

GRAZING LICENSE

THIS GRAZING LICENSE (“License”) is made as of the 12 day of June, 2014, by and between the Cochise County Flood Control District, Arizona (“Licensor”) and Lazy H Slash, LLC (“Licensee”).

RECITALS

A. Licensor is the owner of record of all of that certain real property (the “Property”) situated in Cochise County, Arizona, and more particularly described in Exhibit A, attached hereto.

TOGETHER WITH all fences, corrals and all other improvements on the Property.

SUBJECT TO:

I. All easements, rights of way, reservations, restrictions, covenants, conditions, zoning, planning, mortgages, deeds of trust, liens, encumbrances and security interests affecting the Property, specifically including the Conservation Easement between the Licensee as Grantor and the City of Sierra Vista as Grantee, recorded as Document # 2013-26393 (the “Conservation Easement”); and

II. Any agricultural use assessment affecting the Property.

B. Landlord wishes to license the Property to Licensee for the purpose of grazing livestock, together with all rights, privileges and easements related to such use.

AGREEMENT

NOW, THEREFORE, for good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, Licensor and Licensee hereby agree as follows:

1. **License of Property.** Licensee hereby grants a license to Licensee, and Licensee hereby licenses from Licensor, the Property for the terms and upon the agreements, covenants and conditions set forth in this License.

2. **Use.** Licensee shall only use the Property for grazing of livestock and other lawful purposes incident thereto; provided, however, in no event shall the Property be used for any purpose or use (nor shall any activity be carried on upon the Property) which in any manner causes, creates or results in a public or private nuisance. Notwithstanding anything else to the contrary, Licensee's use of the Property shall comply with all terms of the Conservation Easement. It is understood and agreed that Licensee's use of the Premises is non-exclusive, and that the Licensor shall retain the right to use the Premises for purposes of Cochise County and the County Flood Control District, specifically including capping agricultural wells, clean-up and salvage, and site investigations, including investigations related to flood control and recharge, and wildlife viewing. Licensor and Licensee do not anticipate that such uses will conflict with Licensee's use, but in the event they might conflict, Licensor and Licensee will coordinate with one another to avoid any such conflict. Licensee shall have the following additional obligations:

- (a) Licensee shall fix and maintain fences, maintain stock watering facilities, if any, maintain ditches in a condition to allow proper use and management of the Property and shall maintain the same in such order and repair, subject to reasonable wear and depreciation, replacement, substitution or improvement.
- (b) The personal property listed on Exhibit B has been placed on the Property by Licensee and is owned by Licensee. It may be disposed by Licensee as it deems fit. As for any other personal property on the Property, Licensee shall not remove or demolish any portion of it unless the same is replaced, improved or substituted therefore by a like item of at least equal value, quality and use.
- (c) Licensee shall not mine on any portion of the Property.
- (d) Licensor shall graze and manage the grazing areas of the Property in a manner recognized as good range management in the grazing unit or area in which the Property is located.
- (e) Licensee shall operate the Property according to the dictates of good ranch, soil, plant, water and range management common in the area of the Property.

3. **Term.** The term of this License shall be from the 1st day of July, 2014 through the 30th day of June, 2015 ("Term") and thereafter, shall be for successive periods each of one year, which renew automatically until canceled by either Licensor or Licensee in writing, in consideration of the licensing of the Property. The election by Licensor or Licensee to cancel the then-applicable Term shall be exercised by providing the other with thirty (30) days written notice and upon such expiration of the thirty (30) day notice, the Term and this License shall expire. In addition, Licensor may cancel this License, and further use of the Property by Licensee, if the Licensee overgrazes the Property. Overgrazing shall be considered at 70% utilization of existing forage cover.

4. **Possession.** Use of the Property under this License shall commence on the 1st day of July, 2014.

5. **Consideration.** Licensee shall pay an annual gross license fee of \$2,400. That fee is based on an agreed on total annual carrying capacity of 20 adult cattle per year, which converts to 240 animal unit months (AUMs), at \$10 per animal unit month. Yearlings will be considered as 0.75 of an adult. Licensee will be allowed a 10% deviation from the 240 AUMs without any additional fee or refund. If weather conditions prevent Licensee from fully using the property without risk of overgrazing, Licensor agrees to refund or reduce the fee proportionally to the amount of grown cattle that can safely be run. If weather conditions allow the safe running of more cattle than 240 AUM's, Licensee will pay an additional lease amount based on \$10 per month per additional adult animals allowed. This will be mutually agreed prior to use. Licensee shall notify Licensor prior to placing cattle on the Property and taking them off, including numbers and classes of animals.

6. **Compliance.** Licensee shall comply with and abide by all federal, state, county, municipal and other governmental statutes, ordinances, laws and regulations affecting the Property, all buildings and improvements now or hereinafter located thereon, or any activity or condition on the Property.

7. **No Waste.** Licensee agrees it will not commit or permit waste upon the Property.

