

SHARES LEASE

This Shares Lease ("Lease") is entered into between the San Bernardino Valley Municipal Water District ("Lessor") and the City of Redlands, a municipal corporation ("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 shares of the Capital Stock of the Bear Valley Mutual Water Company ("Shares"); and

Whereas, Lessor desires to lease 21,180 of its Shares (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 water to Lessee. Such water 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 June 1, 2007 and end on the date of the Bear Valley Mutual Water Company's annual shareholder meeting for the calendar year 2008 ("Lease Term"). Lessee understands and agrees that neither this Lease, nor any of the rights and obligations of the Parties to this Lease, shall extend beyond the Lease Term. Notwithstanding the foregoing, Lessee understands and agrees that (a) the real property owned by Lessor could be the subject of a condemnation proceeding or other taking; (b) the Leased Shares are not currently subject to a condemnation proceeding or other taking; (c) in the event the Leased Shares are the subject matter of a condemnation award or in the event the Leased Shares are the subject of a condemnation proceeding then, in that event, the entire amount of any such award shall be the sole and exclusive property of Lessor, and Lessee shall have no interest therein; (d) in the event there is a taking of the Leased Shares by condemnation then, in that event, this Lease shall terminate and Lessee shall be entitled to a pro rata refund of the Rent, as defined below.

3. Rent. Lessee shall pay Lessor, as rent for the Leased Shares, the sum of Fifty-Two Thousand Nine Hundred Fifty Dollars (\$52,950) ("Rent") within five (5) business days of Lessor's execution of this Lease.

4. Assignability. Lessee shall not have the right to assign or sublet or otherwise transfer or encumber the Leased Shares under this Lease.

5. Voting Rights. Lessor shall retain the voting rights associated with ownership of the Leased Shares.

6. Hold Harmless. Lessee shall hold Lessor harmless from any loss, cost, expense, and claims arising directly or indirectly out of (a) condemnation of Lessor's real property or the Leased Shares prior to the expiration of this Lease; (b) this Lease; and (c) 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.

7. 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.

8. 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 use of in-house counsel of a Party.

This Lease is executed on 15th day of May, 2007.

"Lessee"

City of Redlands

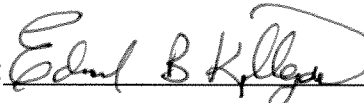
By:


Jon Harrison
Mayor

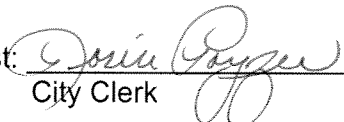
"Lessor"

San Bernardino Valley Municipal Water District

By:


Edward B. Killgore
Vice-President, Board of Directors

Attest:


City Clerk