

or prior to the date of this Agreement, shall not limit or impair any right that BexarMet might otherwise have respecting the representations and warranties of Diamond contained in this Agreement. Diamond further covenants that any update in the Schedules shall not show a material adverse change in the value of the inventory or personal property reflected therein.

4.8 Physical Inventory. No physical inventory of the Inventory is necessary, since Inventory is an Excluded Asset.

4.9 Easements. If any unrecorded easements are on real property owned by Diamond, or any Affiliate of Diamond, Diamond shall cause such entity to record such easement in the real property records of the appropriate county. If such unrecorded easements are not on real property owned by Diamond, or any Affiliate of Diamond, either (a) Diamond shall cause the owners of such real property to record such easements in the real property records of Bexar County, or (b) if Diamond is unsuccessful in having all such easements recorded, the component of the Purchase Price specified in Section 2.6(a) shall be reduced by an amount to be negotiated in good faith by the parties equal to the estimated costs and expenses of BexarMet in condemning easements to such real property, including, without limitation, attorney's fees. For purposes of this Section 4.9, unrecorded easements shall mean all water pipes and lines located on property for which Diamond does not have an easement.

4.10 Updated Financial Statements. Within ten (10) days of the Closing, Diamond shall provide BexarMet with updated unaudited financial statements current within sixty (60) days, and such financial statements shall be reflected on Schedule 3.2(a). Diamond shall provide BexarMet with a copy of Diamond's monthly and annual unaudited financial statements when such financial statement becomes available.

4.11 Transfer of CCN. BexarMet and Diamond will, immediately after execution hereof, jointly commence the necessary and proper processing of the necessary information and TCEQ forms so as to timely receive consent to the sale and transfer contemplated herein and the transfer that part of the CCN presently held by Diamond relating to the Rimrock Ranch, Windmill Ranch and Kestrel Airpark Water Systems to BexarMet (the "Transfer Proceedings"). All costs of consultants and professionals retained by BexarMet (engineers, attorneys, etc.) with regard to Transfer Proceedings shall be borne by BexarMet. Publication costs, filing fees and the cost of professionals retained by Diamond (engineers, attorneys, etc) and costs that might be involved in the development of necessary historical or operating data specifically within the knowledge and records of Diamond which shall be borne by Diamond.

ARTICLE 5.

CONDITIONS

5.1 Conditions to BexarMet's Obligations. The obligation of BexarMet to consummate the transactions contemplated by this Agreement is subject to the satisfaction of the following conditions at or before the Closing:

(a) The representations and warranties of Diamond contained in this Agreement shall be true, accurate and complete in all material respects regarding each system as of the date hereof and as of its Closing (and such representations and warranties shall be deemed remade at and as of the Closing, except with respect to the effect of transactions contemplated or permitted by this Agreement and with respect to the effect of the passage of time upon material expressly indicated in the Schedules as being as of a particular date);

(b) Diamond shall have performed and complied with all agreements, covenants and conditions required by this Agreement to be performed or satisfied by Diamond, and Diamond shall have delivered to BexarMet all documents, certificates and instruments required to be delivered by Diamond under the terms of this Agreement, including, without limitation, the documents described or referred to in Section 6.4;

(c) All corporate and other proceedings or actions to be taken by Diamond in connection with the transaction contemplated by this Agreement, and all documents incidental thereto, shall be satisfactory in form and substance to BexarMet;

(d) Diamond shall have obtained all of the consents, approvals, and novations or effective waivers thereof, which Diamond is required to obtain under the terms of this Agreement, at no cost or expense to BexarMet;

(e) There shall not have been issued and in effect any injunction or similar legal order prohibiting or restraining consummation of any of the transactions herein contemplated and no legal action or governmental investigation which might reasonably be expected to result in any such injunction or order shall be pending or threatened;

(f) At BexarMet's discretion, BexarMet may arrange for one or more independent contractors to conduct tests of any real property used in connection with the Water Systems, to identify any present or past release or threatened release of any waste materials or any chemical substances, including, without

limitation, any Hazardous Materials. Any such test may be done at any time, or from time to time, upon reasonable notice and under reasonable conditions, which do not impede the performance of the tests. Such tests may include both above and below ground testing for environmental damages or the presence of Hazardous Materials or Hazardous Material Contamination or such other tests as BexarMet may deem reasonably necessary. Diamond will supply to BexarMet such historically and operational information as may reasonably be requested by BexarMet to facilitate any such site review and testing and will make available personnel having knowledge of such matters. Any and all costs associated with supplying such historical and operational information, or making such personnel available, shall be borne by Diamond. In addition, in the event such tests indicate the presence of Hazardous Material Contamination, the cost of performing such tests shall be paid by Diamond. The results of such tests shall be satisfactory to BexarMet, in BexarMet's sole discretion, and in the event of any clean-up obligation or potential obligation for other response costs, whether under CERCLA or otherwise, any such clean-up shall be accomplished prior to the Closing Date (or if such clean-up cannot be accomplished prior to Closing, as soon as reasonably possible thereafter) by Diamond, and Diamond shall indemnify, defend and hold harmless BexarMet from and against any and all liability, loss, cost or expense with respect thereto; provided, however, that if the projected cost of any such cleanup exceeds \$5,000.00, Diamond shall have the option for a period of ten days after receipt of such projected cost, to terminate this Agreement. If Diamond exercises such option, the full Earnest Money shall be immediately released to BexarMet.

