

September 14, 2009

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VIA OVERNIGHT MAIL

Chino Basin Watermaster
9641 San Bernardino Road
Rancho Cucamonga, CA 91730
Attention: Kenneth Manning, CEO

RE: Opinion Regarding Enforceability of Storage and Recovery Agreement

Dear Mr. Manning:

You have requested our advice regarding the enforceability of the Storage and Recovery Agreement approved by the Superior Court of the State of California for the County of San Bernardino ("Court"). This letter is furnished by us as general counsel to Chino Basin Watermaster ("Watermaster").

INTRODUCTION:

Watermaster desires to sell by auction 36,000 acre-feet of water ("AFW") and 40,000 acre-feet of storage capacity ("AFS") (the "Transaction"). We acted as legal counsel to Watermaster in an action brought before the Court for approval of the Transaction. On or about August 11, 2009, the Court issued its order authorizing the sale or auction by Watermaster of 36,000 AFW and 40,000 AFS; a copy of the order is attached hereto as Exhibit A. As detailed in the attached order, the Court approved a form Template Storage and Recovery Agreement to be executed by successful parties to the Transaction. This Opinion Letter addresses certain legal issues associated with the Transaction and summarizes our qualified conclusion that the Storage and Recovery Agreement is valid and legally enforceable.

In preparing this Opinion Letter, we reviewed the following documents:

1. The 1978 Final Judgment entered into by the Court in the case Chino Basin Municipal Water District v. City of Chino, Case No. RCV 51010 ("Final Judgment");
2. The Peace Agreement dated June 29, 2000 and the Peace II Agreement and attachments thereto, as approved by the Court on December 21, 2007;
3. The Order on Watermaster's Motion for Approval of Template Storage and Recovery Agreement, issued by the Court on August 11, 2000 ("Order"); and
4. The Template Storage and Recovery Agreement, the form of which was approved by the Court on August 11, 2009 ("Template Agreement").

SCOPE OF OPINION:

The analysis contained in this Opinion Letter is based solely on the limited facts and documents described herein. This Opinion Letter is governed by, and shall be interpreted in accordance with, the Legal Opinion Accord ("Accord") of the ABA Section of Business Law (1991). As a consequence, it is subject to a number of qualifications, exceptions, definitions, limitations on coverage, and other limitations, all as more particularly described in the Accord, and this Opinion Letter should be read in conjunction therewith. The law covered by the opinions expressed herein is limited to the federal constitutional law of the United States and the laws of the State of California. Except as otherwise indicated herein, capitalized terms used in this Opinion Letter are defined in the Accord. In particular, this Opinion Letter is subject to the Accord's General Qualifications.

This Opinion Letter is provided to Watermaster as our client, is for the sole benefit of Watermaster, and is transmitted in confidence to you. In accordance with section 20 of the Accord, no one other than you may use or rely on this Opinion Letter without the prior written consent of the Chief Executive Officer of Brownstein Hyatt Farber Schreck, LLP, except in response to a court order.

FACTS:

In 1978, the Final Judgment was entered by the Court determining all water and storage rights within the Chino Basin ("Basin"), which Basin lies at the base of the San Bernardino Mountains and adjacent to the Santa Ana River. Watermaster was established with supervisory authority over the Basin, its water and storage. Watermaster is a judicially created entity appointed by the Court per the terms of the Judgment. Watermaster administers the Court decree and carries out supplemental orders of the Court.

On or about July 20, 2009, Watermaster filed a motion with the Court to obtain approval to complete the Transaction. As part of its motion, Watermaster sought approval of the Template Agreement because potential bidders at the auction will demand to have an established framework for the commodity they will be attempting to purchase. However, different bidders may have different requirements, and Watermaster will not be able to finalize the actual Storage and Recovery Agreement until Watermaster has concluded negotiations with successful bidders.

On August 9, 2009, the Court issued the Order approving the Transaction and the form of the Template Agreement. The Order specifically states as follows:

The Court finds that the proposed Template Storage and Recovery Agreement contains sufficient detail to allow the Court to evaluate and approve the Template Agreement. However, because the Template Agreement is not yet in the final form, the Court hereby Orders Watermaster to provide notice to all parties when the Template Agreement is in the final form. Within 30 days of such Notice, any party who believes that the final Agreement differs substantially from the Template Agreement, may provide Watermaster with a notice that the party believes the Agreement differs and that this difference causes harm to that individual or to the Basin. In such event, Watermaster will schedule a hearing with the Court to consider the matter. The scope of such hearing shall be strictly limited to that aspect of the final Agreement that differs from the Template Agreement and the harm caused to the moving party or to the Basin. If no such notice is received by Watermaster within 30 days of Watermaster's Notice, the final Agreement shall be presumed approved.

OPINIONS:

1. On or about August 11, 2009, the Court issued its Order authorizing Watermaster to sell or auction 36,000 AFW and 40,000 AFS within the Basin.
2. The Court authorized execution of the Storage and Recovery Agreement in the form of the Template Agreement.
3. Provided the parties execute a Storage and Recovery Agreement identical to the Template Agreement, the Storage and Recovery Agreement is enforceable in accordance with the terms set forth in such Storage and Recovery Agreement. If the parties execute an Agreement not identical to the Template Agreement, the parties will be required to comply with the terms and provisions set forth in the Order.
4. Watermaster has the authority to execute the Storage and Recovery Agreement.

Sincerely,

A handwritten signature in cursive script, appearing to read "Brownstein Hyatt Farber Schreck LLP".

Brownstein Hyatt Farber Schreck, LLP