

GROUND LEASE WITH OPTION TO PURCHASE

This Agreement ("**Lease**") is made and entered into as of the ____ day of _____, 2018 ("**Effective Date**") by and between CITY OF CHENEY, a municipal corporation of the State of Washington ("**Landlord**") and JC STEEL TARGETS, INC., a Washington corporation ("**Tenant**"), jointly referred to as "**parties**".

I. BACKGROUND

A. Landlord is the owner of property located in the City of Cheney, Washington, which is legally described in Section 1 below

B. The parties desire to enter into an agreement to lease with an option to purchase the real property described herein.

NOW, THEREFORE, for and in consideration of the rents hereunder and the terms and conditions hereof, Landlord and Tenant agree as follows:

1. Property. The Property which is the subject of this Lease is legally described on Exhibit A and depicted on Exhibit B, which is attached hereto and incorporated herein by this reference (the "**Property**"). Landlord demises and leases unto Tenant, and Tenant hereby accepts and leases from Landlord, the Property, on and subject to all the terms and conditions set forth in this Lease.

2. Term.

2.1. Lease Term. The term of this Lease is one hundred (100) months (the "**Term**" or "**Lease Term**") commencing on the Effective Date. The date this Lease commences shall be known as the "**Commencement Date**" and the date this Lease terminates is the "**Termination Date.**" The parties agree the Commencement Date is _____, 2018, with the Termination Date being one hundred (100) months thereafter or _____, 20__ or until the City is paid One Hundred Thousand Dollars (\$100,000.00) in Ground Rent (defined in Section 5) or other source of funds.

2.2.

3. Condition of Property; Acceptance.

3.1. Representations. Landlord hereby represents and warrants to Tenant that (i) Landlord has good and marketable fee simple title to the Property (including, without limitation, the improvements and fixtures thereon, if any); (ii) Landlord has the authority to enter into this Lease; (iii) except as set forth herein, there are no (a) rights of first refusal, (b) rights of first offering, or (c) options to lease, purchase or finance all or any portion of the Property; (iv) the Property is zoned Business Park and is suitable for the Permitted Use (as defined in Section 6.1 below); and (v) to the best knowledge of Landlord, the Property is not in violation of any federal, state or local law relating to Hazardous Material (as defined in Section 6.3 below).

3.2. Acceptance; Condition of Property. Tenant accepts the Property in its present condition "as is." Tenant acknowledges that it has had full opportunity to examine the Property and obtain knowledge of the physical condition of the Property, as well as, the state of its title, zoning, present uses, streets, sidewalks, parking areas, curbs and access thereto. Except as expressly set forth in this Lease, Landlord shall have no responsibility to make any improvements or repairs to the Property.

4. Improvements.

4.1. Landlord's Work. Landlord is not required to modify the Property or construct site improvements.

4.2. Tenant's Work. Tenant agrees to improve the Property and construct a building of no less than 5,000 square feet (the "**Building**") and related improvements in accordance with plans and specifications prepared and approved by Tenant ("**Tenant's Work**"). "**Improvements**" includes the Building, related surface and subsurface infrastructure and all permanent structures placed on the Property. Tenant agrees to commence construction of the Improvements within one hundred twenty (120) days of the Effective Date and to diligently prosecute such Improvements to completion.

4.2.1. Plans and Specifications. Prior to construction of the Building, Tenant shall submit to Landlord initial plans and specifications for Tenant's Work. Landlord shall have twenty (20) days following receipt of the initial plans and specifications (or any modification thereof) to provide Tenant with Landlord's comments, which shall be reasonably considered by Tenant. As required by law, Tenant shall construct all Improvements in accordance with governmental requirements including, but not limited to, obtaining a building permit.

4.3. Title to Improvements. The Improvements to be constructed on the Property shall be the property of Tenant during the Lease Term. Upon the expiration or termination of this Lease the City will have the right to purchase the improvements at a value determined by a neutral third party appraiser jointly agreed to by the Parties. If the City declines to purchase the Improvements, Tenant shall remove the same within ninety (90) days. Tenant's failure to remove the Improvements shall be considered an abandonment with all right and title thereto vesting in and becoming property of the Landlord without further financial obligation between of the Parties. Title to the Improvements shall remain in Tenant if this Lease is terminated as a result of Tenant's exercise of the Purchase Option.

5. Rent.

5.1. Ground Rent. Provided this Lease is not terminated in accordance with the provisions of this Lease, Tenant shall pay monthly rent, without deduction, set-off, prior notice or demand, in the amount of One Thousand Dollars (\$1,000.00) ("**Ground Rent**"). All Ground Rent shall be due and payable on the first day of each calendar month throughout the Term and any extension thereof. Ground Rent for any partial month shall be apportioned *pro rata* based on the actual number of days elapsed. All Ground Rent shall be paid to Landlord at the address to which notices to Landlord are given. Ground Rent payments will be credited toward the Purchase Price should Tenant elect to exercise the Purchase Option set forth in Section 16.

