



UPPER ARKANSAS
WATER CONSERVANCY
DISTRICT

COPY

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August 1, 2012

SEP 26 2012

GRAND JUNCTION FIELD OFFICE
DIVISION OF
RECLAMATION MINING & SAFETY

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AUG 02 2012
BY: _____

Scott Pelino
Pelino Excavation
PO Box 5049
Buena Vista, CO 81211

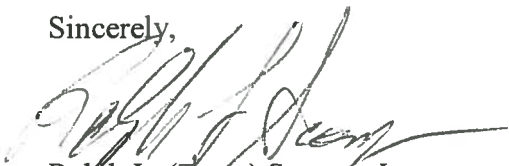
Re: Lease with Upper Arkansas Water Conservancy District for
Substitute Water Supply Plan for the Jesse Lee Pit M-84-043

Dear Mr. Pelino:

We enclose one fully signed copy of the Water Lease Agreement entered into July 18, 2012 for 2.32 acre-feet of water. The lease is for the period from October 1, 2011 to October 1, 2012.

When all the engineering and the substitute supply plan have been approved, we ask that you provide a copy of the SWSP to us.

Sincerely,



Ralph L. (Terry) Scanga, Jr.
General Manager

Enc.

WATER LEASE AGREEMENT
(One year lease)

THIS AGREEMENT is entered into this 18th day of July 2012 by and between SCOTT PELINO, d/b/a PELINO EXCAVATION, INC. (hereinafter referred to as "Lessee"), whose address is 33551 County Road 361, P.O. Box 5049, Buena Vista, Colorado, 81211, and the Upper Arkansas Water Conservancy District through its water activity enterprise, known as Upper Arkansas Water Activity Enterprise (hereinafter referred to as "District"), whose address is P.O. Box 1090, Salida, Colorado, 81201.

RECITALS

A. Lessee needs a temporary supply of replacement water to meet out-of-priority depletions. Lessee desires for this water to be made available in the Arkansas River basin from the District's water supplies in Twin Lakes Reservoir, Pueblo Reservoir or from other District owned or controlled sources in order to meet the requirements of a court or administratively approved substitute supply plan, replacement plan, or similar plan for the replacement of out-of-priority depletions ("Lessee's Replacement Plan").

The location of the Lessee's operations is ("Place of Need"): Jesse Lee Pit M-84-043, located in the SE-1/4 of Section 33, Township 14 South, Range 78 West, 6th P.M., 2 miles south of Buena Vista, Colorado on the west bank of the Arkansas River.

B. The District owns, leases, or controls fully consumable water supplies from various sources, including but not limited to water attributable to shares of stock in Twin Lakes Reservoir and Canal Company (collectively "District Consumable Water").

C. Lessee desires to lease a portion of such water from the District for use in Lessee's Replacement Plan; and the District is willing to lease such water to Lessee under the terms and conditions hereof.

NOW, THEREFORE, in consideration of the mutual promises contained herein and other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties agree as follows:

1. Lease of Water. Lessee shall lease from District, and District shall lease to Lessee, 2.32 acre-feet of District Consumable Water. This amount shall be both the minimum and the maximum quantity of water to be paid for and delivered under this Lease. Lessee's failure to take delivery of its full leased amount of water shall not entitle Lessee to an extension of the terms of this lease.

2. Purpose. The water delivered pursuant to this Lease may be used by Lessee only to replace depletions pursuant to Lessee's Replacement Plan. District will cooperate with Lessee to

identify the sources of the District's Consumable Water delivered pursuant to this Lease. Lessee shall be responsible for drafting any such plan, obtaining necessary approvals for any such plan, administration and accounting for any such plan, and for all costs associated with such plan.

3. Rental. In consideration of the water to be delivered under this Lease, Lessee shall pay District the following:

(a) a nonrefundable original application fee of \$200.00; and

(b) a lease payment of \$286.00 per acre foot (\$121.00 as a per acre foot water fee and \$165.00 per acre foot for annual storage, maintenance and administration fee);

for a total lease payment of \$863.52 due and payable upon execution of this Lease.

4. Term. This Lease shall be effective for one calendar year commencing on October 1, 2011 to October 1, 2012. The District shall not be responsible for delivering water to replace any depletions from Lessee's Replacement Plan, including any post-plan depletions after the term of this Lease.

5. Water. The water to be delivered pursuant to this Lease will be raw, untreated water from any one or a combination of sources available to the District. Once such water is delivered to Lessee pursuant to this Lease, Lessee shall have the right to recapture, reuse, and dispose of such water to its extinction. The District does not warrant and shall not be responsible for the quality of the water or the adequacy of such quality for any specific purpose.

