

**2017 STALLION SEASON AGREEMENT
Pay Out of Proceeds Agreement**

STALLION: PALACE MALICE MARE: LADY SIMPSON (GB)

PURCHASER: Runnymede Farm Inc & CWC LLC II

AGREEMENT DATE: January 25, 2017

TOTAL FEE: \$19,000.00+ 6% KY Sales Tax=\$20,140.00

THIS AGREEMENT is made and entered into as of the Agreement date above, by and between (i) **THREE CHIMNEYS FARM, LLC, AGENT**, P.O. Box 114, Midway, Ky 40347 ("Three Chimneys Farm ") and (ii) the Buyer(s) (above) whose address is set out above (singularly or collectively "Buyer").

WITNESSETH:

For valuable consideration, including the payments, covenants and conditions set forth below, the parties agree as follows:

1. **Purchase of Breeding Nomination:** Three Chimneys Farm hereby sells and assigns and Buyer hereby purchases a 2017 breeding nomination (the "Nomination") to the Stallion listed above (the "Stallion").
2. **Mare to be Bred:** The Buyer agrees to breed the Thoroughbred mare listed above (the "Mare") to the Stallion during the 2017 breeding season as established by Three Chimneys Farm. No other mare may be substituted for the Mare for breeding to the Stallion without the prior written consent of Three Chimneys Farm. Prior to breeding the Mare to the Stallion, Buyer shall complete and present to Three Chimneys Farm a completed Three Chimneys Farm Mare Information Form on the Mare.
3. **Total Fee and Payment:** As payment in full for the Nomination, Buyer agrees to pay to Three Chimneys Farm the Total Fee (above) (the "Total Fee"), consisting of the stud Fee (noted above) plus the applicable Kentucky Sales Tax listed above, subject to the following terms and conditions: (a) In the event the Mare shall not produce a single live foal that stands and nurses as a result of said breeding, the Fee shall not be due. Buyer must furnish satisfactory veterinary certificate to Three Chimneys Farm stating that a single live foal that can stand alone and nurse was not born as a result of the aforesaid breeding, and said certificate shall be so provided within fifteen (15) days of the date Buyer is aware or should be aware that said Mare has foaled, aborted, or died. (b) in the event the Mare shall produce twins, and in the event the Buyer determines to register with The Jockey Club one or both of the twins, then the Fee shall be due in full, except as may be otherwise provided for in paragraph 3(c) hereof. (c) This Agreement is designated as a Paid out of Proceeds ("POP") agreement. Three Chimneys Farm agrees that, at Buyer's option, Buyer may delay payment of the Fee until time of sale of the foal, which may be produced out of breeding the Stallion to the Mare under the terms of this agreement ("Foal"), at a well-recognized public auction sale including foals of the same age as the Foal, as approved by Three Chimneys Farm, and sold with a consignor approved by Three Chimneys Farm, such sale to take place as a yearling or weanling. Within 30 days after such sale, Buyer agrees to pay to Three Chimneys Farm the Fee ("Due Date"); provided, however, in the event the hammer price for the Foal shall not equal the Fee (exclusive of sales tax), then Buyer shall pay Three Chimneys Farm within thirty (30) days of such sale an amount equal to the hammer price, plus 6% Kentucky sales tax applicable to the amount paid. Buyer may cause the Foal to be an RNA as a weanling or yearling, but in the event the Foal is not sold prior to November 1 of its yearling year, then the Fee, in full, shall be due and payable to Three Chimneys Farm not later than November 15 of the Foal's yearling year. Buyer authorizes and directs the sales company at which the Foal is sold to pay the entire proceeds from the sale of the Foal to Three Chimneys Farm, and Buyer agrees upon request to confirm such authorization directly to the sales company.
4. **DISCLAIMER.** THREE CHIMNEYS FARM MAKES NO WARRANTIES, EXPRESS OR IMPLIED WITH RESPECT TO THE NOMINATION, INCLUDING BUT NOT LIMITED TO, ANY WARRANTY OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE, ALL OF SUCH WARRANTIES BEING HEREBY DISCLAIMED AND BUYER ACCEPTS THE NOMINATION ON AN "AS IS" AND "WITH ALL FAULTS" BASIS.
5. **Limitations on Release from Payment of or Refund of Total Fee.** The right of Buyer to be released from payment of the Total Fee or to receive a refund thereof under Paragraph 3 is specifically conditioned upon the Buyer's covenant (hereby made) to prevent the following occurrences, any one of which will constitute a default under this Agreement and void Buyer's right to be released from payment of, or receive a refund of, the Total Fee and upon the occurrence of any of the following, Buyer shall immediately pay the Total Fee if not yet due, or if previously paid, no refund shall be due to Buyer under any circumstances: (a) Buyer shall fail to present the Mare for breeding to the Stallion, sell the Mare, breed the Mare to another stallion, transport the Mare to a sales facility or transport the Mare outside the U.S. or Canada, other than for purposes of training and racing; (b) Buyer shall fail to pay the Full Fee within thirty (30) days of the Due Date, or (c) Buyer shall fail to

timely submit the veterinary certificate as required in Paragraph 3.