8. **Assignment.** Licensee may not assign this License, or any interest therein, without the written approval of Licensor, which may be withheld in Licensor's sole and absolute discretion.

9. **No Encumbrances.** Licensor shall not under any circumstances encumber the Property by a mortgage, deed of trust or other security instrument, including, without limitation, an assignment of rents, issue and profits from the Property to secure repayment of any loan to Licensee, and associated obligations from any lender of Licensee's.

10. **Mechanics' Liens and Other Liens.** Licensee shall promptly discharge or remove by bond or otherwise prior to foreclosure thereof any and all mechanics', materialmen's and other liens for work or labor done, services performed, materials, appliances, teams or power contributed, used or furnished or to be used in or about the Property for or in connection with any operations of Licensee, any alterations, improvements, repairs or additions which Licensee may make or permit or cause to be made, or any work or construction by, for or permitted by Licensee on or about the Property, and to save and hold Licensor and all of the Property and all buildings and improvements thereon free and harmless of and from any and all such liens and claims of liens and suits or other proceedings thereto.

11. **Indemnity.** To the fullest extent allowed by law, Licensee covenants and agrees that Licensor shall not at any time or to any extent whatsoever be liable, responsible or in anywise accountable for any loss, injury, death or damage to persons or property which at any time may be suffered or sustained by Licensee or by any person who may at any timer be using, occupying or visiting the Property or be in, on or about the Property, from any cause whatsoever, except when such loss, injury, death or damage shall be caused by or in anywise result from or arise out of the negligent or intentional acts or omission of Licensor. Furthermore, Licensee shall forever indemnify, defend, hold and save Licensor free and harmless of, from and against any

and all claims, liability, loss or damage whatsoever on account of any such loss, injury, death or damage occasioned by any cause other than Licensor's intentional or negligent acts or omissions. Licensee hereby waives all claims against Licensor for damages to the buildings and improvements now or hereafter located on the Property and to the property of Licensor in, upon or about the Property, and for injuries to persons or property in, on or about the Property, from any cause arising at any time, except for any such claims arising from negligent or intentional acts or omissions committed by Licensor. Licensee's indemnity obligation set forth in this Section shall survive the termination or expiration of this Licensee with respect to any claims or liabilities arising out of injury or damage to person or property which occurs during the Term.

12. **Licensor's Right of Inspection.** Licensor may, at any reasonable time and from time to time during the Term, enter upon the Property for the purpose of inspecting the buildings or improvements now or hereafter located thereon and for such other purposes as may be necessary or proper for other uses by Cochise County or the County Flood Control District and for the reasonable protection of its interests.

13. **Licensee's Defaults and Licensor's Remedies.** It shall be an event of default hereunder (each, an "Event of Default") if: (i) default shall be made by Licensee in the performance or observance of any of the agreements, covenants or conditions of this License on the part of the Licensee to be performed or observed and such default shall continue for a period of thirty (30) days after written notice thereof to Licensee, or, in the case of a default which cannot be cured by the payment of money and cannot be cured within thirty (30) days, shall continue for an unreasonable period after such written notice; (ii) Licensee shall abandon the Property; (iii) Licensee shall admit in writing its inability to pay its debts generally as they become due, file a petition in bankruptcy, insolvency, reorganization, readjustment of debt, dissolution or liquidation under any law or statute of the federal government or any state government or any subdivision of either now or hereafter in effect, make an assignment for the benefit of its creditors, consent to or acquiesce in the appointment of a receiver of itself or of the whole or any substantial part of the Property; (iv) a court of competent jurisdiction shall enter an order, judgment or decree appointing a receiver of Licensee or of the whole or any substantial part of the Property, and such order, judgment or decree shall not be vacated, set aside or stayed within sixty (60) days from the date of entry of such order, judgment or decree, or a stay thereof be thereafter set aside; (v) a court of competent jurisdiction shall enter an order, judgment or decree approving a petition filed against Licensee under any bankruptcy, insolvency, reorganization, readjustment of debt, dissolution or liquidation law or statute of the federal government or any state government or any subdivision of either now or hereafter in effect, and such order, judgment or decree shall not be vacated, set aside or stayed within sixty (60) days from the date of entry of such order, judgment or decree, or a stay thereof be thereafter set aside; or (vii) under the provisions of any other law for the relief or aid of debtors, a court of competent jurisdiction shall assume custody or control of Licensee or of the whole or any substantial part of the Property, and such custody and control shall not be terminated within sixty (60) days from the date of assumption of such custody or control. Upon the occurrence of any Event of Default by Licensee hereunder, Licensor shall have the following rights and remedies, in addition to all other rights and remedies of Licensor provided hereunder or by law:

- (a) The right to terminate this License, in which Licensee shall immediately surrender possession of the Property; and
- (b) The right to cause a receiver to be appointed in any action against Licensee to take possession of the Property or to collect the rents or profits therefrom. Neither appointment of such receiver nor any other action taken by Licensor shall constitute an election on the part of Licensor to terminate this License unless written notice of termination is given to Licensee.