(g) The successful obtaining of written notification from the TCEQ that the parties are authorized to close the respective sales without a hearing or further hearing pursuant to Water Code §13.301(a).

(h) Cure of any timely-made title or survey objections, as described in Section 4.6;

(i) The Acquired Assets shall not have suffered any destruction or damage or otherwise, by fire, explosion or other casualty or any taking by eminent domain, or if such destruction or damage or taking by eminent domain shall have occurred, Diamond shall have failed to deliver all of the insurance or condemnation proceeds received in connection with such destruction or damage or taking by eminent domain to BexarMet and, if such proceeds are insufficient to place any damaged asset back to its condition prior to such damage or to replace any destroyed asset, Diamond shall have failed to deliver an amount equal to such insufficiency to BexarMet; and

(j) The updates in the financial statements of Diamond pursuant to

Section 4.10 shall not show a material adverse change in the financial condition of the Water Systems.

(k) Final approval and ratification hereof by BexarMet's Board of Directors and of BexarMet's Manager's execution hereof, which shall occur within thirty (30) days of the Effective Date.

5.2 Conditions to Diamond's Obligation. The obligation of Diamond to consummate the transactions contemplated by this Agreement is subject to the satisfaction of the following conditions at or before the Closing:

(a) The representations and warranties of BexarMet contained in this Agreement shall be true, accurate, and complete in all material respects as of the date hereof and as of the Closing (as if such representations and warranties have been made anew as of the Closing, except with respect to the effect of transactions contemplated or permitted by this Agreement); provided, however, in the event the rights of BexarMet hereunder have been assigned pursuant to Section 11.7 hereof, the representations of BexarMet hereunder shall be true, accurate and complete with respect to such assignee only from and after the date of such assignment;

(b) BexarMet shall have performed and complied with all agreements, covenants and conditions required by this Agreement to be performed or satisfied by BexarMet, and BexarMet shall have delivered all documents, certificates and instruments required to be delivered by BexarMet under the terms of this Agreement, including, without limitation, the documents referred to in Section 6.3;

(c) BexarMet shall have taken all corporate and other actions to be taken by BexarMet in connection with the transactions contemplated by this Agreement;

(d) BexarMet shall have obtained all of the consents, approvals, and novations, or effective waivers thereof, which BexarMet is required to obtain under the terms of this Agreement; and

(e) There shall not have been issued and in effect any injunction or similar legal order prohibiting or restraining consummation of any of the transactions herein contemplated and no legal action or governmental investigation which might reasonably be expected to result in any such injunction or order shall be pending.

ARTICLE 6.

CLOSING

6.1 The Closing. For purposes of this Agreement, the term "Closing" means the time at which the transactions contemplated hereby will be consummated under 6.2 below after satisfaction or waiver of the conditions set forth in Article 5 of this Agreement.

6.2 Time, Date and Place of Closing. Unless extended by BexarMet as permitted by this Section 6.2, the Closing shall occur at 10:00 a.m. Central Time on the later of the ninetieth (90th) day after the Effective Date hereof or the 7th business day after the receipt by the parties of the Manager of the Utility Certification Team, TCEQ Water Utilities Division's letter on behalf of the TCEQ Executive Director, notifying BexarMet that the parties are authorized to complete the Closing without hearing pursuant to Code 13.301(d), unless a Saturday, Sunday or legal holiday, in which event such respective Escrow Closings shall occur on the following Monday (the "Closing Date"). The Closing shall take place at the offices of West & West, Attorneys, 2929 Mossrock #204, San Antonio, Texas 78230, or at such other place as the parties may agree in writing. This Agreement may be terminated by either party in the event the Closing shall not have occurred three hundred sixty five (365) days from the Effective Date hereof, unless otherwise extended by the parties in writing.

Notwithstanding the traditional BexarMet closing date for water system acquisitions set forth in the preceding paragraphs, the parties acknowledge that they will endeavor to close this sale at the end of a Diamond billing cycle to facilitate the transition of service with the least inconvenience to customers and possibilities of billing errors. This goal will be followed in setting the actual Closing Date within the flexibility permitted in the Closing structure above.

6.3 BexarMet's Obligations. At the Closing, BexarMet shall deliver to Diamond the following in accordance with the terms of the separate Escrow Agreement executed by and between the parties hereto and Escrow Agent:

- a. the respective amount specified in Section 2.7(a) hereof as provided and/or modified by the Escrow Agreement;
- b. the executed Note;
- c. the executed Escrow Agreement;
- d. resolutions evidencing the authorization of the execution, delivery

and performance of this Agreement by BexarMet and the consummation of the transactions contemplated hereby, certified by the Secretary or an Assistant Secretary of BexarMet;

e. a certificate dated as of the Closing Date as to the incumbency and signatures of officers of BexarMet;

f. a certificate dated as of the Closing Date and signed by the President of the Board of Directors of BexarMet that i) evidences the authorization, execution and delivery of this Agreement by BexarMet; and ii) verifies the continuing accuracy of representations and warranties of BexarMet contained in this Agreement both as of the date of this Agreement and as of the Closing (as if such representations and warranties had been made anew as of the Closing, except with respect to the effect of transactions contemplated or permitted by this Agreement);

g. an executed assumption agreement pursuant to which BexarMet assumes Diamond's obligations under the Assumed Liabilities; and

h. such additional legal opinions, certificates, proceedings, instruments and other documents as Diamond may reasonably request to evidence compliance by BexarMet with this Agreement and applicable legal requirements and the performance or satisfaction by BexarMet at or prior to such time of all agreements then to be performed and all conditions then to be satisfied by BexarMet.

