

SHARES LEASE

This Shares Lease ("Lease") is entered into between the City of Redlands ("Lessor") and Mike Micallef ("Lessee"). Lessor and Lessee agree as follows:

- A. Lessor is the owner of shares of the Capital Stock of Crafton Water Company ("Shares"); and
 - B. Lessor desires to lease **10** of its Shares (hereinafter the "Leased Shares") to Lessee on the terms and conditions set forth hereinafter.
1. **Lease.** Lessor hereby agrees to lease the Leased Shares to Lessee and Lessee agrees to lease same from Lessor for the purpose of providing water to Lessee. Said water 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.
 2. **Term.** The term of this lease shall begin on June 6, 2006 and end on June 1, 2007, (in no event more than one year) ("Lease term"). Notwithstanding the foregoing, Lessee understands and agrees that (a) the real property owned by the Lessor ("Lessor's Real Property") 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 as described are the subject matter 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 the 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 the Lessee shall be entitled to a pro rata refund of the Rent as defined herein below, and (e) there is no implied intention that this Lease or any rights or interest hereunder will be extended beyond the Lease Term.
 3. **Rent.** Lessee hereby agrees to pay Lessor the sum of \$560.00 upon execution of the Lease for the Leased Shares as set forth herein. Lessee further agrees to pay Lessor the amount of any stock assessment on said shares, which would result in an annual assessment in excess of \$55.00 per share, if any, and any delivery or entitlement charge levied by Crafton Water Company for delivery of water associated with said shares.
 4. **Assignability.** Lessee hereby agrees that it shall not have the right to assign, sublet or otherwise transfer or encumber the Leased Shares under this Lease.
 5. **Voting Rights.** Lessor retains voting rights associated with ownership of the Leased Shares.
 6. **Waiver.** Lessee hereby agrees to hold harmless Lessor from any loss, cost, expense and claims arising directly or indirectly out of (a) condemnation of the Lessor's Real Property or the Leased Shares prior to 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.

This Lease is executed on the 6th day of June 2006.

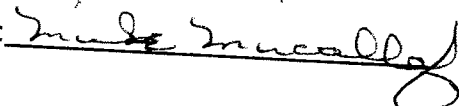
"Lessor:"
City of Redlands

BY:


Jon Harrison
Mayor

"Lessee:"
Mike Micallef

BY:



Attest:


City Clerk