

**PROMISSORY NOTE ENTERED INTO WITH RICK A. ARMSTRONG,  
SUSAN HESS-ARMSTRONG, ARMSTRONG, LLC, AND BARANOF ISLAND  
BREWING COMPANY, LLC, RELATING TO CITY AND BOROUGH OF SITKA  
SOUTHEAST ECONOMIC DEVELOPMENT FUND LOAN FOR BARANOF ISLAND  
BREWING COMPANY, LLC**

**\$75,000.00**

April 6, 2012  
Sitka, Alaska

FOR CONSIDERATION RECEIVED, **RICK A. ARMSTRONG** and **SUSAN HESS-ARMSTRONG**, individuals, P.O. Box 3144, Sitka, Alaska 99835, **ARMSTRONG, LLC**, a limited liability company, P.O. Box 3144, Sitka, Alaska 99835, and **Baranof Island Brewing Company, LLC**, a limited liability company, 212 Smith Street, P.O. Box 1647, Sitka, Alaska 99835 (collectively referred to as "Debtor"), individually and severally sign and are liable regarding this Promissory Note ("Note") relating to Assembly approval on March 27, 2012 of a City and Borough of Sitka Southeast Economic Development Fund ("SEDF") loan for Baranof Island Brewing Company, LLC. Debtor promises to repay the loan from the City and Borough of Sitka ("CBS") in the sum of **Seventy Five Thousand and 00/100 Dollars (\$75,000.00)**, to be paid in full by October 1, 2012 at **three and one-half percent (3.5%)** per annum interest rate by that date, and in accordance with this Note and any conditions specified in the Deed of Trust Regarding Promissory Note, executed at the same time as this Note.

The loan shall only be used for the following for Baranof Island Brewing Company, LLC.: deposits on kegs and bottling lines; purchase and installation of glycol chiller; and working capital. The loan may not be used to repay investments or loans made by the owners to the business, Baranof Island Brewing Company, LLC.

Debtor agrees to use as collateral for this loan to the fullest extent allowed by applicable laws, all Baranof Island Brewing Co., LLC accounts receivable, equipment, supplies and inventory. Debtor shall execute all necessary documents and pay any costs associated with the filing of a lien and/or other security interest documents relating to such collateral. In particular, the Debtor agrees to the filing and assisting with the preparation of any UCC filings regarding any equipment as listed in the above paragraph purchased with these loan proceeds, as well as regarding any current equipment of Baranof Island Brewing Co., LLC.

During the loan period, from the date of this Note until October 1, 2012, and for any extended period if such an extension is granted by CBS, Debtor shall remain current with any payments owed the CBS, including but not limited to payments for loans, leases, sales taxes, property taxes, utility payments, and any other CBS accounts. Additionally during this same period, Debtor shall comply with all CBS laws, including any building code, building permits, zoning code provisions, etc.

CBS may cause additional parties to be added or release any party, either with or without notice to the undersigned, either as co-maker, endorsers, or guarantors, or may extend the time for making any payment, or may accept an installment or full payment in advance, without affecting the liability of the undersigned.

The Debtor may prepay without penalty.

Should CBS take any action regarding default or to collect on this Note or any partial payment, or to protect its interest in this Note, Debtor agrees to pay all reasonable attorney fees, court costs (including fees and court costs in any appeal or bankruptcy proceeding and including on any matter this is specific to a bankruptcy proceeding), plus any actual expenditures incurred to secure the payment of or to collect on this Note.

Debtor waives demand, protest and notice of demand, protest and nonpayment, and expressly agrees that this Note or any provision on this Note may be extended from time to time and consents to the acceptance of further security, including other types of security, all without in any way affecting its liability.

If default in the payment or any breach of the conditions set out in this Note or in the Deed occur, or in the prior Note and Deed executed on May 4, 2011, and such default or breach is not cured within ten (10) days after the written notice is mailed by CBS to Debtor regarding the default or breach, then the entire principal sum on this Note as well as the May 4, 2011 Note shall become at once due and payable at the CBS's option, as well as interest on any amount still owed at the interest rate of **twelve percent (12%)** instead of **three and one-half percent (3.5%)** per annum for this Note and for the May 4, 2011 Note.

Debtor is personally obligated and fully liable for the amount due under this Note. The CBS has the right to sue on this Note and obtain a personal judgment against Debtor for satisfaction for the amount due under this Note, in addition to, and either before or after, a judicial foreclosure of the deed of trust under AS 09.45.170-9.45.220.

Debtor agrees to pay the loan in full as set out in this Note and agrees to sign and record a Deed of Trust Regarding Promissory Note to be filed against the property it owns at 212 Smith Street.