6. **Security Interest; Certificates of Registration.** In addition to any statutory liens which may exist in favor of Three Chimneys Farm to secure payment of the Total Fee, Buyer hereby grants to Three Chimneys Farm a security interest in the Mare, the in utero and born offspring of the Mare from the breeding to the Stallion, the Stallion Service Certificate for such breeding and any other Stallion Service Certificates or Jockey Club Foal Registration Certificates in possession of Three Chimneys Farm in which Buyer may have an interest, all other mares owned by the Buyer(s) that were bred to stallions standing at Three Chimneys Farm or under its management commencing on the earlier of the Due Date or Buyer's default, all other Thoroughbreds sired by stallions standing at Three Chimneys Farm or under its management commencing on the earlier of the Due Date or Buyer's default, the products and proceeds thereof including insurance proceeds, purses, breeder and nominator awards (collectively "the Collateral"). Buyer hereby consents to the issuance of the Stallion Service Certificate in the name of Three Chimneys Farm and registration of the Foal by Three Chimneys Farm as agent, in the name of Three Chimneys Farm. Buyer appoints Three Chimneys Farm as its attorney-in-fact to execute financing statements and in the event the Collateral is subject to a security interest in favor of any third party, Buyer agrees to cause such third party to subordinate such security interest to the security interest of Three Chimneys Farm. In addition to any sums due hereunder, Three Chimneys Farm shall recover interest thereon at the rate of 2% per month, together with its attorney's fees and costs incurred in enforcement of its rights under this Contract. Upon Buyer's default, Three Chimneys Farm shall have the right to take possession of any or all of the Collateral, to register ownership of all or part of the Collateral with The Jockey Club, by Three Chimneys Farm as its agent, in the name of Three Chimneys Farm and to consign Collateral for sale at public auction with such consigning agent as Three Chimneys Farm shall select. Three Chimneys Farm shall also be entitled to sell the Collateral in any other manner permitted by law, and Buyer agrees that sale of any of the Collateral at Keeneland or FasigTipton is per se commercially reasonable and that Three Chimneys Farm may direct payment of all proceeds from any auction of the Collateral directly to Three Chimneys Farm.

7. **Breeding of the Mare.** Buyer agrees and warrants that the Mare shall be healthy and suitable for breeding upon presentation for breeding and Buyer shall furnish to Three Chimneys Farm a satisfactory veterinary certificate to such effect along with the Three Chimneys Farm Breeding Shed Form at the time the Mare is bred. The Mare must also have proper identification on its halter. Three Chimneys Farm has the right to refuse to permit the Mare to be bred to the Stallion if and when, in Three Chimneys Farm's sole and absolute discretion, it believes such breeding would be detrimental to the health of the Stallion or the Mare or the safety of Three Chimneys Farm's personnel or other persons present at the time of breeding the Mare. In the event of any such occurrence, Buyer shall have the duty to continue to schedule the Mare for breeding to the Stallion unless released in writing from this obligation by Three Chimneys Farm. Buyer agrees to be bound by Three Chimneys Farm's breeding shed requirements and procedures in effect at the time the Mare is bred to the Stallion. It is further agreed by Buyer that Three Chimneys Farm retains the absolute right to refuse to allow the Buyer's Mare to be bred to the Stallion if, in Three Chimneys Farm's sole and absolute discretion, it believes such Mare is not acceptable for breeding to the Stallion because of sickness, disease, physical impairment or deformity. In the event Three Chimneys Farm refuses to breed the Mare to the Stallion for the reasons set forth in the foregoing sentence, Buyer shall be released from obligation for payment of the Total Fee subject to the remaining terms of this Agreement. Three Chimneys Farm shall not be liable or responsible for any accident or injury to, or disease incurred by the Mare. The Buyer shall solely bear the risk of any accident, injury or loss as to the Mare.

