

**Shares Lease Agreement
(City As Lessor)**

This Shares Lease Agreement ("Lease") is entered into the 1st day of June, 2011, ("Effective Date") by and between the City of Redlands, a general law city incorporated under the laws of the State of California ("Lessor") and Mike Micallef ("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 common stock of the Crafton Water Company; and

WHEREAS, Lessee desires to lease from Lessor Eight (8) shares of the common stock of the Crafton Water Company (the "Leased Shares") on the terms and conditions hereinafter set forth;

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

AGREEMENT

1. Lease. Lessor hereby agrees to lease the Leased Shares to Lessee and Lessee agrees to lease the Leased Shares from Lessor for the purpose of providing water to Lessee. Such water is not intended, nor shall it be used for human consumption or domestic purposes until such time that Lessee treats such water in accordance with California Department of Health Services, Office of Drinking Water Standards, and all other applicable state and local laws, rules or regulations.

2. Term. This Lease shall commence on the Effective Date and shall terminate on March 31, 2012, unless earlier terminated. 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.

3. Rent.

A. As rent for the Leased Shares, Lessee shall pay Lessor, an amount equal to the total number of Leased Shares multiplied by One Dollar (\$1.00), together with an amount equal to the Crafton Water Company's annual per share stock assessment as reimbursement to Lessor, if Lessor has paid such annual assessment for this calendar year ("Rental Amount"), and a One Hundred Dollar (\$100) administration charge established by Lessor.

B. If Lessor has not paid the annual assessment for the Leased Shares for the calendar year prior to the Effective Date of this Lease, the Rental Amount shall not include any reimbursement payment. In such event, Lessee shall be obligated to pay the annual assessment for the Leased Shares directly to the Crafton Water Company.

C. Lessee shall be obligated to pay for all water delivery charges imposed by Crafton Water Company for the Lease Shares.

D. The Rental Amount shall be paid by Lessee to Lessor within ten (10) days of the Effective Date of this Lease.

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

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

6. Hold Harmless. Lessee shall hold Lessor harmless from and against any loss, costs, expenses, damages, penalties or claims related to or arising directly or indirectly out of any environmental or hazardous substance contamination of any water attendant to the Leased Shares, from whatever cause. Lessee acknowledges that Lessor assumes no responsibility and makes no representation as to 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 leasing of the Leased Shares 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 by a Party.

9. Waiver. The waiver by Lessor of the performance of any obligation hereunder shall not invalidate this Lease nor shall it be considered a waiver by Lessor of any other obligation hereunder.

[Signature Page Follows]

IN WITNESS WHEREOF, the undersigned have executed this Agreement as of this 1st day of June, 2011.

LESSEE

MIKE MICALLEF

By: Mike Micallef

Attest:

By: [Signature]
City Clerk

LESSOR

CITY OF REDLANDS

By: Pete Agil
Mayor, City of Redlands.