5.2. Annual Inflation Adjustment. The Ground Rent shall adjust annually by 1.5% or the amount of the increase, if any, in the All Items number of the Consumer Price Index for All Urban Consumers (CPI-U) for West Region ("**Index**"). The rent payable for the last month of the preceding Lease Year shall be multiplied by a percentage multiple determined in accordance with the provisions hereinafter set forth, which shall result in the monthly rent for the ensuing Lease Year. For purposes of this Lease, a "**Lease Year**" shall commence on April 1 and end March 31 of the next year.

(i) The adjustment in the Ground Rent for each Lease Year shall be determined by using the Index.

(ii) The index number for January of the preceding year shall be the "**Base Index Number**" and the corresponding index number for the January preceding the adjustment date of which the adjustment is to be made shall be the "**Current Index Number**".

(iii) The increase in the cost of living shall be determined by dividing the current index number by the base index number in accordance with the following formula:

$$\text{Current Index Number} \div \text{Base Index Number} = \text{Percentage Multiple}$$

(iv) The percentage multiple multiplied by the monthly rental for March of the preceding Lease Year shall be the new monthly rental.

(v) Landlord shall, within a reasonable time after obtaining the appropriate data necessary for computing such new Ground Rent, give Tenant notice of the Ground Rent so determined and Landlord's computation thereof shall be conclusive and binding unless Tenant shall, within fifteen (15) days after the giving of such notice, notify Landlord of any claimed error therein but shall not preclude any adjustment which may be required in the event of a published amendment of the index figures upon which the computation was based. Within fifteen (15) days of receipt of such notice, Tenant shall pay to Landlord, retroactive to the adjustment date, the increased rental due Landlord for a period subsequent to the adjustment date for which Tenant should have paid Ground Rent at the rate reflected at the then adjusted rental. All Ground Rent thereafter until the next adjustment date shall be at the newly computed rental rate.

(vi) If publication of the consumer price index shall be discontinued or if such data is not available, the parties hereto shall thereafter accept statistics on the cost of living as they shall be computed and published by an agency of the United States or by a responsible financial periodical of recognized authority then to be selected by the parties hereto. If the parties cannot agree upon a selection within sixty (60) days after demand by either party, the substitute index shall, upon application of either party, be selected by arbitration. In the event of (1) use of a comparable statistics in place of the consumer price index as above mentioned, or (2) publication of an index figure other than monthly intervals, there shall be made in the method of computation herein provided for, such revisions as the circumstances may require to carry out the intent of this paragraph, and any dispute as to the making of such adjustment shall be determined by arbitration.

(vii) In no event shall the annual increase in Ground Rent be less than 1.5% of the Ground Rent paid for the previous Lease Year.

5.3. Utility Charges. Tenant shall be responsible for all utilities and services provided to Tenant at the Property and agrees to pay, prior to delinquency, all charges for electricity, gas, water, sewage, and/or all other public and private services or charges used by or through Tenant at the Property, excluding any charges or services provided to or incurred by Landlord or its affiliates.

5.4. Real and Personal Property Taxes. Tenant shall reimburse Landlord for payment of real property taxes and/or for actual costs of the leasehold excise tax defined by the Washington State Department of Revenue ("**DOR**") currently calculated as 12.84% of Ground Rent. The monthly Ground Rent payment shall include the leasehold excise tax. Tenant shall pay, before delinquency, all personal property taxes assessed against its equipment, furniture, fixtures, inventory and all of its other personal property on the Property.

5.5. Absolute Net Lease. It is the purpose and intent of Landlord and Tenant that the rent payable under this Section 5 shall be absolutely net to Landlord and this Lease shall yield, absolutely net to Landlord, the rent specified and provided in this Section 5, and that Tenant shall pay all costs, charges and expenses of every kind and nature whatsoever against the Property that may arise or become due during the term and that, except for the execution and delivery of this Lease, would or could have been payable by Landlord. However, nothing in this Lease shall require, or be construed to require, Tenant to pay any interest or principal payments or other payments on or required under any mortgage or trust deed on the fee of the Property.

6. Use.

6.1. Permitted Use. Tenant shall use and occupy the Property only as and for industrial activities related to the manufacture and sale of Tenant's products (the "**Permitted Use**") and for no other purpose without Landlord's prior written consent, which consent will not be unreasonably withheld or delayed.

6.2. Compliance with Laws. Tenant shall comply with all local, state or federal laws, statutes, ordinances and governmental rules, regulations or requirements now in force or which may hereafter be in force with respect to the Tenant's use and occupancy of the Property.