**Debtor, Individually and Severally**



RICK A. ARMSTRONG, individual

RICK A. ARMSTRONG,

Member Manager ARMSTRONG, LLC

RICK A. ARMSTRONG,

Member Manager BARANOF ISLAND  
BREWING COMPANY, LLC



SUSAN HESS-ARMSTRONG, individual

SUSAN HESS-ARMSTRONG,

Member Manager ARMSTRONG, LLC

SUSAN HESS-ARMSTRONG,

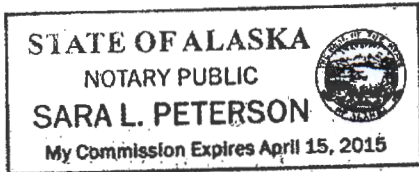
Member Manager BARANOF ISLAND  
BREWING COMPANY, LLC

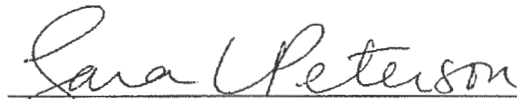
STATE OF ALASKA )

) ss.

FIRST JUDICIAL DISTRICT )

On this 6 day of April, 2012, personally appeared before me Rick A. Armstrong and Susan Hess-Armstrong, whose identities are personally known to me or proved to me on the basis of satisfactory evidence, and who by signing this document, swear or affirm that they individually and severally execute this document as individuals, and as member managers of Armstrong, LLC and Baranof Island Brewing Co., LLC, and are authorized to sign this document on behalf of themselves, Armstrong, LLC, and Baranof Island Brewing Co., LLC, and do so freely and voluntarily.



  
Notary Public for Alaska

My Commission Expires: 4-15-2015

RECORD AND RETURN TO:  
Municipal Clerk  
City and Borough of Sitka  
100 Lincoln Street  
Sitka, Alaska 99835

**DEED OF TRUST REGARDING PROMISSORY NOTE**

This Deed of Trust Regarding Promissory Note ("Deed of Trust") is made this 6 day of April, 2012, between Armstrong, LLC, a limited liability company, ("Armstrong" or "Trustor"), whose address is P.O. Box 3144, Sitka, Alaska 99835, on behalf of Baranof Island Brewing Co., LLL, a limited liability company, and City and Borough of Sitka ("CBS" or "Beneficiary"), a municipal corporation, whose address is 100 Lincoln Street, Sitka, Alaska, 99835.

WITNESSETH:

For purposes of securing payment on a loan of **Seventy Five Thousand and 00/100 Dollars (\$75,000.00)**, to be paid in full by October 1, 2012, with interest at the rate of **three and one-half percent (3.5%)** per annum, based on the Promissory Note Entered Into With Rick A. Armstrong, Susan Hess-Armstrong, Armstrong, LLC, and Baranof Island Brewing Co., LLC Relating To City And Borough Of Sitka Southeast Economic Development Fund Loan To Baranof Island Brewing Company, LLC ("Note"), dated April 6, 2012, made by Trustor and payable to the order of the Beneficiary, Trustor irrevocably grants, transfers and assigns to Beneficiary in trust, with power of sale, real property in Sitka, Alaska, the following property (hereinafter referred to as "Property"), with the address of 212 Smith Street, Sitka, Alaska, more particular described as follows:

Lot Six B (6B), Licari Subdivision, according to plat thereof filed April 23, 2003 as Plat 2003-10, Sitka Recording District, First Judicial District, State of Alaska.

In addition to provisions contained in the Note, which is attached to this Deed of Trust and incorporated by reference, Trustor further agrees to protect the security of this Deed of Trust and agrees to the following conditions as set out in this Deed of Trust:

1. **Insurance.** Trustor shall maintain property damage and comprehensive general liability insurance, including standard fire coverage insurance, in a minimum amount equal to the unpaid balance of the Note held by Beneficiary. Beneficiary shall be named as an additional insured.

2. **Default and Foreclosure.**

In the event of default under the provisions of this Deed of Trust and/or Note, Beneficiary may, at its option, execute or cause to execute a written notice of such default and of its election to cause the Property to be sold to satisfy the obligations secured by this Deed of Trust and in accordance with the Deed of Trusts Act of the State of Alaska, AS 34.10.070-135, as now enacted or amended, and the Uniform Commercial Code of the State of Alaska where applicable.

The power of sale conferred by this Deed of Trust and by the Deed of Trusts Act is not an exclusive remedy.

If Beneficiary elects to judicially foreclose this Deed of Trust as a mortgage, Beneficiary shall to the extent the Note represents a recourse debt be entitled to a deficiency judgment against Trustor, Trustor's assigns, surety or guarantor of the Note subject to statutory right of redemption.

