

**AMENDMENT NO. 1 TO
FUNDING AGREEMENT FOR
SPRING VALLEY DEVELOPMENT PROJECT APPLICATION PROCESSING**

This Amendment No. 1 to the Funding Agreement for Spring Valley Development Project Application Processing (made effective November 8, 2011; "Agreement") by and between Browns Valley Irrigation District, a California public agency ("BVID"), and Axel Karlshoej, an individual doing business as Axel Karlshoej Properties ("Developer"), is entered into as of April 28, 2011 ("Effective Date"). BVID and Developer are referred to as the "Parties."

RECITALS

A. On April 5, 2011, Developer submitted a letter to BVID requesting a reduction in the originally requested a 4,000 acre foot annual supply of untreated water that BVID would wholesale to the Spring Valley Project ("Project"). Developer requests that BVID reduce the reserved amount of water for the Project to 1,300 acre-feet annually.

B. As a consequence of reducing the amount of water reserved by BVID for the Project, Developer also requested in the April 5, 2010 letter that BVID agree to waive the requirement for depositing advance funds to pay for processing tasks specified in Section 3 of the Agreement. Developer also requested that BVID reduce the amount of the annual option maintenance charge provided for in Section 4 of the Agreement in accordance with the percentage of the reduced water reservation, which is approximately 32.5 percent of the original amount. Developer also offered to make a higher 2010-2011 annual payment to reflect the elapsed time during which BVID reserved 4,000 acre feet of water for the Project.

C. BVID and Developer have negotiated and agree to changes in Developer's obligation to make deposits and in his obligation to pay the annual option maintenance charge on the terms and conditions provided in this Amendment No. 1.

The Parties therefore agree as follows:

1. Recitals Incorporated. The foregoing recitals are incorporated by reference.

2. Amendment of Section 3. Subsections 3.1 and 3.2 of Section 3, Funding for Project Processing Tasks, of the Agreement are amended as follows:

3.1. Developer will make an initial deposit of \$8,000 and during the term will maintain a deposit of funds with BVID. BVID will draw on this deposit to pay or reimburse periodic invoices from BVID's consultants and to reimburse BVID for the cost of BVID staff time and materials to perform Project Processing Tasks. The funding may be used to reimburse BVID's costs incurred for performing Project Processing Tasks as necessary. Before making an expenditure of deposited funds in excess of \$1,000.00, BVID staff will notify Developer's staff of the proposed expenditure and provide Developer an opportunity to comment on the necessity

of the proposed expenditure and to propose alternatives to it. If BVID and Developer disagree, BVID will have the sole authority to finally determine whether any such proposed expenditure is a necessary Project Processing Task.

3.2. If at any time before completion of the Project Processing Tasks the deposit balance is drawn down to less than \$3,000, BVID reserves the right to either demand that Developer make additional deposits in an amount sufficient to replenish the deposit fund up to the initial deposit amount of \$8,000 or to request payment from Developer on an invoice-by-invoice basis. Developer will make any required deposit or payment to BVID within 15 days of the date of BVID's invoice or demand. The deposit amount has been reduced from the \$25,000 amount required under the previous agreement executed in 2005 between BVID and Developer in consideration of the expected slow pace of activity on the Project in the next several years. If, however, the pace of Project Processing Tasks increases in the future, BVID reserves the right to request that Developer increase the amount of the base deposit and replenishment threshold or to agree to other arrangements that will ensure prompt payment for work performed by BVID.

3. Amendment of Section 4. Section 4 of the Agreement is amended as follows:

4. Option Maintenance Payment. To secure its reservation of the maximum 1,300 acre foot per year untreated water supply requested, Developer shall make an annual option maintenance payment to BVID. The 2010-2011 annual option maintenance payment will be \$5,000.00 (\$3,800 for the first half year [4,000 af] and \$1,200.00 for the second half year [1,300 af]). In all subsequent years, the annual option maintenance payment will be based on the full yearly per acre foot charge incurred by BVID to maintain its contract for 9,500 acre feet of water annually supplied by the Yuba County Water Agency, multiplied by the maximum 1,300 acre foot annual supply optioned by Developer. By way of example, the current YCWA charge is \$1.93 per acre foot, which would calculate as an annual option maintenance payment of \$2,509 (1,300 x \$1.93). Developer will make the 2010-2011 option maintenance payment of \$5,000.00 to BVID on or before Developer's execution of this Amendment No. 1, with subsequent payments being made annually on or before the anniversary date of this Agreement when invoiced by BVID. BVID may adjust this charge from time to time to reflect changes in the per acre foot charge BVID incurs to purchase its YCWA water commitment, but not more than once annually. Developer consents to making the annual option maintenance payment as a means of reimbursing BVID for lost opportunity costs related to reserving the requested amount of water for Developer's benefit and to help defray recurring and non-recurring District costs related to the Project that are not otherwise reimbursable under this Agreement.

4. Reversion of Reserved Water. Developer acknowledges and agrees that the requested termination and surrender of the option to acquire 2,700 acre feet of annual water supply for the Project means that BVID has no further obligation to make such supplies available in the future and that Developer is taking all risks of such unavailability if additional water supplies are needed for later phases of the Project.

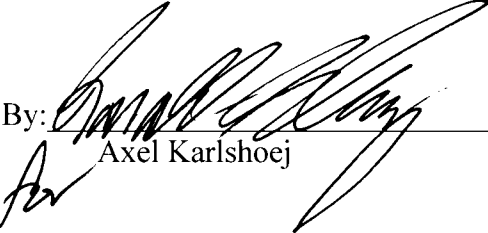
5. Effect of Amendment. The remaining provisions of the Agreement will remain in full force and effect.

The foregoing is hereby agreed to by the Parties and executed in counterpart duplicate originals as of the Effective Date of this Amendment No. 1.

BROWNS VALLEY IRRIGATION DISTRICT:

AXEL KARLSHOEJ PROPERTIES:

By: Russell C. Woods
Russell Woods, President
Board of Directors

By: 
Axel Karlshoej

ATTEST:

By: 
Walter Cotter, Secretary