6.3. Hazardous Materials. "**Hazardous Material**" shall mean any matter (whether gaseous, liquid or solid) which is now or hereafter designated as a hazardous or toxic waste or substance under the Comprehensive Environmental Response, Compensation and Liability Act of 1980, 42 USC 9601, et seq., all as now or hereafter amended, or which may now or hereafter be regulated under any other federal, state, or local law, statute, ordinance or regulation pertaining to health, industrial hygiene or the environment, including, without limitation, (i) any asbestos and/or asbestos containing materials (collectively "**ACMs**") regardless of whether such ACMs are in a friable or non-friable state, or (ii) any matter designated as a hazardous substance pursuant to Section 311 of the Federal Water Pollution Control Act (33 USC 1317), or (iii) any matter defined as a hazardous waste pursuant to Section 1004 of the Federal Resource Conservation and Recovery Act, (42 USC 6901 et seq) pertaining to health or the environment. "Hazardous Material" shall not

include ordinary cleaning and maintenance products which are used with due care and in accordance with applicable law and the instructions of the manufacturer of such products in the reasonable and prudent conduct of the business conducted on the Property.

6.3.1. Tenant shall not store, use, sell, release, generate or dispose of any Hazardous Materials in, on or about the Property without the prior written consent of Landlord.

6.3.2. If, during the course of construction of Tenant's Work, Tenant discovers Hazardous Materials on or beneath the Property (other than Hazardous Materials introduced to the Property following the Delivery Date), Landlord and Tenant shall determine the estimated cost of remediation in accordance with state and federal environmental laws. Landlord shall pay the cost of remediation, monitoring and disposal.

7. **Alterations.** Any alterations, additions or improvements to the Property, Building or the Improvements thereon shall be made at Tenant's sole cost and expense unless otherwise mutually agreed to in writing by the parties. Tenant shall secure any and all governmental permits, approvals or authorizations required in connection with any such work, and shall hold Landlord harmless from any and all liability, costs, damages, expenses (including attorneys' fees) and any and all liens resulting therefrom. All alterations, additions and improvements to the Property or Improvements shall immediately become affixed to the property; provided, however, as set forth in Section 8.3 below, Tenant's trade fixtures, furnishings, appliances and equipment shall remain the property of Tenant and shall not become a part of the Property.

8. **Maintenance of Premises.**

8.1. **Maintenance and Repair by Tenant.** During the Term, Tenant shall maintain the entirety of the Property (including its principal components) and other Improvements (including without limiting the generality of the foregoing the roof, foundation, water, sewer and gas connections, pipes and mains, plumbing, heating and ventilation, and electrical systems) in good operational condition for the conduct of Tenant's business at the Property, ordinary wear and tear, damage by eminent domain and damage or destruction of the Property excepted. All repair work shall be done in a good and workmanlike manner. Tenant shall not commit waste with respect to the Improvements or the Property.

8.2. **Repairs by Landlord.** Landlord shall not be responsible for maintaining, repairing or restoring any part of the Property or Improvements.

8.3. **Surrender of Property.** Upon expiration or earlier termination of this Lease, Tenant shall surrender the Property and all Improvements constructed thereon to Landlord as set forth in Section 4.3. Upon such termination, Tenant may remove all of Tenant's furniture, fixtures, equipment, trade fixtures, signs, inventory and other personal property. Any of Tenant's personal property left on the Property by Tenant ninety (90) days after termination of this Lease shall conclusively be considered abandoned and Landlord will be entitled to use or dispose of it free of any interest of Tenant.

9. **Liens.** Tenant shall keep the Property free from any liens arising out of any work performed, materials furnished or obligations incurred by Tenant. If any lien is filed against the Property as a result of action or inaction of Tenant, Tenant, upon demand, shall release the Property from the lien by posting a bond in accordance with the terms of RCW 60.04.161, or posting other security in form and amount acceptable to Landlord. Nothing in this covenant shall deny the right of Tenant to dispute any lien it deems improper.

10. **Assignment and Subletting.**

10.1. **Landlord's Right of Consent.** Tenant shall not transfer, assign, sublet, enter into any franchise, license or concession agreements, change ownership or voting control, mortgage, encumber, pledge or hypothecate all or any part of this Lease or Tenant's interest in the Property (collectively, "**Transfer**") without first obtaining Landlord's written consent. The sale, assignment, transfer or disposition, whether or not for value, by operation of law, gift, will, or intestacy, of (a) thirty percent (30%) or more of the issued and outstanding stock of Tenant shall be deemed a Transfer of the Lease and shall be subject to the provisions of this Section 10. Should Tenant desire to make a Transfer hereunder, Tenant shall give Landlord thirty (30) days prior written notice thereof ("**Tenant's Notice of Intent to Transfer**"), which (i) shall state that Tenant intends to Transfer the Lease as of a specific date (the "**Transfer Date**"); (ii) shall identify the proposed transferee; (iii) shall set forth all material terms and conditions of the proposed Transfer; and (iv) if a release of Tenant or any guarantor is requested, shall be accompanied by financial statements of the Tenant and the proposed transferee for the three (3) fiscal years immediately preceding such proposed Transfer, if available, or such other documentation or information relating to the financial strength and credit worthiness of the proposed transferee as may be reasonably acceptable to Landlord. Tenant shall reimburse Landlord for all actual fees and expenses incurred in connection with Tenant's request for Landlord's consent hereunder (which shall not exceed \$1,000.00 per Transfer), whether or not the proposed Transfer is consummated. Any Transfer other than as permitted in this Section 10 shall be null and void.

