

**COCONINO COUNTY
GRAZING LEASE**

WHEREAS...

This Grazing Lease is entered into by and between COCONINO COUNTY as "Lessor" and MANTEROLA SHEEP COMPANY, INC. as "Lessee" effective November 1, 2010.

WHEREAS, Manterola Sheep Company, Inc. as Lessee held grazing lease No. 05-1802 from the Arizona State Land Department (ASLD) consisting of approximately 7,166.36 acres located in T. 20 N., R.6 E., all or portions of Sections 4, 5, 8, 10, 14, 17, 20, 22 and 26 & and in T. 21 N., R. 6 E., Sections 21, 22, 26, 27, 33, and 34 in Coconino County, as described in Appendix A to ASLD Lease No. 05-1802;

WHEREAS, Coconino County acquired at auction from the Arizona State Land Department on November 1, 2010, a 2249.04 acre parcel of land located in T. 20 N., R. 6 E., all of Section 4 and portions of 5 & 6 and in T. 21 N., R. 6 E. portions of Sections 31 & 32 that covers a portion of Lessee's grazing lease from ASLD;

WHEREAS, Coconino County, as a condition of the sale, is required, as the new Lessor, to continue the terms and conditions of ASLD Lease No. 05-1802 until its expiration and to renew said lease for one ten-year period without modifications;

WHEREAS, the purpose of this lease is to set forth the relevant portions of ASLD Lease No. 05-1802, as amended in 2005, to comply with the conditions of sale by ASLD to Coconino County allowing the lease existing as of the date of the sale to continue under the then current terms and to provide for renewal for one ten-year term.

NOW THEREFORE, in consideration of the payment of rent and of performance by the parties of each of the provisions set forth herein, the parties agree as follows:

**ARTICLE 1
SUBJECT LAND**

- 1.1 Lessor hereby leases to Lessee for the term, at the rent, and in accordance with the provisions set forth herein, the Subject Land described in Appendix A attached hereto ("Subject Land") for the uses and purposes specified in Article 4.
- 1.2 Lessee makes use of Subject Land "as is" and Lessor makes no express or implied warranties as to the physical condition of the Subject Land.

ARTICLE 2
TERM

- 2.1 The term of this Lease commences on November 1, 2010, and ends on May 17, 2014, unless terminated earlier as provided by this Lease. This lease is renewable for an additional ten-year period pursuant to Article 22 of this Lease.

ARTICLE 3
RENT

- 3.1 Lessee shall pay rent to Lessor for the use and occupancy of the Subject Land during the term of this Lease without offset or deduction and without notice or demand, as established, on an annual basis.
- 3.2 The annual rent base shall be set by Lessor in the manner established by law and paid in advance each year, consistent with the terms of ASLD Lease No. 05-1802.
- 3.3 Each billing year in advance, Lessee shall inform Lessor, on forms to be provided by Lessor, whether Lessee intends to make full use, partial use or total non-use of the maximum allowable animal-unit-months for the Subject Land, so that the correct amount of rent may be billed by the Lessor. Lessee shall inform Lessor in writing of any subsequent change in the number of animal-unit-months which Lessee intends to use. If Lessee fails to provide Lessor with this information within the time stated in the form provided by Lessor, Lessee shall pay full-use rent.
- 3.4 There shall be added to any rent payment, annual or otherwise, which has become due and has not been paid, a penalty in the amount of 5% of the payment due. Interest, at the then current rate set by the County Treasurer under applicable law such as A.R.S. § 37-241(D)(3), shall be added to any rent and penalty from and after the date that the rent payment becomes due.
- 3.5 Prior to the time a rent payment, annual or otherwise, is due, upon Lessee's written request, Lessor at its discretion may extend the time for payment for an additional period not to exceed 90 days. There shall be added to the rent a penalty of 5% of the rent payment due and interest on the rent and penalty at the then current rate set by the County Treasurer under applicable law such as A.R.S. § 37-241(D)(3), or any successor State/County statute.
- 3.6 If the annual rent is at any time one calendar year in arrears, this Lease shall automatically terminate, without right of appeal by Lessee or any leasehold mortgagee, and Lessor shall proceed to cancel it on the records of Coconino County.