6.4 Diamond's Obligations. At the Closing, Diamond, at its expense (except as specified below) shall deliver to BexarMet the following:

(a) ownership and possession of and to the Acquired Assets as herein contemplated;

(b) executed Escrow Agreement;

(c) executed bills of sale, assignments, general warranty deeds, transfers of water rights, certificates of title for motor vehicles (if any) and such other instruments satisfactory in form and substance to BexarMet pursuant to which Diamond shall convey the Acquired Assets to BexarMet;

(d) certificate as to the existence of Diamond (as of the date not earlier than ten days prior to the Closing) in the State of Texas;

(e) evidence satisfactory to BexarMet that the Assets are free and

clear of any security interests, recorded liens of encumbrances, other than those to be paid at Closing (including, without limitation, UCC searches dated not more than 10 days prior to the date of Closing);

(f) resolutions of the Board of Diamond evidencing the authorization of the execution, delivery and performance of this Agreement by Diamond and the consummation of the transactions contemplated hereby, certified by the secretary or assistant secretary of the Board of Diamond;

(g) a certificate dated as of the Closing Date as to the incumbency and signatures of officers of the Board of Diamond;

(h) a certificate dated as of the Closing Date and signed by the President or a Vice President and a Secretary or Assistant Secretary of Diamond that (i) evidences the execution and delivery of this Agreement by Diamond; and (ii) verifies the continuing accuracy of Diamond's representations and warranties contained in this Agreement, both as of the date of this Agreement and as of the Closing (as if such representations and warranties had been made anew as of the Closing, except with respect to the effect of transactions contemplated or permitted by this Agreement and with respect to the effect of passage of time upon dated material) as provided in this Agreement;

(i) title policy in the amount of \$50,000, insuring title to all real property and easements showing no liens and no other exceptions other than those approved by BexarMet (other than easements created by recorded plat) included in the Acquired Assets;

(j) Evidence satisfactory to BexarMet that the Acquired Assets are free and clear of any security interests, recorded liens or encumbrances, other than those to be paid at Closing; and

(k) a certificate from Diamond, executed not more than ten (10) days prior to Closing, certifying the number of active connections;

(l) The executed Release Documents;

(m) such additional certificates, proceedings, instruments and other documents as BexarMet may reasonably request to evidence compliance by Diamond with this Agreement and applicable legal requirements and the performance or satisfaction by Diamond at or prior to such time of all agreements then to be performed and all conditions then to be satisfied by Diamond.

ARTICLE 7.

ACTIONS AFTER CLOSING

7.1 Further Conveyances. After the Closing, Diamond will, without further cost or expense to BexarMet, execute and deliver to BexarMet (or cause to be executed and delivered to BexarMet) such additional instruments of conveyance, and take such other and further actions and as BexarMet may reasonably request and which are ordinarily provided by a seller, more completely to sell, transfer and assign BexarMet and vest in BexarMet Ownership to the Acquired Assets.

ARTICLE 8.

EMPLOYEES AND EMPLOYEE BENEFITS

8.1 Employment. BexarMet assumes no obligation to hire any of Diamond's employees.

8.2 Employee Benefit Plans. BexarMet shall not assume or become liable for any and all liabilities which arise out of or relate to employee benefit plans (as defined in Section 3(3) of ERISA) maintained by or contributed to by Diamond.

8.3 Accrued Vacation. Diamond hereby acknowledges that all obligations of Diamond to employees of the Water Systems for accrued vacation is and will remain the obligation of Diamond, and BexarMet will not have any obligation to make any payment to employees even if hired by BexarMet after the Closing Date with respect to any vacation pay entitlement. Diamond hereby covenants and agrees to indemnify, defend and hold harmless BexarMet from and against any liability, loss, cost or expense with respect to any failure to pay any vacation pay entitlement to employees of the Water Systems who become employees of BexarMet at the Closing Date.

8.4 Worker's Compensation. Diamond will bear the entire cost and expense of all workers' compensation claims arising out of injuries identifiably sustained by employees of the Water Systems on or before the Closing date. BexarMet will bear the entire cost and expense of all workers' compensation claims arising out of injuries identifiably sustained by employees of the Water Systems actually employed by BexarMet after the Closing Date.

8.5 Other Employee Benefits. Diamond will bear the entire cost and expense of providing continuation coverage under group health plans under Section 601 through 608 of ERISA and Section 4980B of the Code for any former employees of Diamond and for those employees who cease to be employees of Diamond effective on or prior to

any Closing. Diamond hereby covenants and agrees to indemnify, defend and hold harmless BexarMet from and against any liability, loss, cost or expense with respect to any failure to provide continuation coverage under group health plans to employees of the Water Systems who cease to be employees of Diamond effective on or prior to any Closing.

ARTICLE 9.