10.2. **No Release of Tenant.**

10.2.1. Should Tenant make a Transfer as permitted in this Section 10, Tenant shall nevertheless remain primarily liable to Landlord for full payment of the Ground Rent and other charges and full performance of Tenant's other obligations under this Lease. No consent by Landlord to any modification, amendment or termination of this Lease, or extension, waiver or modification of payment or performance of any obligation under this Lease shall affect the continuing liability of Tenant for its obligations and liabilities hereunder, and Tenant waives any defense arising out of or based thereon. With respect to any Transfer permitted in this Section 10, such Transfer shall not be valid or effective unless and until Tenant delivers to Landlord a copy of a written agreement in form and substance satisfactory to Landlord pursuant to which, in the case of an assignment, the assignee assumes all of the obligations and liabilities of Tenant under this Lease and, in the case of any other Transfer, the transferee agrees that such Transfer shall be subject to all of the covenants, terms and conditions of this Lease. Any Transfer other than as permitted in this Section 10 shall be null and void.

10.2.2. Notwithstanding the above, acceptance of any payment of rent and other charges by Landlord from any party other than Tenant named herein shall not be deemed a consent to a Transfer or a waiver of any of Landlord's rights regarding any proposed Transfer hereunder.

11. Insurance and Indemnity.

11.1. Tenant's Insurance. Tenant, at its sole cost and expense, shall obtain and maintain (or cause to be obtained and maintained) the following insurance for the respective periods indicated below:

11.1.1. From and after the Effective Date and thereafter during the Term, comprehensive broad form commercial general liability insurance covering claims arising out of Tenant's operations, use and occupancy of the Property. Coverage shall be maintained on an occurrence basis, covering premises and operations, products and completed operations, contractual liability, personal injury liability, bodily injury liability and property damage liability. At the beginning of the Term such insurance shall have a combined single limit of not less than One Million Dollars (\$1,000,000) per occurrence and One Million Dollars (\$1,000,000) in the aggregate. Such insurance shall: (a) name Landlord as an additional insured; (b) specifically insure Tenant's indemnity obligations; and (c) be primary to any liability insurance maintained by Landlord.

11.1.2. Following completion of Tenant's Work and thereafter during the Term, Tenant shall obtain and maintain (or cause to be obtained and maintained) in full force and effect the following insurance:

11.1.2.1. Special Form property insurance insuring the Building and any other Improvements in an amount equivalent to the full replacement cost, against loss or damage by fire and other such risks as are customarily covered, against loss due to causes typically insured against under "all risk" or "special causes of loss" policy forms with respect to buildings and improvements similar to the Property in construction, general location, use, occupancy and design, and permitting the insured to waive subrogation rights prior to loss.

11.2. General Requirements. All insurance (and renewals thereof) required by this Article 11 shall be issued by responsible insurance carriers authorized to do business in the State of Washington with an A. M. Best Rating of A-/VII or better. Each policy shall expressly provide that it shall not be cancelled or changed without at least thirty (30) days' prior written notice to all parties insured or named therein. The insurance described in Section 11.1.2 shall include Landlord as an additional insured. Tenant and Leasehold Mortgagee are entitled to receive the property insurance proceeds allocable to the Building and Improvements and Tenant's personal property. Landlord, no sooner than five (5) years after the Effective Date, may modify the liability limits set forth in Section 11.1.1 to reasonably reflect market conditions.

11.3. Mutual Waiver of Subrogation. Notwithstanding any other provision of this Lease, Landlord and Tenant each hereby waives, releases and discharges the other, its agents and employees from all claims whatsoever arising out of loss, claim, expense, damage or destruction

covered or required to be covered by insurance or covered by other casualty insurance it may carry (a "**Loss**"), notwithstanding that such Loss may have been caused by the other, its agents or employees. Landlord and Tenant each hereby agrees to look to its insurance coverage only upon such Loss. Landlord's policy or policies of insurance shall contain a waiver of subrogation clause as to Tenant. Tenant's policy or policies of insurance shall contain a waiver of subrogation clause as to Landlord.

