'S FILE NUMBER 200410220141 Volume 62 Page 15

Sheet 1 of 2 shee

EXHIBIT B

PLAN OF DEVELOPMENT, OPERATION, AND MAINTENANCE

LEASE No. 22-A02332

Seven J's Investment Limited Partnership
Marina
P.O. Box 687
Burley, WA 98322

DESCRIPTION OF THE PROPERTY AND FACILITY

The Port Washington Marina is an 80-slip private marina located on the south shore of the Port Washington Narrows, located in Bremerton, Kitsap County, Washington. The adjacent tidelands and uplands are owned and operated by Tenant, Seven J's Investment Limited Partnership, a Washington Partnership formed in 1983. The marina can accommodate vessels up to 60 ft in length. This marina has been in place since 1974

The "Tenant-Owned Improvements" (Section 7.2 of lease) include: Sixty three (63) creosote pilings, one (1) floating house Barge, six (6) floating piers and thirty six (36) finger floats. The marina does allow live aboards and currently less then eight slips are used as a primary residence. The marina currently has one (1) house barge which is not currently lived in. They have one (1) operational pump out which is available to the vessels in the marina and each slip has access to power, water and phone.

The floats appear to be in good shape and we did not witness any exposed Styrofoam.

The building, which is mostly over privately owned tidelands, contains an office, laundry room and restroom facilities.

Future use and Conditions
The existing owner will continue the current use as a commercial marina. In the future he plans on expanding the marina to the East. Repairs to the improvements will be made after permits from the appropriate agencies have been received.

DNR-00000423

SECTION 2 USE

2.1 PERMITTED USE

Permitted use is for recreational and commercial vessel moorage and marine pump out facility only. Up to 10% of the available slips (eight (8)) can be used as permanent residence as per WAC 332-30-106. The owner states that to the best of his knowledge less than 10% of slips in the marina are being used for residential use.

BEST MANAGEMENT PRACTICES

Tenant will adhere to the Best Management Practices (BMP's) set forth in the Department of Ecology's Resource Manual for Pollution Prevention in Marina's handbook as well as any future technological advancements that would improve the safety or environmental aspect of the facility.

Requirements
The following operational BMP's are required by Washington State Department of Ecology, and are included in the Resource Manual for Pollution Prevention in Marinas. They include specific methods addressing:

Compliance with BMP's
Education of employees and customers regarding required BMP's
Bilge water management and fueling practices
Hazardous Waste
Used Oil
Sewage management
Solid waste
Spill Prevention and Response
Pollution Prevention for boaters in your marina

Steps To Be Taken To Keep Facility In Good Repair
Tenant and/or Marina Manager will make frequent and periodic inspections of the facility to determine if any part of the facility is in need of repair, paying close attention to the BMP's and overall safety of the area.

Hazardous Materials
Seven J's Investment Limited Partnership agrees there will be no hazardous materials maintained on the premises, excluding gasoline and/or diesel fuel.

Spill Prevention and Response
The marina must purchase enough spill response equipment to respond adequately to the largest credible spill reasonably anticipated. These include but are not limited to: booms, fire extinguishers, pumps and communication devices.

- Clear and easy to understand signage must be posted at the entry of each of the six (6) floating piers. One sign also needs to be located upland at the extreme high water mark and/or entrance to the main float dock.

Pollution Prevention
Seven J's Investment Limited Partnership agrees to comply with all regulatory requirements relating to pollution control and prevention. Facility policies will be designed to encourage pollution prevention. Tenant will work in good faith, to find the best means possible, to reduce the risk of leakage and/or seepage of wastewater into the natural environment.

SECTION 4 RENT

4.1 Annual Rent. The floating home constructed on the barge by WAC is considered a non water dependant rent. **The barge is approximately 20 by 40 feet and will be charged at a non water dependant** rate. The annual rent is calculated by multiplying the square footage of the floating home by the assessed adjacent upland square foot value and multiplying that value by .095 (9.5% rate of return). It is the responsibility of Port Washington Narrows to notify the Department if the floating home leaves the marina so that we can adjust the rent. The filled parking lot, buildings and bulkhead will also be charged a non water dependant rent.