3. **Transfer of the Property.** In the event that Trustor shall sell, gift, convey, assign, further encumber or alienate the Property, or any part of or interest in the Property, or be divested of title or any interest (all of the foregoing being hereinafter called "transfer"), in any manner whatsoever, whether voluntarily or involuntarily, without prior written approval from Beneficiary, Beneficiary may, in addition to any other rights or remedies, at its option, declare all obligations secured by this Deed of Trust immediately due and payable. Beneficiary's option to declare all obligations secured by this Deed of Trust immediately due and payable may be exercised at any time after transfer is made, and acceptance of one (1) or more monthly payments made by Trustor or transferee shall not constitute a waiver of Beneficiary's option, nor shall be construed as a waiver of the provisions regarding any subsequent purchaser or transferee concerning the Property. Consent by Beneficiary to such transaction shall not be deemed to waive the right to require such consent to future transactions, and any consent given may be conditional.

4. **Miscellaneous Provisions.**

A. This Deed of Trust, together with the Note, set forth the entire agreement of the parties as to the subject matter and supersedes all prior discussions and understandings between them. This Deed of Trust may not be amended, changed, altered, or rescinded in any manner except by an instrument in writing signed by a duly authorized officer or representative of each party.

B. This Deed of Trust, together with the Note, shall be governed by and construed and enforced in accordance with the laws of the State of Alaska, except as otherwise provided in this Deed of Trust or Note.

C. Should any of the provisions of this Deed of Trust and/or Note be found to be invalid, illegal or unenforceable by any court of competent jurisdiction, such provision shall be stricken and the remainder of this Deed of Trust or Note shall nonetheless remain in full force and effect unless striking such provision shall materially alter the intention of the parties.

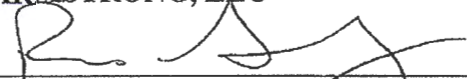
D. In the event any action is brought to enforce this Deed of Trust and/or Note, the parties agree that in any such action, venue shall be exclusively at Sitka, Alaska, First Judicial District, State of Alaska.

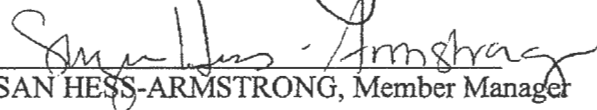
E. Paragraph headings contained in this Deed of Trust are included for convenience only and form no part of the agreement between the parties. This Deed of Trust shall not be construed for or against the drafter or any party, but instead fairly according to its terms.

F. Unless otherwise provided in this Deed of Trust, all notices or requests required or permitted under this Deed of Trust shall be in writing, personally delivered or sent by certified mail, return receipt requested, postage prepaid and deemed given when so delivered or mailed, irrespective of whether such notice or request is actually received by the addressee. Notice shall be sent to the parties at the addresses set forth in the introductory paragraph of this Deed of Trust. Either party may change the address to which notices shall be sent by notice to the other party.

G. This Deed of Trust shall be binding upon, and inure to the benefit of, the parties and their respective successors and assigns.

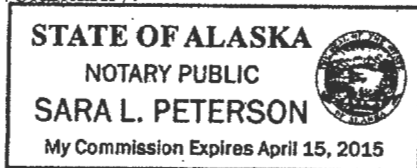
Trustee  
ARMSTRONG, LLC


  
\_\_\_\_\_  
RICK A. ARMSTRONG, Member Manager

  
\_\_\_\_\_  
SUSAN HESS-ARMSTRONG, Member Manager

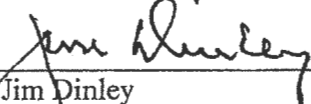
STATE OF ALASKA            )  
  ) ss.  
FIRST JUDICIAL DISTRICT    )

On this 6 day of April, 2012, personally appeared before me Rick A. Armstrong and Susan Hess-Armstrong, whose identities are personally known to me or proved to me on the basis of satisfactory evidence, and by signing this document, swear or affirm that they are member managers of Armstrong, LLC and are authorized to sign this document and do so freely and voluntarily.



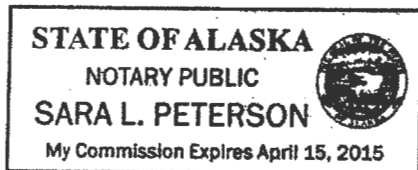
  
\_\_\_\_\_  
Notary Public for Alaska  
My Commission Expires: 4-15-2015

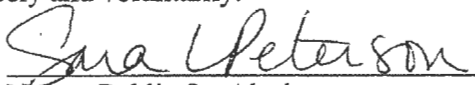
Beneficiary  
CITY AND BOROUGH OF SITKA

  
\_\_\_\_\_  
Jim Dinley  
Municipal Administrator

STATE OF ALASKA            )  
  ) ss.  
FIRST JUDICIAL DISTRICT    )

THIS CERTIFIES that on the 6 day of April, 2012, before me, a Notary Public in and for the State of Alaska, personally appeared Jim Dinley, Municipal Administrator of the City and Borough of Sitka, Alaska, a municipality organized under the laws of the State of Alaska, and by signing this document verifies that he has been authorized to execute this document on its behalf, and he signs freely and voluntarily.



  
\_\_\_\_\_  
Notary Public for Alaska  
My Commission expires: 4-15-2015