THIS INSTRUMENT OF LEASE, made, in duplicate, this 7th day of August, 1946, by and between the City of Port Townsend, a municipal corporation of the State of Washington (hereinafter called the "City"), party of the first part, and Crown Zellerbach Corporation, a corporation (hereinafter called the "Lessee"), party of the second part,

WITNESSETH

WHEREAS, that part of the City's waterworks and system herein described and leased is now under lease from the City to Crown Zellerbach Corporation pursuant to an existing lease between the City and National Paper Products Company, a corporation (to which corporation said Crown Zellerbach Corporation has succeeded), bearing date the 3rd day of March, 1936 (hereinafter referred to as the "Existing Lease"), and it is now necessary to replace certain portions of the pipeline described in Schedule 1 below, and will probably become necessary in the course of some five or more years to replace part or all of the portions of the pipeline described in Schedule 1 below, and the City desires to make an arrangement for said replacements whereby the cost of the same will be advanced as required by the City and repaid out of rentals of the system covering under the terms of this lease,

NOW, THEREFORE, it is agreed as follows:

1. The City hereby leases to the Lessee that part of its waterworks and system lying outside of the limits of said City, more particularly described as follows:

The waterworks and the diversion dam on Snow Creek, in Section 4, Township 36 North, Range 2 West, W. M., Jefferson County, Washington, and the pipe line and right-of-way leading from said waterworks and diversion dam in a general westerly direction to a junction with the pipe line constructed from the Big Quilcene River in the Northwest Quarter of the Southwest Quarter of Section 1, Township 36 North, Range 2 West, W. M.; also the headworks and diversion dam erected under the plan or system known as the "Big Quilcene Water Extension Project," which dam is constructed across the Big Quilcene River immediately below its confluence with Tunnel Creek at a point located in Section 4, Township 36 North, Range 2 West, W. M., and within the Olympic National Forest, Jefferson County, Washington, together with right of way and pipe line from said headworks on the Big Quilcene in an easterly and southerly direction to the South line of Section 80, Township 36 North, Range 2 West, W. M., and thence in a northerly direction to a junction with the pipe line from Snow Creek, in Section 1, Township 36 North, Range 2 West, W. M.; thence in a northerly direction across Section 2, Township 36 North, Range 1 West, W. M., to the North line of said Section 2; thence paralleling the City of Port Townsend's water line from Snow Creek (known as the Olympic Gravity Water System) in a general northerly direction to the southerly boundary line of the City of Port Townsend; also the storage basin formed by City Lake, situated in Section 19, Township 36 North, Range 1 West, W. M., together with the real estate owned by the City of Port Townsend surrounding the same, described as the Northeast Quarter (NE-1/4) of the Southeast Quarter (SE-1/4), the South Quarter (SW-1/4) of the Northeast Quarter (NE-1/4), and the South Half (SE-1/2) of the Northeast Quarter (SW-1/2) of the Southeast Quarter (SE-1/4), all in Section 19, Township 36 North, Range 1 West, W. M., together with all water rights, permits, easements, rights of way, diversion works, pipe lines, storage basins, reservoirs and all other equipment and appurtenances of every kind and character, real or personal, used or useful in connection with the operation of the portion of said system hereinbefore described, whether now owned by the City or hereafter acquired; but excluding any pipe lines used in connection with the same to supply customers of the City.
of Fort Townsend outside of said City, and excluding any part of said waterworks and system within the city limits of the City of Fort Townsend, the property hereby leased being that now under lease to the Crown Kellermah Corporation pursuant to the existing lease.

6. This lease shall be operative and in force for a period of ten (10) years, beginning on October 1, 1909.

7. The Lessee shall have full possession, control, use and enjoyment of said part of said waterworks and system hereby leased throughout the period of said lease, except and provided that the City reserves from said water supply flowing through said waterworks and system a quantity of water sufficient to serve the demands of all present and future consumers served by the City, either within or without the limits of said City, including such water as may be needed by the City for its own purposes, not exceeding, however, at any time, the maximum amount of four million (4,000,000) gallons of water in any one day, which water so reserved shall be taken by the City at the City limits, by the City there maintaining a connection with that part of the waterworks and system so leased; provided, however, that the City may maintain its present six-inch connection with the main pipe line of said waterworks and system located at approximately section 61, and may use said connection to supply the following users of water, and no others:

(a) Laundromat and Brodsky; and

(b) Users located on Discovery Bay near what is known as "Four Corners"; and

(c) The United States Government for use only on Harrowstone Island; and

(d) Chambers.

