

SHARES LEASE

This Shares Lease ("Lease") is entered into between the City of Redlands, a Municipal Corporation ("Lessor") and Bear Valley Mutual Water Company ("Lessee"). Lessor and Lessee are sometimes individually referred to herein as a Party and together, as the Parties.

RECITALS

Whereas, Lessor is the owner of 98 shares of the Capital Stock of the Crafton Heights Pipeline Company ("Shares"); and

Whereas, Lessor desires to lease its 98 Shares represented by stock certificate numbers 256, 425 and 428 (hereinafter the "Leased Shares") to Lessee on the terms and conditions set forth hereinafter;

NOW THEREFORE, in consideration of the mutual promises contained herein, Lessor and Lessee agree as follows:

AGREEMENT

1. **Lease.** Lessor hereby leases the Shares to Lessee and Lessee agrees to lease the same from Lessor for the purpose of providing pipeline capacity to Lessee. Any water transported by said pipeline is not intended to be used for human consumption and shall not be used by Lessee for human consumption prior to treatment by Lessee, to California Department of Health Services, Office of Drinking Water Standards, and all other applicable laws.

2. **Term.** This Lease shall commence on April 4, 2007 and end on March 31, 2008 ("Lease Term"). Notwithstanding the foregoing, Lessee understands and agrees that neither this Lease, nor any of the rights and obligations of the Parties to this Lease, shall be extended beyond the Lease Term.

3. **Rent.** Lessee shall pay Lessor, as rent for the Leased Shares, the sum of \$1,470.00 ("Rent") in full within five (5) business days of Lessor's execution of this Lease. Any and all capacity surcharges or extra water charges associated with use by Lessee of the Leased Shares are the sole responsibility of Lessee for the Lease term.

4. **Assignability.** Lessee shall have the right to assign or sublet (rent pool) but not otherwise transfer or encumber the Leased Shares under this Lease; provided, however, that no such assignment or subletting shall relieve Lessee from compliance with its obligations under this Lease.

5. **Defense/Indemnity.** Lessee shall defend, indemnify and hold harmless Lessor from any loss, cost, expense, claims and lawsuits arising directly or indirectly out of the use of the Lessor's Leased Shares and from any environmental contamination of any water attendant to the Leased Shares, from whatever cause. Lessor assumes no responsibility for the quality or purity of any water attendant to the Leased Shares.

6. **Entire Agreement.** This Lease constitutes the entire agreement between Lessor and Lessee regarding the leasing of the Leased Shares to Lessee. Any prior

written or oral agreements or representations respecting the Leased Shares, or their leasing by Lessor or Lessee, not expressly set forth herein are null and void.

7. **Attorneys' Fees.** In the event any action is commenced to enforce or interpret the terms or conditions of this Lease, the prevailing Party shall, in addition to any costs and other relief, be entitled to the recovery of its reasonable attorneys' fees, including fees for in-house counsel of a Party.

This Lease is executed on 20th day of March, 2007.

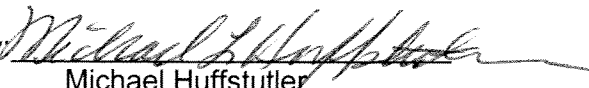
"Lessor":

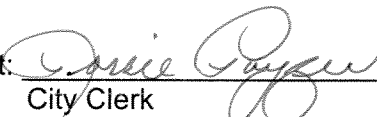
City of Redlands

By: 
Jon Harrison
Mayor

"Lessee":

Bear Valley Mutual Water Company

By: 
Michael Huffstutler
General Manager

Attest: 
City Clerk