INDEMNIFICATION

9.1 Indemnification of Diamond. To the extent it legally may, after the Closing, BexarMet will indemnify, defend and hold Diamond harmless from and against any and all liabilities, damages, losses, claims, costs and expenses (including reasonable attorneys' fees) arising out of or resulting from (a) any misrepresentation or breach of warranty by BexarMet; BexarMet's failure to pay or satisfy or cause to be paid or satisfied any of the Assumed Liabilities when due and payable which constitute legal obligations; provided, however, BexarMet shall be entitled to contest in good faith any such liability; (c) nonperformance after the Closing Date of any other material obligations or covenants on the part of BexarMet under this Agreement; and (d) without limiting the foregoing, any of the following:

(i) Liabilities or obligations incurred by BexarMet in its conduct of the business of the Water Systems which are assumed by BexarMet pursuant to Article 2.4 hereof;

(ii) Liabilities or obligations arising out of, resulting from or relating to claims, whether funded upon negligence, breach of warranty, strict liability in tort or other similar legal theory, seeking compensation or recovery for or relating to injury or death to person or damage to property occurring after a Closing and arising in whole or part out of a defect or alleged defect of any Water supplied by BexarMet through the closed Water Systems more than 24 hours after the Closing of that system;

(iii) Liabilities or obligations arising out of, resulting from or relating to claims, whether founded upon negligence, breach of contract, intentional or willful misconduct or other similar legal theory, seeking compensation or recovery for or relating to injury or death to person or property which arise in whole or part out of conduct of the business or ownership of the Acquired Assets of a closed Water System after the Closing of that Water System; and

(iv) Liabilities or obligations in whole or part arising out of, resulting from or relating to any tort, breach of contract or warranty, violation of any statute, ordinance, regulation or other governmental requirement in connection with the

use and ownership of the Acquired Assets of a closed system after the Closing or in connection with conduct of the Water Systems after the Closing of that system.

9.2 Indemnification of BexarMet. In addition to, and without limiting the other indemnification obligations of Diamond set forth in this Agreement, Diamond will indemnify, defend and hold BexarMet harmless from and against any and all liabilities, damages, losses, claims, costs and expenses (including reasonable attorneys' fees and expenses for the defense of any claim which, if proved, would give rise to an obligation of indemnity hereunder, whether or not such claim may be ultimately proved) arising out of or resulting directly or indirectly from (a) any misrepresentation or breach of warranty or covenant by Diamond; (b) failure of Diamond to fully pay or satisfy or cause to be paid or satisfied any liabilities relating to the Excluded Assets and any of the Excluded Liabilities when due and payable; (c) nonperformance of any other material obligations or covenants on the part of Diamond under this Agreement; and (d) without limiting the foregoing, any of the following:

(i) Liabilities or obligations incurred by Diamond in its conduct of the business of a closed Water System which are not assumed by BexarMet pursuant to the terms hereof, and any liabilities which are not accrued on the books of Diamond as of a Closing.

(ii) Liabilities or obligations of Diamond under orders, contracts and other commitments not included in the Acquired Assets, including, without limitation, rights and duties arising as a direct consequence of the assignment of such orders, contracts and commitments by Diamond to BexarMet hereunder;

(iii) Liabilities or obligations arising out of, resulting from or relating to claims, whether founded upon negligence, breach of warranty, strict liability in tort, or other similar legal theory, seeking compensation or recovery for or relating to injury or death to person or damage to property occurring after a Closing and arising in whole or part out of a defect or alleged defect of any Water supplied by Diamond or supplied by BexarMet through a closed Water System within 24 hours after the Closing of that Water System, and regardless of whether any such liability or obligation arises in part as a result of the negligence or other legal fault of BexarMet.

(iv) Liabilities or obligations arising out of, resulting from or relating to claims, whether founded upon negligence, breach of contract, intentional or willful misconduct, or other similar legal theory, seeking compensation or recovery for or relating to injury or death to person or property which arise in whole or part out of conduct of the business of a Water Systems or ownership of the Acquired Assets of a closed system prior to the Closing of that system.

(v) Liabilities or obligations in whole or part arising out of, resulting from, or relating to any tort, breach of contract or warranty, violation of any statute, ordinance, regulation or other governmental requirement in connection with the use and ownership of the Acquired Assets of a closed Water System, prior to the Closing or in connection with conduct of the business of a Water System prior to Closing of that Water System.

(vi) Liabilities and obligations arising out of, resulting from or relating to claims of infringement or other misappropriation of the intellectual property rights of other persons with respect to any Intellectual Property rights purported to be conveyed to BexarMet under the terms hereof;

(vii) Liabilities and obligations arising out of, resulting from or relating to, employment and/or claims by employees of Diamond, whether or not they become employees of BexarMet, including any claim by employees terminated by Diamond with respect to whom termination of their employment was undertaken in violation of Worker Adjustment and Retraining Notification Act (WARN) or any regulations issued or promulgated thereunder, including claims that such violation occurred as a result of the cumulative effect of a series of employment actions taken by Diamond and BexarMet; and

(viii) Liabilities and obligations arising out of, resulting from, or relating to the operation of a System prior to the Closing Date of that System or the condition on the Closing Date of any premises upon which the System is presently located or any premises on which the Water Systems were previously located, or as a direct or indirect result of the presence on or under, or the escape, seepage, leakage, spillage, discharge, emission or release from any such premises prior to the Closing Date of that system of any Hazardous Materials or any Hazardous Materials Contamination or which arise out of or result from the environmental condition of the premises on the Closing Date or the applicability or violation of any governmental law, order, rule or regulation relating to Hazardous Materials (including without limitation, the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended or federal, state or local so-called "Superfund" or "Superlien" laws, statutes, ordinances codes, rules, regulations, orders or decrees) in connection with the system prior to the system Closing Date or the condition on its Closing Date of any premises upon which the Water System is presently or was formerly located, regardless of whether or not any site review is conducted by BexarMet before or after Closing.

This indemnification shall expressly survive the Closing.