ARTICLE 4
USE OF SUBJECT LAND

- 4.1 The Subject Land is leased to the Lessee for the purposes of ranging livestock and for uses related thereto and no other use, except as approved in writing by Lessor after written application to the Lessor.
- 4.2 Feedlot operations on the Subject Land are prohibited, but this shall not be construed to prevent the temporary or supplemental feeding of livestock.

ARTICLE 5
LIVESTOCK CARRYING CAPACITY

- 5.1 The livestock carrying capacity for the Subject Land shall be determined by the Lessor and may be adjusted from time to time, subject to the appeal rights of the Lessee as provided by law. The appraised carrying capacity of the Subject Land shall not be exceeded during any billing year unless Lessee obtains the prior written permission of Lessor and agrees to pay the additional fees determined by Lessor.

ARTICLE 6
DUTY TO INFORM LESSOR OF TOTAL RANCH HOLDINGS

- 6.1 At the time of making application for the Lease, Lessee shall disclose to the Lessor, on a form provided by Lessor, the total acreage used for grazing within the ranch unit or units of which the Subject Land is a part. This shall include, in addition to the Subject Land, any federal land which Lessee grazes pursuant to a written lease or permit on any private land owned by or used by Lessee, with a designation as to which private lands are used pursuant to written agreement. In addition, Lessee shall show, on a map form supplied by or acceptable to Lessor: (1) the approximate location of all fence lines and man-made water sources and (2) the land ownership status (state, federal, or private) of the ranch unit or units of which the land covered by this Lease is a part.
- 6.2 In any determination as to whether the carrying capacity of the Subject Land has been exceeded, no claimed grazing use of the private or federal lands within the ranch unit or units which have not been disclosed as part of the ranch unit or units shall be considered.
- 6.3 For purposes of determining whether the Lessee has remained within the authorized carrying capacity under this Lease, it shall be presumed that all land within a fenced pasture (whether state, federal or private) has been grazed to the same extent by livestock placed in that pasture unless Lessee or Lessor can, based upon range suitability and management practices, demonstrate to the contrary.

ARTICLE 7
RECORDS

- 7.1 Lessee shall keep records showing the numbers of Lessee's livestock of different classes on the ranch unit or units, the dates put on and removed and estimated death loss.
- 7.2 Such records shall be retained for a minimum period of three years.
- 7.3 The Lessor may, upon reasonable notice to Lessee, require the production of the records described in Paragraph 7.1 above. In the event a dispute arises concerning the numbers of cattle grazed, the Lessee shall keep all documents and records until the dispute is finally resolved.

ARTICLE 8
TAXES: ADDITIONAL AMOUNTS

- 8.1 Lessee shall pay all assessments and charges for utilities and communication services, and assessments imposed pursuant to any construction on the Subject Land, all permit and authorization fees, all taxes, duties, charges and assessments of every kind of nature imposed by any public, governmental or political subdivision authority pursuant to any currently or subsequently enacted law, ordinance, regulation or order, which during the term of this Lease, become due or are imposed upon, charged against, measured by or become a lien on (a) the Subject Land, (b) any improvements, (c) personal property of the Lessee located on the Subject Land, (d) the interest of the Lessee to this Lease or in the proceeds received by Lessee from any assignment or sublease of the Subject Land.
- 8.2 Lessee shall pay or cause to be paid all amounts required to be paid under Paragraph 8.1 before any interest, penalty, fine or cost accrues for nonpayment.

ARTICLE 9
WAIVER

- 9.1 Acceptance of rent payments by Lessor shall not constitute a waiver by Lessor of any violation by Lessee of the provisions of this Lease.
- 9.2 No waiver of a breach of any provision of this Lease shall be construed as a waiver of any succeeding breach of the same or any other provision.

ARTICLE 10
IMPROVEMENTS

- 10.1 All buildings, fences, wells, pumps, pipelines, corrals, pens, range improvement practices (i.e. root plowing, land imprinting, clearing, etc.) and other structures of every kind and nature exist, at anytime, on, above, or below the Subject Land or on a portion thereof and which are not portable in nature are considered "Improvements" under this Lease. Improvements existing as of November 1, 2010 belong to Coconino County, as listed in Appendix B, Order Determining Reimbursable Improvements.