11.4. Indemnification.

11.4.1. Tenant Indemnification of Landlord. Tenant, as of the Commencement Date, shall indemnify, defend and hold harmless Landlord from and against all loss, cost, injury, damages, liability, suits, claims, judgments, reasonable attorney's fees, and liens of every kind and nature (collectively "**Claims**") that may occur or be claimed by, to or with respect to any persons, corporations, property or chattels on or about the Property resulting from any act done or omission or negligence by Tenant, its agents, employees, licensees, subtenants, invitees or by those claiming under Tenant (collectively "**Tenant parties**") or caused by or resulting from Tenant's use or possession of the Property or the condition of the Property, or Tenant's Work.

11.4.2. Limitation on Indemnities. In compliance with Revised Code of Washington ("RCW") 4.24.115 as in effect on the date of this Lease, all provisions of this Lease pursuant to which a party agrees to indemnify another party against liability for damages arising out of bodily injury to persons or damage to property ("**Damages**") in connection with the construction, alteration, repair, addition to, subtraction from, improvement to or maintenance of any improvement to the Property ("**Indemnities**") will be limited by the provisions of this Section 11.4.2. None of such Indemnities will apply to Damages caused by or resulting from acts or omissions or the sole negligence of the indemnitee, its agents, employees or contractors. To the extent that any such Damages are caused or result from the concurrent negligence of (a) the indemnitee or its agents, employees or contractors and (b) the indemnitor or its agents, employees or contractors, the Indemnities will apply only to the extent of the Indemnitor's negligence. If RCW 4.24.115 is hereafter amended to eliminate or modify the limitations on indemnities set forth therein, this Section 11.4.2 will automatically and without further act by either party be deemed amended to remove any of the limitations contained herein that are no longer required by then-applicable law. Landlord and Tenant have specifically negotiated the waiver of and hereby specifically waive any provisions of any industrial insurance act, including Title 51 of the Revised Code of Washington, or any other employee benefit act which might otherwise operate to release or immunize it from its obligations under this Section.

12. Tenant's Default.

12.1. Default. The occurrence of any one or more of the following events shall constitute a default and breach of this Lease by Tenant.

12.1.1. Failure to Pay Rent. The failure by Tenant to pay Ground Rent when due, where such failure shall continue for a period of seven (7) days after written notice thereof by Landlord to Tenant.

12.1.2. Failure to Perform. The failure by Tenant to observe or perform any of the covenants, conditions or provisions of this Lease to be observed or performed by the Tenant, other than described in Section 11.1.2 above, where such failure shall continue for a period of thirty (30) days after written notice thereof by Landlord to Tenant; provided, however, that if the nature of Tenant's default is such that more than thirty (30) days are reasonably required for its cure, then Tenant shall not be deemed to be in default if Tenant commences such cure within said thirty (30) day period and thereafter diligently prosecutes such cure to completion.

12.1.3. Bankruptcy. The making by Tenant of any general assignment or general arrangement for the benefit of creditors; or by the filing by or against Tenant of a petition to have the Tenant adjudged a bankrupt, or a petition or reorganization or arrangement under any law relating to bankruptcy (unless, in the case of a petition filed against Tenant, the same is dismissed within sixty (60) days of filing); or the appointment of a trustee or a receiver to take possession of substantially all of Tenant's assets located at the Property or of Tenant's interest in this Lease, where such seizure is not discharged in sixty (60) days after appointment of said trustee or receiver, or the filing of the petition for the appointment of the same, whichever shall first occur.

12.2. Landlord's Remedies in Default.

12.2.1. Upon the occurrence of an event of default under Section 12.1, Landlord shall have the following rights and remedies:

12.2.1.1. To terminate this Lease and Tenant's right of possession of the Property by giving notice of such election to Tenant, in which event Tenant shall immediately surrender possession thereof to Landlord; or

12.2.1.2. To terminate Tenant's right of possession of the Property without terminating this Lease by giving notice of such election to Tenant, in which event (A) Tenant shall immediately surrender possession thereof to Landlord, failing which Landlord may exercise the right of reentry, and (B) Landlord shall have the right to occupy the Property for and on account of Tenant and to collect any unpaid Rent and other charges which have or may thereafter become due and payable; or

12.2.1.3. To exercise the rights described above and thereafter elect to terminate this Lease and all of Tenant's rights in or to the Property by giving notice of such election to Tenant.

12.2.2. If Landlord reenters the Property under subsection (a)(ii) above, such reentry or any action, in unlawful detainer or otherwise, to obtain possession of the Property shall be deemed to be an election by Landlord to terminate this Lease, and Tenant's liability to pay Rent or other charges thereafter accruing.

12.3. **Legal Expenses.** If either party is required to bring or maintain any action (including assertion of any counterclaim or cross-claim, or claim in a proceeding in bankruptcy, receivership or any other proceeding instituted by a party hereto or by others), or otherwise refers this Lease to an attorney for the enforcement of any of the covenants, terms or conditions of this Lease, the prevailing party in such action shall, in addition to all other payments required herein, receive from the other, all the costs incurred by the prevailing party, including reasonable attorneys' fees, and such costs as determined by a court with jurisdiction.