9.4 Current Payment of Fees and Expenses. Any party entitled under this Article 9 to indemnification for fees and expenses shall be entitled to current reimbursement thereof by the indemnifying party upon the submission (not more often than once during any six-month period) to the indemnifying party of a request for reimbursement setting forth in reasonable detail such costs and expenses to be reimbursed.

ARTICLE 10.

AMENDMENT, WAIVER, BREACH AND TERMINATION

10.1 Amendment. This Agreement may be amended at any time prior to the Closing only by written instrument executed by all of the parties hereto.

10.2 Waiver. Either party may, at any time, waive compliance by the other of any covenants or conditions contained in this Agreement but only by written instrument executed by the party waiving such compliance. No such waiver, however, shall be deemed to constitute the waiver of any such covenant or condition in any other circumstance or the waiver of any other covenant or condition.

10.3 Breach. Diamond agrees that in the event of a breach of this Agreement by Diamond, BexarMet would be irreparably injured and be without adequate remedy at law. Therefore, in the event of such a breach, BexarMet shall be entitled to enforce the provisions of this Agreement and shall be entitled to recover its damages and, in addition, to any other remedies that are made available to it at law or in equity, to a decree for the specific performance of the terms of this Agreement, without the necessity of showing actual or threatened harm and without being required to furnish a bond or other security. In the event of a breach of this Agreement by BexarMet, Diamond's exclusive remedy shall be the recovery of Diamond's reasonable damages and out-of-pocket expenses incurred in connection with this Agreement solely from and not to exceed the amount of the Earnest Money, and the recovery of any damages under Section 4.1.

10.4 Termination. In addition to any right of termination herein provided, this Agreement may be terminated at any time prior to the Closing, but only by written instrument signed by both parties.

ARTICLE 11.

MISCELLANEOUS

11.1 Cooperation. BexarMet and Diamond will each cooperate with the other party; at the other party's request and expense, in furnishing information, testimony and

other assistance in connection with any actions, proceedings, arrangements and disputes with other persons or governmental inquiries or investigations involving Diamond or BexarMet's conduct of the Water Systems or the transactions contemplated hereby.

11.2 Approval. This Agreement of Purchase and Sale is subject to the approval of (a) the Board of Directors of the Bexar Metropolitan Water District; and (b) the TCEQ.

11.3 Method of Payment. Unless otherwise provided herein, all payments hereunder shall be made by certified funds to the trust account of the Escrow Agent.

11.4 Severability. If any term or provision of this Agreement or the application thereof to any person or circumstance shall, to any extent, be invalid or unenforceable, the remainder of this Agreement or the application of such term or provision to persons or circumstances other than those as to which it is invalid or unenforceable shall not be affected thereby, and each term and provision of this Agreement shall be valid and enforceable to the extent permitted by law.

11.5 Expenses. Except as otherwise provided in this Section 11.4 and Section 11.5, each party will bear its own expense incurred in connection with this Agreement and the transactions contemplated hereby, whether or not such transactions shall be consummated.

11.6 Transfer Taxes. Diamond will bear any state, federal or foreign transfer, sales or use taxes, if any, which may result from the transfer of the Acquired Assets from Diamond to BexarMet.

11.7 Notices. All notices, offers, approvals and other communications hereunder shall be in writing and, except when receipts required to start the running of a period of time, shall be deemed given the second day after its mailing by one party by registered United States mail, postage prepaid and return receipt requested, to the other party addressed as follows:

If to BexarMet, to:

Bexar Metropolitan Water District
P. O. Box 245994
San Antonio, TX 78224

Attention: Thomas C. Moreno
General Manager/CEO

bmwd\diamond
October 23, 2003

with a copy to:

West & West, Attorneys
2929 Mossrock #204
San Antonio, TX 78230

Attention: North O. West

If to Diamond, to:

DIAMOND WATER COMPANY
P. O. Box 9879
The Woodlands, TX 77387

Attn: Thomas Baudat

with a copy to:

Mark Zeppa
Attorney at Law
4833 Spicewood Springs Road, Suite 202
Austin, TX 78759-8436

Any writing which may be mailed pursuant to the foregoing may also be delivered by hand or transmitted by telegraph, telex or telecopier and shall be effective when actually received by the addressee. Either party may, from time to time, specify as its address for purposes of this Agreement, any other address upon the giving of ten days' written notice thereof to the other party.

11.7 Assignment. This Agreement and the rights, obligations and liabilities hereunder shall be binding upon and inure to the benefit of the successors and assignees of each of the parties hereto, but no rights, obligations or liabilities hereunder shall be assignable or delegable by any party without the prior written consent of the other party hereto.

11.8 No Third Parties. Notwithstanding anything to the contrary contained in this Agreement, especially including the reference herein to BexarMet's assumptions of the Assumed Liabilities and/or the orders, contracts and commitments referred to on Schedule 3.2(h), this Agreement is not intended to, and shall not, create any rights in or confer any benefits upon any person or entity other than the parties hereto, and shall in

no way be considered a third party beneficiary contract.

11.9 Incorporation by Reference. All attachments to this Agreement constitute integral parts of this Agreement and are incorporated into this Agreement by this reference. The schedules referred to herein have been separately compiled, and initialed by the undersigned representatives of Diamond and BexarMet. All such Schedules, and all Appendices attached hereto, are hereby incorporated herein by reference for all relevant purposes.

11.10 Governing Law. This Agreement will be governed by and construed in accordance with the laws of the State of Texas, applicable to agreement made and to be performed in such jurisdiction.