- 10.2 Lessee may construct additional improvements on the Subject Land if:
- (a) Lessee has filed an Application to Place Improvements with Lessor, attaching any necessary written approvals from regulatory authorities; and
 - (b) Lessor has granted written approval for the construction of such improvements.
- 10.3 Any improvements placed on the Subject Land which have not been approved as required by Paragraph 10.2 shall be forfeited to and become property of the Lessor, and Lessee shall be liable to Lessor for all damage to the Subject Land caused by such unauthorized improvements and for any expenses incurred by the Lessor in restoring the Subject Land.
- 10.4 Lessee shall have the right to remove all of its personal property which can be removed without damaging the Subject Land within 60 days prior to, or 90 days following the Expiration Date or the earlier termination of the Lease.
- 10.5 Improvements placed on the Subject Land shall conform to all applicable federal, state, county and municipal laws and ordinances.
- 10.6 All improvements placed upon the Subject Land by Lessee in conformance with Paragraph 10.2 subsequent to November 1, 2010 shall be the property of Lessee, except those owned by the County as listed in Appendix B or any successor in interest ("Owner") and shall, unless they become the property of Lessor, be subject to assessment for taxes in the name of the Owner, as other property.
- 10.7 The Lessee or Owner shall not be entitled to reimbursement for improvements authorized in accordance with Paragraph 10.2 and placed after November 1, 2010 by any subsequent lessee or purchaser of the Subject Land upon expiration of this Lease as provided by A. R. S. § 37-322.02 or any successor statute or County ordinance, subject to any rights acquired by the Lessor under Paragraph 3.4.

ARTICLE 11
LESSEE'S COOPERATION: INGRESS AND EGRESS

- 11.1 Lessee shall cooperate with Lessor in Lessor's inspection, appraisal and management of the Subject Land and permit reasonable access by Lessor's employees to isolated County land across Lessee's private land during the term of this Lease.
- 11.2 Lessee shall not interfere with the authorized activities of Lessor's employees, agents, licenses or other lessees or permittees on the Subject Land.

ARTICLE 12
LESSEE SHALL NOT PERMIT LOSS OR WASTE

- 12.1 Lessee shall not cause nor grant permission to another to cause any waste or loss in or upon the Subject Land. Lessee, its employees and agents shall not cut, consume or remove any timber, or standing trees that may be upon the Subject Land, without the prior written consent of Lessor, except that Lessee may cut wood for fuel for domestic uses and authorized improvements on the Subject Land. Nothing herein shall permit the cutting of saw timber for any purpose.

ARTICLE 13
NATIVE PLANTS AND ARCHAEOLOGICAL RESOURCES

- 13.1 Lessee shall comply with the provisions of the Arizona Native Plant Law (A.R.S. § 3-901 et seq., or any successor statutes) and with Arizona laws relating to archaeological discoveries (A.R.S. § 41-841 et seq., or any successor statutes) and the County's Rogers Lake Cultural Resource Policy. Lessee shall not disturb any cacti or other protected native plants nor disturb any ruins, burial grounds or other archaeological sites except as may be permitted by these laws.

ARTICLE 14
LESSEE SHALL PROTECT THE LAND, PRODUCTS AND IMPROVEMENTS

- 14.1 Lessee is hereby authorized to use means which are reasonable and which do not result in a breach of the peace or in creating a concealed hazard, to protect the Subject Land and improvements against waste, damage and trespass.
- 14.2 In the event of known trespass on the Subject Land resulting in damage thereto, Lessee shall make reasonable efforts to notify Lessor and appropriate law enforcement authorities.

ARTICLE 15
ASSIGNMENT, SUBLEASE AND PASTURAGE AGREEMENT

- 15.1 Lessee, if not in default in the payment of rent and having kept and performed all the conditions of this Lease may, with the written consent of the Lessor, assign this Lease. An assignment of this Lease shall not be made without the consent of all the parties. In the event of assignment of this Lease, Lessee shall file with Lessor a copy of applications for transfer of all certificates for stockpounds on the Subject Land to assignee, as agent for Coconino County, showing that the applications have been filed with the appropriate governmental agency.

