

PINE STRAWBERRY WATER IMPROVEMENT DISTRICT
PROPOSAL TO
BROOKES UTILITIES INC
FOR THE PURCHASE OF
PINE AND STRAWBERRY WATER COMPANIES

As a Settlement Offer, subject to Rule 408 Arizona Rules of Evidence the Pine Strawberry Water Improvement District, an Arizona municipal corporation, hereby proposes to purchase, through a friendly condemnation, the Pine Water system and the Strawberry Water System on the terms and conditions hereinafter set forth:

I. PURCHASE OF ASSETS OF PINE WATER COMPANY AND
STRAWBERRY WATER COMPANY

The Pine Strawberry Water Improvement District {hereinafter the “District”} will acquire from the Pine Water Company {PWC} and the Strawberry Water Company {SWC} {collectively the “Water Companies”} and Brooke Utilities {BUI} the following assets free and clear of any and all liens and encumbrances, the same to be inventoried by Pine Water Company and Strawberry Water Company and such inventory of assets to be provided the District for its approval as to precisely what assets are being conveyed, including but not limited to:

- A. Pine Water Company system; including but not limited to all property shown on any annual report or other report filed with the Arizona Corporation Commission or Arizona Department of Environmental Quality or Arizona Department of Water Resources, or any other federal state or local governmental agency or entity, and all of the following including appurtenances thereto: all pipes, pumps, meters,

distribution facilities, storage tanks, storage facilities, pressure tanks, wells, well sites, easements, real property, the K2 Well Site and any other property, real or personal owned by the Pine or Strawberry Water Companies located within the boundaries of the District. For all real property or interests therein conveyed, the Water Companies shall provide to the District legal descriptions of such property and a Standard Owners Policy of Title Insurance for such property, the value of said insurance to be equal to the value of the property being conveyed.

- B. Strawberry Water Company system; including but not limited to all property shown on any annual report or other report filed with the Arizona Corporation Commission or Arizona Department of Environmental Quality or Arizona Department of Water Resources, or any other federal state or local governmental agency or entity, and all of the following including appurtenances thereto, pipes, pumps, meters, distribution facilities, storage tanks, storage facilities, pressure tanks, wells, well sites, easements, real property, the K2 Well Site and any other property, real or personal owned by the Pine or Strawberry Water Companies located within the boundaries of the District. For all real property or interests therein conveyed, the Water Companies shall

provide to the District legal descriptions of such property and a Standard Owners Policy of Title Insurance for such property, the value of said insurance to be equal to the value of the property being conveyed

- C. Project Magnolia and all real and personal property connected thereto or therewith and all of its accessories and appurtenances, said real property conveyance to be subject to the requirements set forth above for Title insurance.
- D. All maps and other records of the water systems described above, including but not limited to records concerning quantity and quality of water, the condition of the system itself, customer information, customer lists, delinquency records of customers, and any other information in the possession of either Pine or Strawberry Water Company or Brookes Utilities or its agents or employees, pertaining to the current or historical operations of the water systems.
- E. All keys to any locked facilities, combination to any locks, and instruction or operation and maintenance manuals for all equipment and any and all operation and maintenance manuals for the entire system or any portion thereof.
- F. All customer water deposits and a record of the source of such deposits and the agreements for repayment of the same.

- G. All advances in aid of construction or other forms of agreements whereby any third party has advanced funds to the Pine or Strawberry Water Companies with an expectation of being repaid such advances. Further any agreements pertaining thereto shall be assigned to the District.
- H. All Well Sharing or Water Sharing Agreements to which either the Pine or Strawberry Water Companies are a party which are a part of the water supply system for the property being acquired hereunder.
- I. All Governmental permits and approvals from any governmental agency with jurisdiction over the water systems shall be assigned to and delivered to the District, including but not limited to all approvals necessary and required from the Arizona Department of Water Resources and all approvals from the Arizona Department of Environmental Quality, including all plan or design approvals, approvals to construct and approvals to operate any part or all of the water system or systems.

II. DUE DILIGENCE INVESTIGATION

- A. The District is granted the right and ability to conduct detailed due diligence related to the Assets of the Companies. This includes, but is not limited to:
 - a. A financial audit of each company's books, records and data management systems for the past five years.

b. An engineering financial and legal review and inspection of all company assets, financial rights and legal rights

c. Historical and current budgets, volumetric and customer data

d. Review of any outstanding Agreements to which the Water Companies are a party or have a beneficial interest or duty to perform described therein.

e. Review of any and all information in the possession of the Companies or any third parties which is relevant and material to the purchase of the assets to be conveyed by the Companies to PS Water LLC.

f. Review of all documents to substantiate that the Companies have a valid, sustainable, continuous right of way for all water lines and other facilities of the Companies.

g. Review of any and all information and documentation which the District believes is relevant and material to this transaction to protect the District from any and all claims against the District arising out of this transaction, and further to assure that the District can lawfully operate the water system in accordance with all applicable federal, state and local laws and regulations.

III. THE PURCHASE PRICE

A. Contingent on District funding closing in a timely manner, not more than 120 days from the date of the entry of the judgment in the condemnation action brought to acquire said property, the Pine Strawberry Water Improvement District will pay the sum of \$2,000,000 for the property described herein, “as is on the date of acceptance of this offer” without

warranty as to its condition or state of repair, provided that the Water Companies are responsible for maintaining said property from the date of acceptance of this offer until closing in a workable state, in compliance with all applicable governmental requirements pertaining to domestic water utilities.