14. **Nonwaiver.** If any action or proceeding is instituted or if any other steps are taken by Licensor or Licensee, and a compromise partial payment or settlement thereof shall be made, either before or after judgment, the same shall not constitute or operate as a waiver by Licensor or Licensee of any agreement, covenant or condition of this License or of any subsequent breach thereof. No waiver of any default under this License shall constitute or operate as a waiver of any subsequent default hereunder, and no delay, failure or omission in exercising or enforcing any right, privilege or option under this License shall constitute a waiver, abandonment or relinquishment thereof or prohibit or prevent any election under or enforcement or exercise of any right, privilege or option hereunder. No waiver of any provision hereof by Licensor or Licensee shall be deemed to have been made unless and until such waiver shall have been reduced to writing and signed by Licensor or Licensee, as the case may be.

15. **No Partnership.** It is expressly understood that Licensor does not, in any way or for any purpose by executing this License, become a partner of Licensee in the conduct of Licensee's business, or otherwise, or a joint venturer or a member of a joint enterprise with Licensee.

16. **Notices.** Except as otherwise provided hereunder, any notice or communication to Licensor or Licensee shall be in writing and mailed by certified mail, postage prepaid. Notices or communications shall be addressed to:

Three Canyons/Palominas Licensor,
Attn.: Michael Ortega, County Administrator,
1415 Melody Lane, Building G, Bisbee, AZ 85603

Or such other address or addresses as Licensor shall from time to time designate, or to such agent of Licensor as it may from time to time designate, by notice in writing to Licensee.

Notice or communication shall be addressed to:

Three Canyons/Palominas Grazing Lease Licensee,
Lazy H Slash LLC
Mike and Beth Hughes
P.O. Box 633
Sonoita, AZ 85637

Or such other address or addresses as Licensee shall from time to time designate, or to such agent of Licensee as it may from time to time designate, by notice in writing to Licensor. Any notice mailed in the manner above set forth shall be deemed to have been received unless returned to the sender by the Post Office.

17. **Holding Over.** This License shall terminate pursuant to terms of Paragraph 3, and any holding over by Licensee after the expiration of the Term shall not constitute a renewal hereof or give Licensee any rights hereunder or in or to the Property, except as otherwise herein provided, it being understood and agreed that this License cannot be renewed, extended or in any manner modified **except as provided in Paragraph 3** or as stated in writing signed by Licensor and Licensee.

18. **Severability.** In the event any one or more of the provisions contained in this License shall for any reason be held to be invalid, illegal or unenforceable in any respect, such invalidity, illegality or unenforceability shall not affect any other provisions of this License, but this Licensee shall be construed as if such invalid, illegal or unenforceable provisions had not been contained herein.

19. **Time of the Essence.** Time is of the essence of each and all of the agreements, covenants and conditions of this Licensee.

20. **Attorneys' Fees.** In the event of any action or proceeding at law or in equity between Licensor and Licensee to enforce any provision of this License or to protect or establish any right or remedy of either party hereunder, **each party shall be responsible for its own costs and expenses, including attorneys' fees, regardless of who prevails in that action or proceeding.**

21. **Integration.** This instrument constitutes the entire agreement between Licensor and Licensee with respect to the subject matter hereof and supersedes all prior offers and negotiations, oral or written. This License may not be amended or modified in any respect whatsoever except by an instrument in writing signed by Licensor and Licensee. The Recitals set forth in this License are fully incorporated herein.

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22. **Governing Law.** This License shall be governed by and construed in accordance with the laws of the State of Arizona.

IN WITNESS WHEREOF, the parties have executed this License as of the dates set forth below.

LICENSOR:

COCHISE COUNTY FLOOD CONTROL DISTRICT

By: _____ Date _____
Ann English, Chair
Cochise County Board of Supervisors,
Flood Control District

TENANTS:

Beth Hughes manager _____ Date *06/12/14*
Beth Hughes, Manager, Lazy H Slash LLC

Mike Hughes Manager Lazy H Slash _____ Date *06/12/14*
Mike Hughes, Manager, Lazy H Slash LLC

EXHIBIT "A"

LEGAL DESCRIPTION

SECTION 29, TOWNSHIP 23 SOUTH, RANGE 22 EAST OF
THE GILA AND SALT RIVER BASE AND
MERIDIAN, COCHISE COUNTY, ARIZONA;
EXCEPT THE SOUTHWEST QUARTER THEREOF; AND
EXCEPT THE EAST 50.00 FEET OF THE EAST HALF OF
SAID SECTION 29

END OF LEGAL DESCRIPTION
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EXHIBIT B
Grazing License for Three Canyons/Palominas Parcel
Lazy H Slash Personal Property

- water storage tank and trailer
- Solar panels
- control box
- 3/4 horse submersible pump
- solar submersible pump
- wiring to both pumps
- three water troughs
- livestock panels used to build corrals
- corral posts and all up and over gates
- both front gates to the property
- two gates located on Palominas Rd and 3 Canyon Rd floats
- master lock on front gate