- 15.2 Lessee shall not sublease or sell or lease pasturage to lands included in the Lease without first obtaining the written consent of the Lessor. The term "sublease" includes the transfer of control of all or part of the ranch unit or units containing the Subject Land. Notwithstanding any sublease, Lessee shall remain responsible to the Lessor for the performance of the provisions of the Lease. In no event may this Lease be sublet unless all rent due has been paid and all provisions of this Lease are complied with.
- 15.3 This Lease authorizes only the grazing of livestock bearing the registered brand(s) of Lessee or Lessee's immediate family. If Lessee wishes to permit the grazing of livestock bearing any other brands pursuant to pasturage agreements of any kind, Lessee must so inform Lessor prior to the release of such livestock on the Subject Land.
- 15.4 Copies of all assignments, subleases, or pasturage agreements pertaining to the Subject Land shall be filed with the Lessor.

ARTICLE 16
RESERVATIONS, RELINQUISHMENTS TO UNITED STATES

- 16.1 Lessor excepts and reserves out of the grant hereby made, all oils, gases, geothermal resources, coal, ores, minerals, fossils, fertilizers, common mineral products and materials, and all natural products of every kind that may be in or upon the Subject Land, any legal claim existing or which may be established under the mineral land laws of the United States or the State of Arizona.
- 16.2 **To the extent allowed by law and the conditions of sale of the subject land to Coconino County by ASLD, Lessor reserves the right to execute leases, permits or sales agreements covering the Subject Land for the purpose of entering upon and prospecting for, and the extraction of such reserved materials.**
- 16.3 **To the extent allowed by law and the conditions of sale of the subject land to Coconino County by ASLD, Lessor reserves the right to grant rights of way, easements and sites over, across, under or upon the Subject Land for public highways, railroads, utility lines, pipelines, irrigation works, flood control, drainage works, logging and other purposes.**
- 16.4 **To the extent allowed by law and the conditions of sale of the subject land to Coconino County by ASLD, Lessor reserves the right to relinquish to the United States land needed for irrigation works in connection with a government reclamation project and to grant to dispose of rights of way and sites for canals, reservoirs, dams, power or irrigation plants or works, railroads, tramways, transmission lines or any other purpose or use on or over the Subject Land.**
- 16.5 In the event of such relinquishment, grants or disposal, the Lessee waives all right to any compensation whatsoever as against the Lessor except as may be allowed under the Provisions of Article 17, and as limited therein.

- 16.6 Upon the sale, exchange, redemption, relinquishment or taking, whether by eminent domain or institutional use, of all or any portion of the Subject Land shall terminate on the date of such taking as to the property so taken.

ARTICLE 17
CONDEMNATION AND EMINENT DOMAIN

- 17.1 If at any time during the duration of this Lease the whole or any part of the Subject Land shall be taken for any quasi-public or public purpose by any person, private or public corporation, or any governmental agency having authority to exercise the power of condemnation or eminent domain pursuant to any law, this Lease shall expire on the date when the leased property is taken or acquired as to the leased property so taken or acquired. Except as set forth below, the rights of Lessee and Lessor to compensation for such taking shall be as provide by law. The Lessee shall have no compensable right or interest in the real property being condemned or interest in the unexpired term of this Lease or any renewal except as provided by law and in any event no interest greater than 10 percent of the total award for the land. The Lessor shall be entitled to and shall receive any and all award for severance damages to remaining proceedings concerning the Subject Land. Lessee shall have the right to (1) prorated reimbursement for prepaid rent, (2) any and all awards for payments made for any authorized improvements, placed after November 1, 2010, which are taken, and (3) severance damages for any damage to Lessee's remaining ranch operation resulting from the taking.

ARTICLE 18
WATER RIGHTS

- 18.1 The Lessee shall be entitled to the use on the Subject Land of groundwater as defined in ARS 45-101, or any successor statute, for purposes consistent with this Lease. If the Lessee shall develop any groundwater on the Subject Land, he shall not acquire any rights with respect to the groundwater, except the right to use such water in accordance with applicable law, on the Subject Land during the term of this Lease.
- 18.2 If the Lessees use, on the Subject Land, groundwater from a source not on the Subject Land, that use alone shall not (1) cause such water or any rights with respect to that water to be appurtenant to the Subject Land, or (2) affect in any way the Lessee's right with respect to the water.
- 18.3 The rights of the Lessor and the Lessee concerning the application for an establishment of any rights with respect to surface water as defined in A.R.S. § 45-101, or any successor statute, shall be governed by the laws of the State of Arizona.
- 18.4 Nothing in the provisions of this Lease shall affect the validity of any rights established by or for the Lessor or Lessee with respect to surface water, as defined in A.R.S. § 45-101, prior to the Commencement of this Lease.