- B. The Closing of the District's financing and the Closing of this transaction shall occur within five business days of each other, the financing closing first occurring. At such time all information and materials and assignments of documentation and other matters required herein shall be concluded and "turned over" to the District. The Water Companies agree to provide all written information concerning the systems operations and the customers and customer lists to the District in digital form so that the same can be used by the District's computer systems. The Water Companies agree to provide all documentation to the District required for closing thirty days prior to the date set for closing so that the District will have the opportunity to review the same. The District shall have ten days to review such information and if it objects to any, the Water Companies shall be notified and shall have ten days in which to rectify or correct such objection and resubmit the information to the District which shall have the opportunity to accept or reject the Water Companies' new information. If such information is not accepted, the Closing shall be continued for a reasonable period of time so that such information can be presented in an acceptable form.

C. Upon closing, the District is to assume ownership of the assets of both companies, sufficient and complete to allow the District to operate the same as a viable water company or companies in accordance with all applicable laws, court opinions and orders, rules, regulations, orders, of any federal, state or local governmental entity which has or asserts jurisdiction over such water providing entity. Further, the District upon payment in full as provided herein assumes no liabilities, debts or obligations of Pine Water Company or Strawberry Water Company. Upon Closing the District will have all of the assets and agreements, permits and licenses necessary and needed of two fully operational Water Companies to continue to provide satisfactory, acceptable, and lawful water service to the areas and customers presently being served by the Pine Water Company and the Strawberry Water and within the respective franchises and Certificates of Convenience and Necessity of each company.

IV. NO LIABILITIES BEING CONVEYED

A. No liabilities, other than those connected with meter deposits, advances in aid of construction or similar matters, or those set forth in contracts assumed by or assigned to the District shall be conveyed to the District. The Water Companies and Brooke Utilities shall be responsible for the payment of all existent liabilities of such entities other than those expressly provided for in the formal purchase agreement.

V. ACCOUNTS PAYABLE AND RECEIVABLE

A. The Water Companies shall be responsible for and shall not transfer, convey or assign to the District any accounts payable or receivable as of the date of the closing of this transaction except for those expressly set forth herein.

VI. COMPLIANCE WITH APPLICABLE LAW

A. The Water Companies shall, to the extent required, comply with all Arizona laws pertaining to the sale of the assets of the Companies, including those applicable provisions of the bulk sales laws pertaining to the sale of businesses, and shall provide proof of such compliance and an opinion of counsel of their choosing assuring compliance with all applicable state laws governing this transaction.

VII. NO CONTRACTS FOR SALE OF WATER TO BE TRANSFERRED TO THE DISTRICT.

A. No contracts for the sale of water from the Pine or Strawberry Water Companies to any third parties shall be transferred, conveyed or assigned hereunder.

VIII. COMPLIANCE WITH ARIZONA CORPORATION COMMISSION

A. The Water Companies are responsible for all actions necessary before the Arizona Corporation Commission regarding the sale of their assets to the District and the Water Companies agree to comply fully with all procedures required by the ACC and with all orders entered by the ACC regarding this matter. .

IX. FORMAL AGREEMENT

A. The parties agree that this proposal shall be incorporated into a formal purchase agreement covering all these items which shall also be a stipulated judgment in the condemnation action brought to acquire these assets.

X. THE K2 AGREEMENT

A. The Parties agree that the present Joint operating K-2 Agreement and the Escrow instructions associated therewith shall be deemed to be rescinded and that all monies held in said escrow shall be immediately returned to the District.

XI. WATER COMPANIES RECEIPT OF MONIES FROM OTHER THAN SALE OF WATER.

A. The Water Companies shall retain all monies received and be subject to all orders of the ACC, or other court of competent jurisdiction regarding monies received from an approximately \$900,000 judgment in favor of Strawberry Water Company, and the monies received from ATM and from Brent Weekes, or their successors or assigns in Settlement of Claims of the foregoing against Pine Water Company, and any other actions brought against or by the Water Companies prior to the date of closing.

XII. TAX LIABILITIES

A. All federal, state and local tax liabilities shall be borne by and paid by the Water Companies and they shall provide evidence of payment to date upon the closing of this transaction.

XIII. DISCLOSURE OF LITIGATION

A. The Water Companies shall disclose all litigation in which they are presently involved and shall retain such litigation and indemnify and hold harmless the District from the effects thereof.

XIV. WATER RIGHTS

A. Any and all water rights of the Water Companies or Brooke Utilities, both surface and ground, in the area within the District Boundaries shall be assigned to the District.

XV. THE CENTRAL ARIZONA PROJECT ALLOCATION

A. The Central Arizona Project Allocation presently held by the Water Companies or by Brooke Utilities or any related entity shall be assigned to and transferred to the District at closing, at which time all assessments or other liabilities associated therewith shall be paid in full and current to the date of closing.

XVI. DISTRICT'S RIGHT TO REJECT ASSIGNMENTS OF LEASES AND CONTRACTS

A. The District shall have the right to reject any leases or other contracts or agreements which the Water Companies or Brookes Utilities seek to assign to the District, and if such rejection does occur, such lease, contract or agreement shall remain the property of the Water Companies or Brooke Utilities.

XVII. STANDARD AGREEMENT CLAUSES

A. The formal purchase contract shall contain standard language regarding dispute resolution, jurisdiction of courts for dispute resolution, attorney's

fees and costs and will further hold harmless and indemnify each party against the other for any claims arising out of the transaction and will mutually indemnify the parties for claims arising out of any undisclosed matters in the preparation of and closing of this transaction.

This proposal is hereby submitted to the Pine and Strawberry Water Companies and to Brooke Utilities this ____ day of April, 2008.

Pine Strawberry Water Improvement District

By _____,
its lawfully delegated representative.

Accepted this ____ day of April, 2008

PINE WATER COMPANY

Its President

STRAWBERRY WATER COMPANY

Its President

BROOKE UTILITIES INC.

Its President