

STOCK PURCHASE OPTION AGREEMENT

This Stock Purchase Option Agreement (“Agreement”) is made and entered into as of March 1, 2011 (“Effective Date”), by and between San Bernardino Valley Municipal Water District, a California municipal water district (“District”) and the City of Redlands, a general law city incorporated under the laws of the State of California (“Buyer”). District and Buyer are sometimes together referred to in this Agreement as the “Parties” and individually as a “Party.”

RECITALS

WHEREAS, District has agreed to offer Buyer the exclusive option to purchase Ten Thousand (10,000) shares of Bear Valley Mutual Water Company (“Bear Valley”) common stock (the “Shares”); and

WHEREAS, Buyer desires to accept such option, upon the terms and conditions and for the consideration set forth in this Agreement, for the right to purchase the Shares from District;

NOW, THEREFORE, in consideration of the mutual covenants herein contained, the Parties hereto agree as follows:

OPERATIVE PROVISIONS

1. Incorporation of Recitals. The Recitals set forth above are material and by this reference are incorporated herein and made a part of this Agreement.

2. Exclusive Option to Purchase Shares. Subject to the terms and conditions of this Agreement, District hereby grants to Buyer the exclusive option to purchase and Buyer agrees to accept the option and right to purchase from District, Ten Thousand (10,000) shares of common stock of Bear Valley for the principal sum of One Million Five Hundred Thousand Dollars and Zero Cents (\$1,500,000.00) (“Purchase Price”), which option payments shall be strictly made in accordance with the following terms:

2.1 Initial Payment. At the Closing, defined below, Buyer shall pay District the principal sum of Three Hundred Thousand Dollars and Zero Cents (\$300,000.00) in cash or other immediately available funds (“Initial Payment”), which amount shall represent Two Thousand (2,000) shares (“Initial Shares”).

2.2 Annual Exclusive Option. Buyer shall have four (4) separate annual exclusive options to purchase the remaining Eight Thousand (8,000) shares, with each option granting the Buyer the right to Purchase Two Thousand (2,000) shares for the principal sum of Three Hundred Thousand Dollars and Zero Cents (\$300,000.00) (“Option Payment”). Each of the four (4) separate option periods shall be exercised in accordance with Section 4 below and no later than the anniversary of the Effective Date (each an “Option Exercise Date”). If an option is not exercised by the applicable Annual

Option Date, this Agreement, and all unexercised options shall immediately terminate. Notwithstanding anything in this Agreement to the contrary, Buyer shall have the right to exercise any or all of the annual options prior to the applicable Annual Option Date.

3. Lease of Shares. All Shares that have yet to be purchased in accordance with Section 2 above (collectively referred to “Option Shares” or “non-purchased Shares”), shall be leased to Buyer in accordance with the terms and conditions of a Share Lease Agreement, in the form attached hereto as Exhibit “A,” and by this reference incorporated herein (“Share Lease”). The terms of this Agreement and the Share Lease shall operate concurrently, and any breach under one agreement shall represent a breach under the other.

4. Exercise of Option; Delivery.

(a) The purchase and sale of the Initial Shares shall take place at the offices of Bear Valley, located at 101 East Olive Avenue, Redlands, California, at 10:00 a.m., PST on March 10, 2011, or at such other time and place as District and Buyer mutually agree upon, orally or in writing (which time and place are designated as the “Closing”).

(b) At the Closing, Buyer shall deliver to District the originally executed counterpart signature to the Share Lease.

(c) On or immediately prior to the Closing, District shall deliver to Bear Valley an originally executed Stock Assignment in the form attached hereto as Exhibit “B,” and by this reference incorporated herein, relinquishing all right, title and interest in and to the Initial Shares to be purchased pursuant to the Initial Payment, described in Section 2.1 above.

(d) At the Closing, District shall deliver to Bear Valley original Stock Certificate No. 1121 representing Twenty-One Thousand One Hundred Eighty (21,180) shares for cancellation and issuance of a new stock certificate to Buyer, which new certificate shall represent the Initial Shares. Bear Valley shall also issue a new stock certificate to District, representing the remaining balance of the non-purchased Shares (Option Shares). The Stock Assignment and Stock Certificate No. 1121 shall be held by Bear Valley in a temporary escrow account until confirmation is received that District has received the Initial Payment.

(e) If the Buyer elects to exercise one or all of the annual options discussed in Section 2.2 above, Buyer shall provide District with written notice of such election no less than thirty (30) days before the respective Option Exercise Date. Upon receipt of the election notice, District shall deliver to Bear Valley that certain original stock certificate representing the non-purchased Shares, which certificate shall be cancelled and a new stock certificate shall be issued to Buyer, which new certificate shall represent the number of shares purchased by the respective Annual Option Payment. District shall also deliver to Bear Valley an originally executed Stock Assignment relinquishing all right, title and interest in and to that number of Shares to be purchased

by the Annual Option Payment. Bear Valley shall also issue a new stock certificate to District, representing the remaining balance of non-purchased Shares. The Stock Assignment and stock certificate shall be held by Bear Valley in a temporary escrow account until confirmation is received that District has received the Annual Option Payment. The procedure contemplated by this Section 4(e) shall be repeated for each remaining annual option, or prepayment, as the case may be, until all non-purchased Shares have been purchased by Buyer, in accordance with this Agreement.