- 18.5 The application for and establishment by the Lessor or Lessee (as agent of the County) of any water rights shall be for Coconino County; such rights shall attach to and become appurtenant to the Subject Land.
- 18.6 Notwithstanding Paragraph 18.5 above, the Lessee, as agent of Coconino County, shall be entitled to any certificate of water right, issued pursuant to the Stockpond Registration Act, A.R.S. § 45-271 through 45-276 (as it may be amended) relating to a stockpond constructed as an authorized improvement on the Subject Land. Any such certificate and the right it evidences and represents shall be appurtenant to the Subject Land and shall pass to any success Lessee; or, if the land is not leased but is retained by the County, then to Coconino County; of if the land is sold, then to the purchaser.
- 18.7 The Lessee shall promptly notify the Lessor in writing of any initial filing made by the Lessee with any governmental agency or court concerning the establishment or adjudication of any claim to a water right relating to the Subject Land. Upon request of the Lessor, the Lessee shall furnish copies of any document filed with the agency or court.

ARTICLE 19
DEFAULT AND CANCELLATION

- 19.1 Violation by Lessee of any provision of this Lease shall be a default hereunder entitling Lessor to any and all remedies it may have under Arizona law.
- 19.2 Upon any such default, the Lease may be canceled pursuant to A.R.S. § 37-289 or any successor statute.
- 19.3 This contract is subject to cancellation pursuant to A.R.S. § 38-511.

ARTICLE 20
HOLDOVER LEASE

- 20.1 Upon expiration or termination of this Lease, Lessee agrees to surrender to Lessor peaceful and uninterrupted possession of the Subject Land. Holdover tenancy by the Lessee is prohibited and shall be deemed a trespass for which Lessor may seek all appropriate civil and criminal remedies; except that a Lessee in good standing who has filed a timely application for renewal may continue to occupy and use the Subject Land, pursuant to the terms of this Lease, pending action on the renewal application by Lessor.

ARTICLE 21
INDEMNIFICATION

- 21.1 Except as provided by A.R.S. § 33-1551 (or its successor statutes), Lessee hereby expressly agrees to indemnify and hold harmless, or cause Lessor to be indemnified and held harmless from and against all liabilities, obligations, damages, penalties, claims, causes of action, costs, charges and expenses, including attorney's fees and costs, which may be imposed upon or incurred by or asserted against Lessor by reason of the following: (a) any accident, injury or damage to any persons or property occurring on or about the Subject Land or any portion thereof resulting from Lessee's use of the Subject Land, (b) any use, non-use or condition of the Subject Land or any portion thereof resulting from Lessee's intentional actions or negligence, and (c) failure on the part of Lessee to perform or comply with any of the provisions of this Lease; except such as may be the result solely of Lessor's intentional conduct or active negligence.
- 21.2 In case an action or proceeding is brought against Lessor by reason of any such occurrence, Lessee, upon Lessor's request and at Lessee's expense, will resist and defend such action or proceedings, or cause the same to be resisted and defended either by counsel designated by Lessee or, where such occurrence is covered by liability insurance, by counsel designated by the insurer.
- 21.3 Lessee shall protect, defend, indemnify and hold harmless the Lessor from and against all liabilities, obligations, losses, environmental responses, and clean up costs, charges and expenses, including attorneys' fees and court costs arising out of or related to the presence or existence of any substance regulated under any applicable Federal, State, County or local environmental laws, regulations or ordinances or amendments thereto because of: (a) any substance that came to be located on the Subject Land resulting from any use or occupancy of the Subject Land by the Lessee before or after the issuance of the Lease; or (b) any release, threatened release, escape, seepage, leakage, spillage, discharge or emission of any such substance in, on, under or from said Subject Land that is caused, in whole or in part, by any conduct, actions or negligence of the Lessee, regardless of when such substance came to be located on the Subject Land.