11.11 Counterparts. This Agreement may be executed in two or more counterparts, each of which shall be deemed an original, and it shall not be necessary in making proof of this Agreement to produce or account for more than one counterpart.

11.12 Publicity. Except as required by law, prior to the Closing, neither party shall issue a public announcement regarding the subject matter of this Agreement without the written consent of the other party.

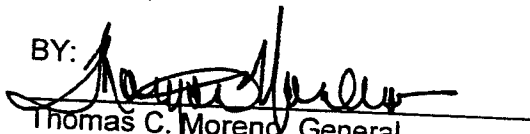
11.13 Entire Agreement. This Agreement constitutes the entire agreement between the parties with respect to the subject matter hereof and supersedes any prior oral or written agreement.

11.14 No Waiver of Rights. While BexarMet shall have the opportunity, as provided herein, to make various inspections, reviews and evaluations and to give various consents related to the Water Systems, under no circumstances shall BexarMet be liable with respect to any such consents or be limited in any manner whatsoever in its ability to rely upon the covenants and representations of Diamond made herein.

IN WITNESS WHEREOF, BexarMet and Diamond have each caused this Agreement to be executed, effective as of the date of receipt by Escrow Agent of the earnest money, as evidenced below.

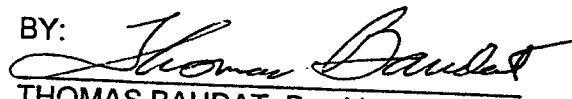
BEXAR METROPOLITAN WATER
DISTRICT

BY:


Thomas C. Moreno, General
Manager/CEO

DIAMOND WATER COMPANY

BY:


THOMAS BAUDAT, President

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ESCROW AGENT RECEIPT

Receipt of three (3) copies of this Agreement of Purchase and Sale, executed on behalf of Diamond Water Company and Bexar Metropolitan Water District, and together with \$3,000.00 in the form of a Bexar Metropolitan Water District's check # 047144 representing earnest money, are hereby acknowledged this 7 day of NOVEMBER, 2003, ("Effective Date").

STEWART TITLE COMPANY

BY: Cheng Di

Appendix 1.1

CERTAIN DEFINITIONS

The following terms in the Agreement have the meanings set forth below where used in the Agreement and identified with initial capital letters:

Acquired Assets	Defined in Section 2.2 of the Agreement.
Active Connections	Defined in Section 2.6 of the Agreement.
Affiliate	Any corporation or other entity which directly, or indirectly through one of more subsidiaries or intermediaries, controls, is controlled by, or is under common control with the corporation or other entity which is the point of reference for such determination.
Agreement	Defined in the Preamble to the Agreement.
Assumed Liabilities	Defined in Section 2.4 of the Agreement.
BexarMet	Defined in the Preamble to the Agreement.
Water Systems	Any and all components of the business of the Rimrock Ranch, Windmill Ranch, and Kestrel Airpark Water Systems in Comal County, including, without limitation, the business of extracting, treating, distributing and selling Water to customers in its area.
CCN	Certificate of Convenience and Necessity No. 12865 issued by the Texas Natural Resource Conservation Commission (now Texas Commission on Environmental Quality) relating to the Rimrock Ranch, Windmill Ranch and Kestrel Airpark Water Systems in Comal County.
Closing Date	Defined in Section 6.2 of the Agreement.
Default	An occurrence which constitutes a breach or default under a contract, order or other commitment, after the expiration of any grace period provided without cure.
Diamond Water Company	Defined in Recital of the Agreement.
Effective Date	Date of Escrow Agent's Receipt of Executed Agreement of Purchase and Sale and Earnest Money.
Encumbrance	Any encumbrance or lien, including, without limitation, any mortgage, judgment lien, materialmen's lien, mechanic's lien, tax lien, security interest, encroachment, easement or other restriction.
Environmental Requirements	All laws, ordinances, statutes, codes, rules, regulations, agreements, judgments, orders and decrees now or hereafter enacted, promulgated or amended, of the United States, the states, the counties, the cities or any other political subdivisions in which the Water Systems is or was conducted and in which any premises now or formerly utilized in the Water Systems is or was located, and any other political subdivision, agency or instrumentality exercising jurisdiction over Diamond or the Water Systems, relating to pollution, protection or regulation of human health, natural resources or the environment, or the emission, discharge, release or threatened release of pollutants, contaminants, chemicals, or industrial, toxic or hazardous substances or waste of "Hazardous Materials"

into the environment (including, without limitation, ambient air, surface water, ground water or land or soil).

Escrow Agent	Defined in Section 2.8 of the Agreement.
Escrow Agreement	Defined in Section 2.1 of the Agreement.
Escrow Closing 2.7 hereof.	The deposit of funds and closing documents called for in Section
Excluded Assets	Defined in Section 2.3 of the Agreement.
Excluded Liabilities	Defined in Section 2.5 of the Agreement.
Financial Statements	Defined in Section 3.2(a) of the Agreement.

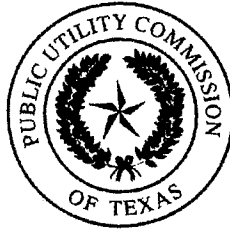
Hazardous Materials Any (a) "hazardous waste" as defined by the Resource Conservation and Recovery Act of 1976 (42 U.S.C. Section 6901 et seq.) as Conservation and Recovery Act of 1976 (42 U.S.C. Section 9601 et seq.) ("CERCLA"), as amended from time to time and regulations promulgated thereunder, (c) asbestos; (d) polychlorinated biphenyls; (e) underground storage tanks, whether empty, filled or partially filled with any substance; (f) any substance the presence of which on the premises of the Water Systems is prohibited by applicable law; (g) petroleum or any petroleum product; and (h) any other substance which applicable law requires special handling or notification of any federal, state, or local governmental entity in its collection, processing, handling, storage, treatment or disposal.