8. **Release from Agreement; Liquidated Damages.** If after the Mare is bred to the Stallion, the Mare should die or become unfit or unable to be bred, Buyer shall submit a satisfactory veterinary certificate attesting to this fact within seven (7) days of such determination by the attending veterinarian. Upon receipt and approval of said certificate, accompanied by the Buyer's written request to be released from this Agreement, Three Chimneys Farm will release the Buyer from this Agreement and will so notify Buyer. SHOULD THE BUYER FAIL TO PRESENT THE MARE IN ESTROUS, HEALTHY AND SUITABLE FOR BREEDING DURING THE BREEDING SEASON, AND/OR FAIL TO PROVIDE A REQUIRED VETERINARY CERTIFICATE OR MARE INFORMATION FORM, THEREBY PREVENTING BREEDING OF THE MARE OR THE MARE IS BRED TO ANOTHER STALLION DURING THE BREEDING SEASON, INCLUDING FOLLOWING ANY RELEASE OF THE BUYER UNDER THIS PARAGRAPH, BUYER SHALL BE IN BREACH OF THIS AGREEMENT AND SHALL PAY TO THREE CHIMNEYS FARM AS LIQUIDATED DAMAGES AN AMOUNT EQUAL TO THE TOTAL FEE, THE PARTIES AGREEING THAT THE ACTUAL DAMAGES ARE DIFFICULT TO MEASURE. SUCH DAMAGES SHALL BE DUE AND PAYABLE ON THE EARLIER OF THE DUE DATE OF THE TOTAL FEE OR THE DATE OF BUYER'S BREACH.

9. **Non-Assignable; Joint and Several Obligation Execution by Agent:** Neither this Agreement nor the Nomination shall be assigned or transferred by Buyer without the prior written consent of Three Chimneys Farm. In the event the Nomination is purchased by two or more individuals or entities, or is executed by an Agent for a disclosed or undisclosed principal, each such entity, individual and Agent shall be jointly and severally obligated to all terms of this entire Agreement. In the event this Agreement is executed by an Agent on behalf of a Buyer, the undersigned Agent warrants and represents that Agent shall complete full disclosure to Buyer, in writing, of the terms of this Agreement and shall obtain the written consent of Buyer to the receipt of any commission paid by Three Chimneys Farm to Agent in connection with this Agreement, prior to payment of said commission.

10. **Stallion Unavailability.** Should the Stallion die, be sold, relocated from Central Kentucky, permanently retired from breeding or become unfit for breeding for the remainder of the subject breeding season before having been bred to the Mare, this Agreement shall be null and void and neither party shall have any obligation to the other hereunder.

11. **Binding Effect.** THIS AGREEMENT SHALL NOT BE BINDING UNLESS THIS AGREEMENT, SIGNED BY THE

BUYER, HAS BEEN RECEIVED BY THREE CHIMNEYS FARM WITHIN FIFTEEN (15) DAYS OF THE DATE FIRST ABOVE WRITTEN. THIS AGREEMENT SHALL BE BINDING UPON THE HEIRS, SUCCESSORS AND ASSIGNS OF THREE CHIMNEYS FARM AND THE BUYER.

12. **Jurisdiction, Venue and Controlling Law.** The parties agree that this Agreement shall be governed by and construed in accordance with the laws of the Commonwealth of Kentucky. The parties hereby submit themselves to the exclusive jurisdiction of the Woodford Circuit Court for resolution of all disputes arising out of this Agreement, including without limitation, collection of the amounts owed by Buyer hereunder.

13. **Miscellaneous.** This Agreement (I) is subject to any syndication agreement for the Stallion, (ii) constitutes the entire agreement between the parties with respect to the subject matter hereof and replaces all other agreements, whether verbal or written, (iii) may be executed in counterparts, each of which shall be an original and all of which together shall constitute one and the same instrument and (iv) may not be amended except in writing, signed by the parties. The parties agree that facsimile transmissions of this Agreement and signatures thereon shall have the same effect as an original.

14. **Time of the Essence.** Time shall be of the essence in the performance of the duties and obligations hereunder.

15. **Farm Animal Activity Liability Act.** UNDER KENTUCKY LAW, A FARM ANIMAL ACTIVITY SPONSOR, FARM ANIMAL PROFESSIONAL, OR OTHER PERSON DOES NOT HAVE THE DUTY TO ELIMINATE ALL RISKS OF INJURY OF PARTICIPATION IN FARM ANIMAL ACTIVITIES. THERE ARE INHERENT RISKS OF INJURY THAT YOU VOLUNTARILY ACCEPT IF YOU PARTICIPATE IN FARM ANIMAL ACTIVITIES.

16. **Clerical Errors.** In consideration of Three Chimneys Farm providing the Nomination, Buyer agrees, if requested by Three Chimneys Farm, to fully cooperate and adjust for clerical errors or omissions in the documentation associated with the Nomination if deemed necessary or desirable at the reasonable discretion of Three Chimneys Farm.


17. **Deadline for Signing.** In order for the Agreement to be of any effect, it must be executed and returned by Buyer to Three Chimneys Farm within ten (10) business days from the date indicated below.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement or caused it to be executed by its duly authorized agent as of the day, month first above written.

BUYER: RUNNYMEDE FARM INC & CWC LLC II

THREE CHIMNEYS FARM

Signature: 

Signature: 

Print: Roman M. Hauke

Print: David Sorrell

Title: Farm Manager

Title: CFO

Phone: 987-3426

Email or Fax: info@runnymedefarmky.com