12.4. **Remedies Cumulative - Waiver.** It is understood and agreed that the Landlord's remedies hereunder are cumulative and the Landlord's exercise of any right or remedy due to a default or breach by Tenant shall not be deemed a waiver of, or to alter, affect or prejudice any right or remedy which Landlord may have under this Lease or by law.

13. **Reconstruction.** In the event the Building or the Improvements on the Property are damaged by fire or other perils, Tenant shall (i.e., using its reasonable best efforts to accomplish the work in question as soon as is reasonably possible) repair, restore and rebuild the same (or other structures more suitable to Tenant's then-intended use of the Property), and this Lease shall remain in full force and effect. The proceeds of any insurance required to be maintained under Section 11.1 hereof shall be delivered to Tenant. Notwithstanding the foregoing, in the event of a fire or other casualty occurring where there is: (a) damage to the Building in such an amount that the use and occupancy of the Building is materially impaired, such that Tenant determines in its sole discretion to abandon the Property; or (b) there is less than two (2) years remaining in the Term of this Lease, Tenant shall have the right to terminate the Lease effective as of the date of fire or other casualty by written notice to Landlord. If Tenant elects to terminate this Lease under the preceding sentence, then Tenant shall demolish and remove all debris from the Property within one hundred twenty (120) days after Tenant's notice.

14. **Holding Over.** Unless otherwise agreed to by Landlord in writing, any holding over by Tenant after the expiration of the lease term hereof, with or without Landlord's consent, shall be construed to be a tenancy from month-to-month with the Ground Rent applicable to the last full month during the term immediately prior to such holdover period. Such holdover tenancy shall be subject to all of the terms and conditions set forth herein, to the extent not inconsistent with a month-to-month tenancy.

15. **Quiet Enjoyment.** Tenant, upon fully complying with and promptly performing all of the terms, covenants and conditions of this Lease, and upon the payment of all sums due hereunder, shall have and quietly enjoy the Property for the lease term set forth herein.

16. **Option to Purchase.** Tenant shall have the right and option to purchase the Property and Parcel 13232.0084 ("**Additional Property**") on the terms and conditions set forth in this Article 16. The Tenant may elect to purchase either the Property by itself or the Property and the Additional Parcel. If the Property and/or the Additional Parcel are not purchased, the deposited earnest money, as appropriate, will be returned to Tenant.

16.1. **Grant and Exercise of Options; Consideration.** The parties hereby acknowledge and agree that the below purchase options are an integral part of this Lease, which constitute a substantial inducement for Tenant to enter into this Lease.

16.1.1. Grant of Option for Property. For an in consideration of the payment of \$1,000.00 on the Effective Date ("**Option Money**"), Landlord hereby grants to Tenant the sole and exclusive option to purchase the Property, on the terms and conditions set forth in this Article 16 (the "**Purchase Option**").

16.1.2. Grant of Option for Additional Property. For an in consideration of the payment of \$2,000.00 on the Effective Date ("**Additional Option Money**"), Landlord hereby grants to Tenant the option to purchase the Additional Property ("**Additional Purchase Option**").

16.2. Time of Exercise. The Purchase Option may be exercised by Tenant prior to the Termination Date (Section 2.1), at which time the Purchase Option will automatically terminate. If Tenant elects to purchase only the Property, an extension of the Purchase Option for the Additional Property ("**Option Extension**") shall be granted upon the payment of \$1,000.00_____ ("**Option Extension Payment**").

The Option Extension shall be for One Hundred (100) months from the Purchase Option Notice on the same terms as this Section 16. Notwithstanding any term or condition contained in this Lease, if the Landlord, during the Option Extension, receives an offer to purchase the Additional Property, Tenant shall have thirty (30) days to match the offer and purchase the Additional Property pursuant to Sections 16.4 through 16.7. If Tenant does not match the offer and close the transaction, the Additional Purchase Option for the Additional Property shall thereafter be void and of no further force and effect.

16.2.1. Manner of Exercise. The Purchase Option (and the Additional Purchase Option) may be exercised by Tenant providing Landlord with written notice of exercise of the Option and/or Additional Purchase Option in accordance with the notice provision set forth in this Lease (the "**Purchase Option Notice**").

16.3. Purchase Price. If Tenant exercises the Purchase Option, the purchase price for the Property shall be One Hundred Thousand Dollars (\$100,000.00) less a credit for the Option Money and all Ground Rent paid prior to the date of the Purchase Option Notice (the "**Purchase Price**").

16.3.1. If Tenant exercises the Additional Purchase Option, the purchase price for the Additional Parcel shall be Thirty-three thousand, three hundred and thirty-three dollars (\$33,333.00) per acre, or portion thereof ("**Additional Parcel Purchase Price**"). The Additional Option Money shall be a credit toward the Additional Parcel Purchase Price.