Hazardous Materials Contamination The contamination (whether presently existing or hereafter occurring) of the premises of the Water Systems or any buildings, facilities, soil, groundwater, air or other elements by Hazardous Materials, or the contamination of the building, facilities, soil, groundwater, air or other elements on or of any other property as a result of Hazardous Materials at any time (whether before or after the date hereof).

Inventory Described in Section 3.2 hereof.

Intellectual Property Rights (either through Ownership or through license or sub-license), consisting of, conferred by, or Property otherwise relating to (i) patents and patent applications (including all renewals, extensions or modifications thereof); (ii) trade secrets, including without limitation, know-how, inventions, computerized data and information, computer programs, business records, files and data, discoveries, formulae, production outlines, product designs, manufacturing information, processes and techniques, testing and quality control processes and techniques, drawings and customer lists; (iii) trademarks, service marks, and applications therefor, (iv) copyrights; (v) trade names and (vi) other intellectual property.

Material Event Any event, condition, circumstance or occurrence which has had or is likely to have a material or adverse effect on the Water Systems or the properties, assets, liabilities (fixed or otherwise) or condition (financial or otherwise) for the Water Systems, including, without limitation, any of the same resulting from any (1) act of God, flood, windstorm, earthquake, accident, fire, explosion, casualty, riot, labor strike, requisition or taking of property by governmental authority, war, embargo, or other event whether or not outside of the control of Diamond; (2) termination, cancellation or substantial modification of any contract, commitment, obligation or business relationship; or (3) default by Diamond under any contract, commitment or other obligation.



House Bill (HB) 1600 and Senate Bill (SB) 567 83rd Legislature, Regular Session, transferred the functions and records relating to the economic regulation of water and sewer utilities from the TCEQ to the PUC effective September 1, 2014.

Central Records Personally Identifiable Information Audit

NOTICE OF REDACTION

Documents containing Personally Identifiable Information* have been redacted from electronic posting, in accordance with Texas privacy statutes.

*"Personally Identifiable Information" (PII) is defined to include information that alone or in conjunction with other information identifies an individual, including an individual's: Social security or employer taxpayer identification number, driver's license number, government-issued identification card number, or passport numbers, checking and savings account numbers, credit card numbers, debit card numbers, unique electronic identification number, address, or routing code, electronic mail names or addresses, internet account numbers, or internet identification names, digital signatures, unique biometric data, and mother's maiden name, marriage and any other numbers or information used to access an individual's financial account.

Ownership
marketable title to and control over the thing or right owned, free and clear of any and all Encumbrances except Permitted Encumbrances and, in the case of real property, the interest owned is, unless otherwise disclosed on Schedule 3.2(f), fee simple title.

Permitted Encumbrances Encumbrances disclosed on Schedule 3.1(h) attached hereto.

Purchase Price Defined in Section 2.6 of the Agreement.

Salaried Plan Defined in Section 8.2 of the Agreement.

Title Company Defined in Section 4.5 of the Agreement.

WARN Worker Adjustment and Retraining Notification Act.

Water Defined in Section 3.1(a) of the Agreement.

Water Systems Rimrock Ranch, Windmill Ranch and Kestrel Airpark Water System in
Comal County owned by DIAMOND WATER COMPANY

DIAMOND WATER COMPANY SCHEDULES

EXCLUDED ASSETS:

Schedule 2.3(a)
Schedule 2.3(b)
Schedule 2.3(c)
Schedule 2.3(d)
Schedule 2.3(e)

Cash, Cash Equivalents, Other Accounts Receivables
Real Property
Billing and Collection Office Leases
Billing System and Computers
Personal Property

ASSUMED LIABILITIES:

Schedule 2.4

Assumed Liabilities

GENERAL REPRESENTATIONS AND WARRANTIES:

Schedule 3.1(h)
Schedule 3.1(i)

Permitted Encumbrances
Consents and Approvals

OTHER REPRESENTATIONS AND WARRANTIES:

Schedule 3.2(a)
Schedule 3.2(c)
Schedule 3.2(e)
Schedule 3.2(f)
Schedule 3.2(h)

Financial Statements*
Customer Accounts Receivable*
Personal Property*
Real Property*
Prepaid Items and
Orders, Contracts and Commitments for Sale of
Water
Intellectual Property
Employee Benefit Plans and Employment Contracts
Permits, Approvals and Authorizations
Exceptions to Compliance with Governmental Laws
Environmental Matters
Operating Books and Records
Schedule of Insurance Coverage

Schedule 3.2(i)
Schedule 3.2(j)
Schedule 3.2(k)
Schedule 3.2(l)
Schedule 3.2(p)
Schedule 3.2(r)
Schedule 3.2(s)

SURVEY

Schedule 4.5(b)

Survey Requirements

*Updated Schedule to be Provided at Closing.

Schedule 2.3

EXCLUDED ASSETS

The following rights, properties and assets of the Water Systems as the same exist as of the Closing.