6. Location of Delivery of Water. The District will deliver the leased water to the Arkansas River basin at a location or locations to be determined by the District. Although the District shall consult with Lessee and make reasonable attempts to deliver the leased water at a location or locations sufficient to meet the requirements of Lessee's Replacement Plan, the District does not warrant that the leased water can or will be delivered at a location sufficient for Lessee's Replacement Plan. If the leased water is from stored sources, the District may deliver it to the reservoir or at the outlet to the reservoir. If the leased water is not from storage, the District may deliver it at the location where such water flows into the stream. The District shall not be responsible for any diversion, measuring, or storage of the leased water after delivery of the water by the District.

7. Rate of Delivery of Water. The District shall deliver the leased water at times and rates to be determined by the District. Upon execution of this Lease, Lessee shall provide the District with a proposed monthly delivery schedule for the term of the Lease. The proposed delivery schedule shall include monthly totals in terms of acre-feet per month and maximum and minimum daily rates in terms of acre-feet per day. Although the District shall make reasonable attempts to deliver the leased water at times and rates specified in the proposed schedule, the District does not warrant delivery of the leased water at times and rates sufficient for Lessee's Replacement Plan.

8. Determination of Water Availability by the District Board. The District Board allows surplus water to be leased to others on a temporary basis, such as this lease, until the same is needed by participants in the District's augmentation, substitute supply, or replacement plans. The extent to which surplus water is needed by participants in the District's plans is a fact to be determined by the District Board in the exercise of its reasonable discretion from time to time as occasion may require.

9. Interruption of Water Supply Beyond District Control. Both parties to this Lease recognize that the District's Consumable Water is variable in quantity for reasons beyond the control of the District. The District shall not be liable in tort or contract for any failure to accurately anticipate availability of water supply or because of an actual failure to supply water due to circumstances beyond the reasonable control of the District, including but not limited to act of God, strike, war, insurrection, or inability to serve arising out of the order of any court, or the lawful order of any governmental administrative body or agency clothed with authority to regulate matters pertaining to water, public utilities, public health or pollution control.

10. Emergency Water Limitations. The parties agree that from time to time emergency situations may require the District to limit leases of or the use of water leased from the District. The parties agree that the necessity for such limitation is a fact to be determined by the District in the exercise of its reasonable discretion from time to time, as occasion may require. The parties agree that the District may adopt such reasonable restrictions on the use of this leased water or priorities for curtailed use, as may be necessary to adapt to such emergency conditions, including limitations on Lessee's supplies pursuant to this Lease. The District shall not be liable in tort or contract for imposing such reasonable restrictions. In the event that the District is unable to deliver the leased water as specified in this Lease, then Lessee's payment for water shall be reduced or refunded in proportion to the amount of any reduction of deliveries by the District.

11. Not a Permanent Supply. The parties understand and agree that this Lease is not to be interpreted as any commitment on the part of the District to furnish water to Lessee on a permanent basis, but rather to assist Lessee in supplementing Lessee's own supplies by the leased water from the District for a temporary period.

12. Right to Object. The parties understand and agree that the District specifically reserves its right to object and may object to any Replacement Plan filed by Lessee to protect its interests in the water and this Agreement and to ensure compliance with applicable law, including the prevention of injury to other vested or conditional water rights, regardless of how Lessee uses the water.

13. Time of Essence/Remedies. Time is of the essence, and if any obligation created by this Lease is not performed by either party, then the nondefaulting party shall have all remedies available to it in law and equity.

14. This Lease may be assigned by Lessee only upon prior written consent of the District and at the District's sole discretion.

15. This Lease does not give Lessee any legal or equitable title in or to the water rights from which the water is derived or any water or water rights of the District. This Lease does not entitle Lessee to seek judicial approval of permanent commitment of or a change in the water rights from which the water is derived.

16. In the event of litigation regarding this Lease, the prevailing party shall be awarded its costs, including reasonable attorneys' fees.

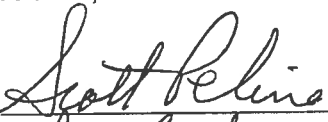
17. This Lease shall be governed by the laws of the State of Colorado.

IN WITNESS WHEREOF, the parties hereto have set their hands and seals on the day and year first above written.

UPPER ARKANSAS WATER CONSERVANCY DISTRICT, by and through its
UPPER ARKANSAS WATER ACTIVITY ENTERPRISE

By 
Chairman of the Board of Directors

LESSEE:
Scott Pelino, d/b/a Pelino Excavation, Inc.

By: 
Title President