16.4. Date of Closing. The closing of the sale of the Property and/or pursuant to the Option shall be closed on a date selected by Tenant and reasonably acceptable to Landlord, but not sooner than thirty (30) days nor later than sixty (60) days after the final determination of Fair Market Value.

16.5. Prorations/Termination of Lease. At Closing, Ground Rent and other charges payable under this Lease, real estate taxes and all other proratable items concerning the Property or this Lease, if any, which Tenant is not obligated to pay under this Lease shall be prorated as of the Closing Date. This Lease shall automatically terminate with respect to the respective rights

and obligations of the parties not accrued as of the conveyance of the Property to Tenant as provided herein.

16.6. Manner and Place of Closing. This transaction shall be closed in escrow by a Title Insurance Company with its local office in Cheney or Spokane, Washington ("**Title Company**").

16.7. Closing. On the Closing Date, this transaction will be closed as follows:

(i) The prorations described above will be made and the parties shall be charged and credited accordingly.

(ii) Landlord will convey the Property to Tenant by statutory bargain and sale deed ("**Deed**"), free and clear of all liens and encumbrances except only those shown on Tenant's leasehold title policy, which Tenant shall be deemed to have approved, matters created by Tenant during its occupancy, or matters otherwise specifically approved by Tenant in writing beforehand to survive such closing of the acquisition of the Property by Tenant, and Landlord will execute and deliver a "non-foreign person" FIRPTA affidavit in form satisfactory to Tenant and Title Company.

(iii) Tenant shall pay to Landlord the total Purchase Price for the Property in cash, adjusted for the charges and credits set forth above, with credit for any amounts owed Tenant to Landlord.

(iv) Landlord shall cause all matters affecting title that Tenant has not approved (or been deemed to have approved) to survive such closing and for which Landlord is responsible under this Lease to be removed of record at Landlord's expense. If Tenant so elects, Landlord shall cooperate with Title Company to issue to Tenant an ALTA owner's title insurance policy insuring Tenant as the sole fee owner of the Property, subject only to the special exceptions of the Tenant's leasehold policy, matters created by Tenant during its occupancy and matters specifically approved by Tenant in writing beforehand to survive such closing. Tenant shall pay any premium required by the Title Company for the reissuance of the Tenant's leasehold policy as an Owner's policy, or for any endorsement requested by Tenant in connection with Tenant's acquisition of the Property.

(v) The escrow fee shall be divided equally between the parties.

(vi) All other persons shall have released their security interest(s) and claims in and to the Property. There shall be no security interests, liens, rights or claims in or to the Property or any of it, except those created by or through Tenant.

(vii) Landlord shall pay any excise or transfer tax, and each party shall hold the other party harmless for, from and against any other person claiming any

finder's fee or commission arising out of the sale of the Property pursuant to this Lease through such party.

17. Miscellaneous.

17.1. No Partnership, Joint Venture. Nothing contained in this Lease shall be deemed or construed to create a partnership or joint venture as between Landlord and Tenant, or between Landlord and any other party; nor shall Tenant be deemed the Landlord's agent. Landlord shall not be liable for the debts or obligations of Tenant or for any other party.

17.2. Successors or Assigns. All the terms, conditions, covenants and agreements of this Lease shall extend to and be binding upon the Landlord, Tenant and their respective heirs, administrators, executors, successors and assigns, and upon any person or persons coming into ownership or possession of any interest in the Property by operation of law or otherwise, subject at all times, however, to all provisions and restrictions elsewhere contained in this Lease respecting the assignment, transfer, encumbering, or subletting of all or any part of the Property or Tenant's interest in this Lease.

17.3. Partial Invalidity. If any term, covenant or condition of this Lease or the application thereof to any person or circumstance is, to any extent, invalid or unenforceable, the remainder of this Lease, or the application of such term, covenant or condition to persons or circumstances other than those as to which it is held invalid or unenforceable, shall not be affected thereby and each term, covenant or condition of this Lease shall be valid and be enforced to the fullest extent permitted by law.

17.4. Recording. Tenant may record this Lease or a Notice thereof without the prior written consent of the Landlord. If Tenant records a memorandum or "short form" of this Lease, it shall be in a form customarily used for such purposes. Said memorandum or short form of this Lease shall describe the parties, the Property, the lease term and any other provisions reasonably required, shall incorporate this Lease by reference and shall specify that any inconsistency between the memorandum of lease and this Lease shall be resolved in favor of this Lease.