5. Default in Payment. In the event Buyer fails to remit the Initial Payment or any Annual Option Payment by the respective due dates, and such failure to pay has not been cured within ten (10) business days of receipt of District's written notice to Buyer of such failure, then this Agreement and the option shall automatically terminate and the Parties shall have no further obligations hereunder, except for Buyer's and District's indemnification obligations contained in Sections 9 and 10, which shall survive. Buyer further acknowledges that in the event of default pursuant to this Section 5, Buyer shall have no further right, claim or interest of any kind or nature in or to the Option Shares and District shall have the right to sell, transfer or lease the Option Shares to any other person or entity District desires.

6. Representations, Warranties and Covenants of District. District hereby represents, warrants and covenants to Buyer that:

(a) Authorization. This Agreement, when executed and delivered by District, shall constitute a valid and legally binding obligation of District, enforceable against District in accordance with its terms. The Shares are free and clear of all encumbrances, liens and pledges and District has the right to sell the Shares in accordance with the terms of this Agreement.

(b) Valid Issuance of Securities. The Shares, when sold and delivered in accordance with the terms of this Agreement, will be fully paid and nonassessable and free of restrictions on transfer other than restrictions on transfer under applicable state and federal securities laws.

(c) Organization and Standing of the District. The District is a municipal water district legally organized, validly existing and in good standing under the laws of the State of California and has all necessary power and authority to carry on its business as now conducted.

(d) Approvals and Consents; Authority. District has: (i) provided and made this Agreement, including all Exhibits hereto, available for review by all appropriate and necessary regulatory, administrative and legal authorities responsible for management and oversight of District; (ii) obtained all necessary or appropriate consents and approvals from such authorities, including without limitation obtaining the required vote from District's Board of Directors, approval from District's General Manager, and approval from District's legal counsel; and (iii) by signing this Agreement, the individual

signing on behalf of District has all requisite power and authority to bind, obligate or otherwise commit the Buyer to the terms, conditions and obligations contained herein.

7. Representations and Warranties of Buyer. Buyer hereby represents and warrants to District that:

(a) Approvals and Consents; Authority. Buyer has: (i) provided and made this Agreement, including all Exhibits hereto, available for review by all appropriate and necessary regulatory, administrative and legal authorities responsible for management and oversight of Buyer; (ii) obtained all necessary or appropriate consents and approvals from such authorities, including without limitation obtaining the required vote from the Redlands City Council, approval from the City Manager, and approval from the City Attorney; and (iii) by signing this Agreement, the individual signing on behalf of the Buyer has all requisite power and authority to bind, obligate or otherwise commit the Buyer to the terms, conditions and obligations contained herein.

(b) Purchase Entirely for Own Account. This Agreement is made with Buyer in reliance upon Buyer's representation to District that the Shares to be acquired by Buyer will be acquired for investment for Buyer's own account, not as a nominee or agent, and not with a view to the resale or distribution of any part thereof, and that Buyer has no present intention of selling, granting any participation in, or otherwise distributing the same. By executing this Agreement, Buyer further represents that Buyer does not presently have any contract, undertaking, agreement or arrangement with any person to sell, transfer or grant participations to such person or to any third person, with respect to any of the Shares. Buyer represents that it has full power and authority to enter into this Agreement.

(c) Restricted Securities. Buyer understands that the Shares have not been, and will not be, registered under the Securities Act of 1933 ("Securities Act") or state securities laws, by reason of a specific exemption from the registration provisions of the Securities Act and the California Corporations Code which depends upon, among other things, the bona fide nature of the investment intent and the accuracy of Buyer's representations as expressed herein. Buyer understands that the Shares are characterized as "restricted securities" under the federal and state securities laws inasmuch as they are being acquired from District in a transaction not involving a public offering and that under such laws and applicable regulations, such Shares may be resold without registration under the Securities Act and the California Corporations Code only in certain limited circumstances.

(d) Investment Representation.

(i) Buyer has acquired sufficient information about Bear Valley to reach a knowledgeable and informed decision to acquire the Shares.

(ii) Buyer has consulted with such professional advisors, if any, as Buyer has seen fit in connection with this investment.

(iii) Buyer, and Buyer's advisors, if any, has such knowledge and experience in financial and business matters that Buyer is capable of evaluating the merits and risks of an investment in the Shares.

(iv) Buyer understands that an investment in the Shares is speculative, that any possible profits therefrom are uncertain, and that Buyer must bear the economic risks of the investment in the Shares for an indefinite period of time. Buyer is able to bear these economic risks and to hold the Shares for an indefinite period.

(v) Buyer and Buyer's advisors, if any, have received all information and data with respect to Bear Valley that Buyer or Buyer's advisors have requested and have deemed relevant in connection with an evaluation of the merits and risks of this investment in Bear Valley, and do not desire any further information or data with respect to Bear Valley that Buyer or Buyer's advisors have requested and have deemed relevant in connection with an evaluation of the merits and risks of this investment or data with respect to Bear Valley prior to the purchase of the Shares.