which water so supplied to said users shall be a part of and included in the four million (4,000,000) gallons of water reserved by the City as aforesaid, on the following terms and conditions, namely, that the quantity of water diverted through said connection shall not exceed at any time 600,000 gallons per 24-hour day, the valve located on said six-inch connection will be kept locked in a position to pass only said maximum amount of 600,000 gallons per 24-hour day, and the City shall maintain at all times in good operating condition an accurate water meter on said connection for the purpose of measuring all water passing from the main pipe line through said connection. If the City at any time during the term of said lease should desire to develop the water supply from Snow Creek to meet its additional municipal water needs, the Lessee shall, upon request of the City, enter into an agreement that the City may use the Snow Creek water supply and that the City may build a pipe line on and along the right of way hereby leased to the City, for the purpose of conducting water from Snow Creek to the City, and the Lessee shall execute and deliver to the City, when so requested by the City, all necessary conveyances, assignments and transfers to afford to the City the full use and enjoyment of the Snow Creek water supply, in addition to the four million (4,000,000) gallons daily reserved to the City from the big Kellermah Water Extension Project.

6. (a) The maintenance and repair of that part of the waterworks and system hereby leased which is known as the "Big Kellermah Water Extension Project," as described in ordinance No. 947, shall devolve upon the Lessee, and the Lessee shall, at its own cost and expense, maintain and keep said waterworks and system known as the "Big Kellermah Water Extension Project," in good and reasonable state of repair at all times, reasonable wear and tear, deterioration and obsolescence excepted.
(b) The maintenance and repair of that part of the waterworks and system known as the "Olympic Gravity Water System," with head-works on Snow Creek, shall devolve upon the City as lessee, and the City shall, at its own cost and expense, maintain and keep that part of the leased property in such a state of repair as shall be necessary and proper, so long as the same continues to be used in connection with said system; but the City, at its option, may discontinue the use of that part of the system in connection with that part of the system leased to the lessee.

(c) Immediately upon this lease becoming effective, the City will proceed to replace the portions of the pipe line described in Schedule A below with pipe of a character and construction equal to or better than that, when new, of said pipe to be replaced. If at any time or times hereafter, during the term of either the Expiring Date of this Lease, it shall be determined, by joint agreement of the City's Engineer and any duly qualified engineer employed by the Lessee for the purpose, that by reason of deterioration it is necessary to replace all or any part of the portions of the pipe line described in Schedule B below, the City shall immediately proceed with such replacement or replacements with pipe of a character and construction equal to or better than that, when new, of the pipe to be replaced.

Schedules A and B referred to in this lease are as follows, all data as shown on the condensed profile of gravity water supply line from the Big Sullivan River, prepared by Messrs. E. W. & H. B. Juntinghouse, Engineers, dated October 4, 1901:

**Schedule A**

Portions of pipe line originally constructed of plain wood stove pipe as follows:
From approximately Station 1030 to Station 1550, and from approximately Station 1680 to Station 1720.

**Schedule B**

Portions of pipe line originally constructed of plain wood stove pipe as follows:
From approximately Station 1110 to Station 1550, and from approximately Station 1035 to Station 1065, and from approximately Station 1045 to Station 1075.

(d) The actual cost to the City of any and all of the replacements referred to in clause (c) of this paragraph, including all reasonable and proper engineering expenses (but not in excess of the total reasonable cost of making said replacements) shall be advanced by the Lessee and shall be made available to the City from time to time as funds are required for the payment of said costs, all as hereinafter provided.

For all purposes of this paragraph 4, the term "City's Engineer" shall mean any duly qualified civil engineer of the requisite training and experience to engineer and supervise work of the kind and character herein contemplated, selected and specially employed by the City for any purpose or purposes set forth in said paragraph. All replacements provided for in this paragraph shall be made under the supervision and direction of the City's Engineer.

As funds are required to be disbursed by the City under any contract duly entered into by the City with respect to making of replacements as above provided, the same shall be evidenced by certificate signed by the City's Engineer duly certifying (1) the amount or amounts required, (2) the parties to whom the same are payable, (3) that the charges have been incurred under contract duly entered into by the City and that the payments proposed to be made are in accordance with the terms of such contract.
and (4) that said charges constitute a proper item or items of the cost of making the required replacements. Upon receipt of any such certificate duly made, signed and certified by said engineer, the lessee will, within five (5) days thereafter, pay to the city the amount or amounts therein certified, and the city will forthwith disburse such amounts to the parties and for the purposes so certified.

All amounts advanced by the lessee to the city pursuant to the terms of this clause shall be credited against the rentals provided under this lease last falling due and not theretofore absorbed by the cost of replacements theretofore advanced by the lessee.

The rent to be paid by the lessee under this lease shall be as follows, namely:

The rent for each year of the term of this lease shall be fifteen thousand ($15,000.00) dollars, which rent shall be paid in semi-annual installments of seven thousand five hundred ($7,500.00) dollars, the first installment to be paid at the time of the commencement of this lease, as provided in paragraph 3 hereof, and the succeeding installments to be paid semi-annually thereafter during the said term, provided that the lessee shall have the right at any time to prepay any installments of rent or installments of rent, or fraction thereof, all such prepayments to apply to rentals not theretofore prepaid and last falling due.