17.5. Notices. Any notices required in accordance with any of the provisions herein shall be delivered or mailed by registered or certified mail, postage prepaid and return receipt requested, to the addresses set forth below or at such other place as either party may in writing from time to time specify. Any such notice shall be deemed effective on the date of delivery or two (2) business days after mailing. If there is more than one Tenant or Landlord, any notice required or permitted hereunder may be given by or to any one thereof, and shall have the same force and effect as if given by or to all thereof.

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| Notices to Landlord: | City of Cheney Mayor, Chris Grover 609 Second Street Cheney, WA 99004 |
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| | |
|--------------------|--|
| Notices to Tenant: | JC Steel Targets, Inc. Attn: Jake Vibbert |
|--------------------|--|

224 Second St., Suite 697
Cheney, WA 99004

17.6. Time. Time is of the essence of this Lease and each and all of its provisions in which performance is a factor. All periods of time referred to herein shall include all Saturdays, Sundays and state or national holidays, unless the period of time specifies business days, provided that if the date or last date to perform any act or give any notice shall fall on a Saturday, Sunday or state or national holiday, such act or notice may be timely performed or given on the next succeeding day, which is not a Saturday, Sunday or state or national holiday.

17.7. Amendments. No provision of this Lease may be amended or added to except by an agreement in writing signed by the parties hereto or their respective successors in interest. This Lease shall not be effective or binding on any party until fully executed by both parties hereto.

17.8. Force Majeure. This Lease and the obligations of either party hereunder, other than obligations to pay Rent or other sums of money, shall be excused if such party is unable to fulfill any of its obligations hereunder or is delayed in doing so, if such inability or delay is caused by reason of strike, labor troubles, acts of God, or any other cause beyond the reasonable control of the obligated party; provided, however, such excused performance shall only be for that period of time that the cause of such inability or delay shall exist. This Lease and the obligations of either party hereunder shall not be affected or impaired because the other party is unable to fulfill any of its obligations hereunder or is delayed in doing so, if such inability or delay is caused by reason of strike, labor troubles, acts of God, or any other cause beyond the reasonable control of the obligated party.

17.9. Choice of Law. This Lease shall be governed by the laws of the state of Washington.

17.10. Broker's Commission. Landlord and Tenant represent and warrant to one another that they have incurred no liabilities or claims for brokerage commissions or finder's fees in connection with the execution of this Lease, and that they have not dealt with and have no knowledge of any other real estate broker, agent or salesperson involved in any way with this Lease. Landlord and Tenant agree to indemnify, defend and hold each other harmless from all such liabilities or claims (including, without limitation, attorneys' fees) arising out of any contractual or other obligation alleged to exist between the indemnifying party and any other real estate broker, agent or salesperson. Landlord specifically agrees to indemnify, defend and hold Tenant harmless from and against any claim for a commission or finder's fee made by any person arising from or relating to this Lease.

17.11. Execution by Tenant and Landlord. No contractual or other rights shall exist or be created between Landlord and Tenant until all parties hereto have executed this Lease and fully executed copies have been delivered to Landlord and Tenant.

[Signature Page Follows]

IN WITNESS WHEREOF, the parties hereto have executed this Lease as of the Effective Date.

TENANT:

JC STEEL TARGETS, INC.,
a Washington corporation

By _____
Its _____

LANDLORD:

CITY OF CHENEY,
a municipal corporation of the State of Washington

By _____
Mayor, Chris Grover

Attest:

Cindy Niemeier, City Clerk

COUNTY OF _____)

State of Washington, duly commissioned and sworn personally appeared _____, known to me to be the _____ of _____, the corporation that executed the foregoing instrument, and acknowledged the said instrument to be the free and voluntary act and deed of said limited liability company, for the purposes therein mentioned, and on oath stated that he/she was authorized to execute said instrument.

I certify that I know or have satisfactory evidence that the person appearing before me and making this acknowledgment is the person whose true signature appears on this document.

WITNESS my hand and official seal hereto affixed the day and year in the certificate above written.

Signature

Print Name

NOTARY PUBLIC in and for the State of
Washington, residing at _____.
My commission expires _____.

COUNTY OF SPOKANE)

State of Washington, duly commissioned and sworn personally appeared _____, known to me to be the _____ of the corporation that executed the foregoing instrument, and acknowledged the said instrument to be the free and voluntary act and deed of said limited liability company, for the purposes therein mentioned, and on oath stated that they was authorized to execute said instrument.

I certify that I know or have satisfactory evidence that the person appearing before me and making this acknowledgment is the person whose true signature appears on this document.

WITNESS my hand and official seal hereto affixed the day and year in the certificate above written.

Signature

Print Name

NOTARY PUBLIC in and for the State of
Washington, residing at _____.
My commission expires _____.

EXHIBIT A

LEGAL DESCRIPTION AND DEPICTION OF PROPERTY

Parcel Nos. 13232.0303; 13232.0302 and 13232.0301.

If a legal description is not attached, the Parties shall agree upon the legal description prior to the Effective Date, which shall be attached hereto.