SECTION 7 IMPROVEMENTS

7.1 Existing Improvements. Currently a portion of state owned aquatic lands is being occupied by the following improvements:

a. 63 creosote piling
b. Concrete bulkhead and fill which supports a portion of the parking lot.
c. Rock bulkhead and fill which serves as protection for the uplands.
d. Two buildings

At this time the state asserts ownership of the concrete bulkhead and abutting parking area but does not at this time claim ownership of the remaining improvements.

7.3 CONSTRUCTION AND 7.5 UNAUTHORIZED IMPROVEMENTS

The state shall be notified of any repairs that may impact the environment or requiring any regulatory permit approval. Any new construction requires authorization from the State. Any expansion or decrease in the lease description will require an amendment to the lease.

All repairs and replacement to the existing structures must have State's prior consent and must have all regulatory permits approved before any repairs or replacements can commence. Prior to construction, Tenant shall also provide State with documentation showing that Tenant has consulted with (a) the National Marine Fisheries Service (NFMS) and the United States Fish and Wildlife Service (USFWS) as may be required under the Endangered Species Act; and Tenant shall incorporate into its construction plans and implement any measure required by NMFS and USFWS.

DNR-00000425

All repairs and maintenance to the existing structures will be made of NONTOXIC treated wood, or other environmentally friendly materials, such as concrete, steel or plastic. Where possible, the pier decking should include sections of aluminum grating to allow additional light penetration to the water. The float systems must not have exposed styrofoam. The operations of the facility must meet or exceed all state and federal minimum requirements relating to safety standards, paying attention to the mechanical, electrical, and safety aspects of the dock and floats. Any defects must be corrected as soon as possible.

SECTION 8 ENVIRONMENTAL LIABILITY/RISK ALLOCATIONS

8.3 CURRENT CONDITIONS, DUTY OF UTMOST CARE, AND DUTY TO INVESTIGATE

Tenant has not performed baseline sampling within the leased area of marina. However, they have removed all man made debris within the leasehold.

8.4 Notification and Reporting. Seven J's Investment Limited will notify the State of any violation received from any regulatory agency. In addition to reviewing any plans associated with remedying the violation, the State may attach additional requirements for state-owned aquatic lands.

SECTION 9 ASSIGNMENT AND SUBLETTING

9.4 Terms of Subleases. Tenant shall not sublease moorage slips for a term of more than one year without (a) obtaining State's prior written consent; and (b) ensuring that these moorage agreements conform to the sublease requirements in Subsection 9.4 of the Lease. Upland areas and tidelands under fee ownership of the Tenant are primarily devoted to boatyard uses and access to leased aquatic lands. Aquatic lands leased by Tenant are primarily used for marina operations.

SECTION 16 ENTRY BY STATE

An inventory and site inspection of the Port Washington Marina was conducted by Mark Mauren, Shannon Soto and Melissa Montgomery, of the Department of Natural Resources (DNR) in September of 2004. Routine site inspection by the DNR Land Manager is planned for once a year.

Facility Maintenance

Regular periodic inspection and regular maintenance will be performed by the Tenant to maintain the improvements located on the aquatic lands leased from the Department of Natural Resources, Division of Aquatic Lands and adjoining tidelands and uplands owned by the Tenant.

DNR-00000426

The commercial marina will be maintained and operated in accordance with the rules, regulations and requirements imposed by local, state, and federal governmental agencies with jurisdiction over the operations of the Tenant.

SECTION 19 MISCELLANEOUS

Steven Johnson, Senior Partner is the person or persons executing this lease on behalf of Seven J's Investment Limited Partnership ("Tenant").

DNR-00000427