(vi) Buyer's principal place of business is in California.

(e) Tax Advice. Buyer acknowledges that Buyer has not relied and will not rely upon District with respect to any tax consequences related to the ownership, purchase, or disposition of the Shares. Buyer assumes full responsibility for all such consequences and for the preparation and filing of all tax returns and elections which may or must be filed in connection with the Shares.

8. Survival. The warranties, representations, and covenants of each of the Parties to this Agreement, Buyer and District, shall survive the consummation of the purchase and sale of the Shares herein described.

9. Indemnification by District. District shall indemnify, defend, and hold harmless Buyer against and in respect of any and all claims, demands, losses, costs, expenses, obligations, liabilities, damages, recoveries, and deficiencies, including interest, penalties, and reasonable attorney's fees, that Buyer shall incur or suffer, which arise, result or relate to any breach of, or failure of District to perform any of its representations, warranties, covenants, or agreements in this Agreement or in any schedule, certificate, exhibit, or other instrument furnished or to be furnished by District under this Agreement.

10. Indemnification by Buyer. Buyer shall indemnify, defend, and hold harmless District against and in respect of any and all claims, demands, losses, costs, expenses, obligations, liabilities, damages, recoveries, and deficiencies, including interest, penalties, and reasonable attorney's fees, that District shall incur or suffer, which arise, result or relate to any breach of, or failure of Buyer to perform any of his representations, warranties, covenants, or agreements in this Agreement or in any schedule, certificate, exhibit, or other instrument furnished or to be furnished by Buyer under this Agreement.

11. Miscellaneous Provisions.

(a) Nonassignability. Neither this Agreement, nor any interest herein, shall be assignable by the Buyer without the prior written consent of the District.

(b) Notices. All notices and other communications required or permitted to be given hereunder shall be in writing and shall be sent by First Class mail, postage prepaid, deposited in the United States mail in California, and if intended for either Party shall be addressed to the address provided below each Party's name on the signature page of this Agreement. Any Party, by written notice to the other Party, may change the address for notices to be delivered.

(c) Inurement. Subject to the restrictions against assignment set forth above, this Agreement shall inure to the benefit of, and shall be binding upon, the assigns, successors in interest, personal representatives, estates, heirs, and legatees of each of the Parties.

(d) Severability. If any provision of this Agreement is held by a court of competent jurisdiction to be invalid, void or unenforceable, the remaining provisions of this Agreement shall continue in full force and effect without being impaired or invalidated in any way and shall be construed in accordance with the purposes and intent of this Agreement.

(e) Entire Agreement. This Agreement contains the entire agreement of the Parties, and supersedes any prior written or oral agreements between them concerning the subject matter contained herein. There are no representations, agreements, arrangements, or understandings, oral or written, between and among the Parties, relating to the subject matter contained in this Agreement, which are not fully expressed herein.

(f) Counterparts. This Agreement may be executed in one or more counterparts, each of which shall be an original, but all of which together shall be deemed to be one and the same instrument.

(g) Governing Law. All questions with respect to the construction of this Agreement, and the rights and liabilities of the Parties hereto, shall be governed by the laws of the State of California.

(h) Attorneys' Fees. If any legal action or proceeding is brought for the enforcement of this Agreement, or because of an alleged dispute, breach, default, or misrepresentation in connection with any of the provisions of this Agreement, the successful or prevailing Party in such action or proceeding shall be entitled to recover reasonable attorneys' fees and other costs incurred in that action or proceeding, in addition to any other relief to which such Party may be entitled, including attorneys' fees for a Party's use of in-house counsel.

IN WITNESS WHEREOF, the undersigned have executed this Agreement as of the Effective Date.

DISTRICT

**SAN BERNARDINO VALLEY MUNICIPAL
WATER DISTRICT, A CALIFORNIA
MUNICIPAL WATER DISTRICT**

By: _____

Name: _____

Its: _____

Address: 380 E. Vanderbilt Way,
San Bernardino, California 92408

BUYER

CITY OF REDLANDS

By: _____

Name: Pete Aguilar

Its: Mayor

Address: 35 Cajon Street
Redlands, California 92373

Attest:

By: _____

Name: Sam Irwin, Secretary

Its: City Clerk

EXHIBIT "A"
SHARES LEASE AGREEMENT

Exhibit "B"
STOCK ASSIGNMENT

ASSIGNMENT SEPARATE FROM SHARE CERTIFICATE

The undersigned, hereby assigns and transfers to the City of Redlands, _____ shares of common stock of Bear Valley Mutual Water Company, a California municipal water district ("Bear Valley"), standing in the name of San Bernardino Valley Municipal Water District, a California municipal water district, on the books of Bear Valley and represented by Stock Certificate Number ____ and does hereby irrevocably constitute and appoint Varner & Brandt, LLP as agent and attorney in fact, with full power of substitution, to transfer the said stock on the books of Bear Valley.

Dated: _____

**San Bernardino Valley Municipal
Water District, a California
municipal water district**

By: _____
Name: _____
Its: _____