In case the lessee shall fail to pay any installment of rent at the time when the same shall fall due, in accordance with the provisions of this lease, or shall otherwise fail to perform any of the terms and conditions of this lease, and such default or failure shall continue for a period of sixty (60) days after written notice and demand, specifying the amount of rent due or the nature of the default or failure claimed by the city, shall have been personally served upon the lessee, then the city shall have the right, at its option, to terminate this lease and to resume possession and control of said leased property; provided, that in case of any dispute between the parties in respect to the nonpayment of rent or in respect to any default alleged or failure to comply with the provisions of this lease, no forfeiture of this lease shall be declared by the city while the lessee is proceeding in good faith to have the point in dispute determined by any court or competent jurisdiction, and provided, further, that payment of said installments of rent shall, at the option of the lessee, be suspended for and during any period or part of said term during which said leased property, by reason of the failure of the city properly to make necessary replacements, shall fail to function or to supply the lessee with the quantity of water which it would supply if such replacements were made.

7. The city covenants, as lessor, that it, the said city, will and shall, from time to time, make, execute and deliver all assignments and transfers of water rights and water permits and all other assignments and transfers necessary to afford to the lessee full enjoyment of that part of said waterworks and system hereby leased, reserving to the city the first four million (4,000,000) gallons of water daily from said waterworks and system.

The city hereby covenants that said waterworks and system will carry and deliver at the point of diversion to the properties of the lessee, near the northerly limits of said city, not less than fourteen million (14,000,000) gallons of water daily, at a head of not less than one hundred seventy-five (175) feet.
6. The Lessee agrees that it will not sell or otherwise dispose of any of the water taken by it from said waters and system hereby leased, in competition with the City of Port Townsend, and that it will not use said water except for manufacturing, power and other purposes solely in connection with the manufacturing sites and plants of itself and/or of its subsidiaries at or near Port Townsend.

9. All the provisions, terms and conditions of this lease shall be binding upon and accruing to the benefit of the successors and assigns of the parties to this lease.

IN WITNESS WHEREOF, the City of Port Townsend has caused this lease to be executed in its name and behalf, by its Mayor and City Clerk, and its corporate seal to be hereunto affixed, under due proceedings had in accordance with law, and the said Crown Zellerbach Corporation has caused this lease to be executed by its officers theretofore duly authorized, and its corporate seal to be hereunto affixed, the day and year first herein written, in duplicate hereof.

(SIGNATURE)
THE CITY OF PORT TOWNSEND
BY H. E. ANDERSON
MAYOR
CROWN ZELLERBACH CORPORATION
BY THOS. MCLAUGHERN
VICE PRESIDENT

ATTACH: D. J. Jalen its Secretary
STATE OF WASHINGTON
COUNTY OF JEFFERSON

This is to certify that on this 30th day of August, 1944, before me, a Notary Public in and for the State of Washington, duly commissioned and sworn, personally appeared H. E. Anderson, to me known to be the Mayor and C. F. Christian, to me known to be the City Clerk of the City of Port Townsend, the municipal corporation that executed the within and foregoing lease, as Lessor, and acknowledged the said instrument to be the true and voluntary act and deed of said municipal corporation for the uses and purposes therein mentioned, and that he was authorized to execute said instrument, and that the seal affixed is the corporate seal of said corporation.

WITNESS my hand and official seal the day and year in this certificate first above written.

(SIGNATURE) W. J. LALY Notary Public in and for the State of Washington, residing at Port Townsend.

STATE OF CALIFORNIA
COUNTY OF SAN FRANCISCO

This is to certify that on this 7th day of August, 1944, before me, a Notary Public in and for the State of California, duly commissioned and sworn, personally appeared Thos. McLaughlin and D. J. Jalen, to me known to be the Vice-President and Secretary, respectively, of Crown Zellerbach Corporation, the corporation that executed the within and foregoing instrument, as Lessee, and acknowledged the said instrument to be the true and voluntary act and deed of said corporation for the uses and purposes therein mentioned, and that he was authorized to execute said instrument, and that the seal affixed is the corporate seal of said corporation.

WITNESS my hand and official seal the day and year in this certificate first above written.
RECORD OF LEASES, No. 4
JEFFERSON COUNTY, WASHINGTON

(Signed)
By Commission Expires
January 19, 1944

Geraldine D. Cohen
Commissioner of
Public Records
For the City and
County of San Francisco, State of
California.

Filed for record at the request of
Pratt & Co., Nov. 28, 1944, at 9:30 A.M.,
and recorded in Volume 4 of Leases, Page 248, Records of Jefferson County,
Washington.

F. N. Richardson, County Auditor,
By ____________ Deputy.

Recorded by ____________ Proof Recd.