ARTICLE 22
RENEWAL

- 22.1 Upon application to the County not less than 30 nor more than 180 days prior to the Expiration Date, Lessee, if a bona fide resident of the State or legally authorized to transact business in the State, shall have a preferred right to renewal for a term not to exceed ten years, as provided by law, bearing even date with the Expiration Date. The preferred right of renewal shall not extend to a Lessee if there has not been substantial compliance with the terms of this Lease or if the Subject Land has not been placed to the use prescribed in this Lease, unless for good cause, the failure to perform was given written authorization by the County. If the County determines the continued leasing of the land to the Lessee is not in the best interest of the County, the Lease shall not be renewed.

ARTICLE 23
MISCELLANEOUS

- 23.1 This Lease grants Lessee only those rights expressly granted herein and Lessor retains and reserves all other rights in the Subject Land.
- 23.2 This Lease is subject to all current and subsequently enacted rules, regulations, and laws applicable to State Lands and to the rights and obligations of the Lessors and Lessees. No provisions of this Lease shall create any vested right in Lessee except as otherwise specifically provided in this Lease.
- 23.3 The Lessor shall be forever wholly absolved from any liability for damages which might result to the Lessee in the event this Lease is found to be void, canceled, forfeited or terminated prior to the Expiration Date or in the event this Lease is not renewed.
- 23.4 If it is determined that Lessor has failed to receive title to any of the Subject Land, the Lease is null and void insofar as it relates to the land to which the Lessor has failed to receive title. Lessor shall not be liable to Lessee or any assignee or sublessee for any damages that result from Lessor's failure to receive title.
- 23.5 In any action arising out of this Lease, the prevailing party is entitled to recover reasonable attorneys' fees incurred therein in addition to the amount of any judgment, costs and other expenses as determined by the court. In the case of Lessor, reasonable attorneys' fees shall be calculated at the reasonable market value for such services when rendered by private counsel notwithstanding that it is represented by the County Attorneys' Office or by other salaried counsel.
- 23.6 No provisions of this Lease shall create any right or interest in Lessee to a fee interest in the Subject Land.

23.7 Any notice to be given or other documents to be delivered to Lessee or Lessor hereunder shall be in writing and delivered to Lessee or Lessor by depositing same in the United States Mail, with prepaid postage addressed as follows:

To Lessor: Coconino County
c/o County Manager
219 E. Cherry Ave.
Flagstaff AZ 86001

To Lessee: Manterola Sheep Company, Inc.
P.O. Box 11227
Casa Grande, AZ 85230

Lessee must notify Lessor within thirty (30) days by written notice of any change in address. Lessor's notice shall be deemed adequate if sent to the Lessee's best known address of record and no change of address form is on file.

23.8 This Lease shall be governed by, construed and enforced in accordance with Arizona laws.

23.9 Any attempt to assign, sublease, convey, transfer or otherwise dispose of any estate or interest in this Lease, other than pursuant to its term, shall not be effective.

23.10 This Lease, together with all attached Appendices, embodies the whole agreement of the parties. There are no other agreements or terms, oral or written. This document supersedes all previous communications, representations and agreements, oral or written, between the parties.

23.11 THIS DOCUMENT is submitted for examination and shall have no binding effect on the parties unless and until executed by the Lessor (after execution by the Lessee), and a fully executed copy is delivered to the Lessee.

23.12 IN THE EVENT OF A DISPUTE between the parties to this Lease, it is agreed to use arbitration to resolve the dispute but only to the extent required by A.R.S. § 12-1518; and, in no event shall arbitration be employed to resolve a dispute which is otherwise subject to administrative review by the County.

APPENDIX A

**LEGAL DESCRIPTION OF GRAZING LEASE
COCONINO COUNTY AT ROGERS LAKE**

T20N, R6E	Section 4	Lots 1 Thru 4 S2N2 S2	639.88 AC
T20N, R6E	Section 5	South and East of Allotment Fence	168.0 AC

APPENDIX B

DESCRIPTION OF EXISTING IMPROVEMENTS

Purchased by Coconino County on November 1, 2010 as described in Arizona State Land Department Order Determining Reimbursable Improvements No. 242-2009/2010

Improvement Description	Location within Grazing Lease Area
Dirt Stock Tank	NW Section 4 T20N, R6E
Cattle Guard	NW Section 4 T20N, R6E
Fence Line	NW Section 4 T20N, R6E
Fence Line	S2 and NE T20N, R6E