- (a) All cash, certificates of deposit, bank deposits, time deposits, securities all notes, billed accounts receivable and unbilled accounts receivable, including specifically and without limitation those notes, accounts receivable and unbilled accounts receivable listed on Schedule 2.3(a).
- (b) All notes, billed accounts receivable and unbilled accounts receivable, including specifically and without limitation those notes, accounts receivable and unbilled accounts receivable;
- (c) All prepaid and similar items (other than insurance), including, without limitation, all prepaid expenses, deferred charges, advance payments, and other prepaid items, and including specifically and without limitation;
- (d) All inventories, of whatever nature and wherever located, including, without limitation, inventories of raw materials, work-in-process, finished goods, replacement parts, spare parts, operating supplies, and packaging and including specifically and without limitation;
- (e) The personal property (whether as owner, lessor, lessee or otherwise) listed on Schedule 2.3(e).
- (f) All post office numbers and telephone numbers used or useful in connection with the Business including without limitation those described on Schedule 2.3(f).
- (g) The real property described on Schedule 2.3(b), together with the improvements thereon and fixtures related thereto.
- (h) The billing and collection office leases listed on Schedule 2.3(c).
- (i) The billing system and computers listed on Schedule 2.3(d).
- (j) All prepaid insurance and all prepaid and similar items (other than insurance), including, without limitation, all prepaid expenses, deferred charges, advance payments, and other prepaid items.

Schedule 2.3(a)

**EXCLUDED CASH, CASH EQUIVALENTS,
OTHER ACCOUNTS RECEIVABLES**

All cash, certificates of deposit, bank deposits, time deposits, securities and the accounts receivable are excluded from this sale, specifically including the following:

- 1. Security State Bank Checking Account # 1065630**
- 2. Security State Bank Money Market # 1073279**
- 3. Customer accounts receivable for all Diamond Water Company customers at the day of closing.**
- 4. Any accounts receivable from Apex Water Service**
- 5. Any accounts receivable from Diamond Water Company**
- 6. Any accounts receivable from shareholders**
- 7. Any utility deposits paid to other utilities.**

Schedule 2.3(b)

EXCLUDED REAL PROPERTY

The following described real property together with the improvements thereon and fixtures related thereto, are excluded from this sale:

1. Oakview PWS#0860107
2. River Bend PWS#0100042
3. Enchanted River PWS#0100039

4. Schedule 2.3(c)

EXCLUDED BILLING AND COLLECTION OFFICE LEASES

The billing and collection office leases listed below are excluded from this sale:

1. **The building located at:
2355 Bulverde Road
Bulverde, Texas 78163**

Schedule 2.3(d)

EXCLUDED BILLING SYSTEM AND COMPUTERS

The following described billing system and computers listed below are excluded from this sale:

2 computers located at the leased offices of Apex Water Service. Both computers including all software and data on these computers along with all printers will be excluded.

Schedule 2.3(e)

EXCLUDED PERSONAL PROPERTY

The following personal property, together with all inventories of whatever nature and wherever located, including, without limitation inventories of raw materials, work-in-process, finished goods, replacement parts, spare parts, operating supplies, packaging, scientific instruments of all kinds, test kits, test units, test procedures, machinery, equipment, tooling, masks, molds, jigs, patterns, gauges, materials handling equipment, furniture, office equipment, calculators, and computers.

- 1. All trucks including all materials, supplies and tools carried by these trucks during normal business.**
- 2. 2 backhoes and the trailers used with these backhoes.**
- 3. A golf cart used to read meters.**
- 4. All supplies, furniture and fixtures, office equipment and tools located at the leased office and warehouse of Apex Water Company.**

5. Schedule 2.3(f)

POST OFFICE BOXES:

PO BOX 421
Bulverde, Texas 78163

TELEPHONE NUMBERS:

830.980.3774	Office
888.980.3774	Office toll free
830.438.2721	Fax

Schedule 2.4

ASSUMED LIABILITIES

For purposes of this Agreement, the term "Assumed Liabilities" shall mean only the liabilities and obligations of DIAMOND that are specifically identified and described as follows, but only to the extent such liabilities and obligations are due and payable after the Closing. The Assumed Liabilities expressly exclude any of the Excluded Liabilities.

None

Schedule 3.1(h)

PERMITTED ENCUMBRANCES

None

Schedule 3.1(i)

CONSENTS AND APPROVAL

**Approval of the Texas Commission on Environmental
Quality (TCEQ) as required by Texas Water Code 13.301
and 30 Tex. Admin. Code 291.109**

Schedule 3.2(a)

FINANCIAL STATEMENTS

A listing of financial statements, information and schedules covering the Water Systems (including, without limitation, financial statements for the last three years, true, correct and complete copies of which have been previously delivered to BexarMet (collectively, the "Financial Statements").

Schedule 3.2(c)

CUSTOMER ACCOUNTS RECEIVABLE

No customer accounts receivables are to be conveyed to BexarMet. All shall be retained by Diamond.

Schedule 3.2(e)

PERSONAL PROPERTY
(1 of 3 Pages)

All personal property (whether as owner, lessor, lessee or otherwise) including, without limitation, all designs, plans, specifications, books, technical specifications, as built construction drawings and utility plans, laboratory equipment, chlorination equipment, water pumps, pipes, manuals, scientific instruments of all kinds, test kits, test units, test procedures, machinery, equipment, tooling, masks, molds, jigs, patterns, gauges, materials handling equipment, furniture, office equipment, calculators, computers and related personal property associated with or related to the conduct of the Water Systems, and all support, maintenance, warranty and similar agreements related to such personal property, and including specifically and without limitation the personal property described or referred to as follows in each individual Water System:

Windmill Ranch:

Name of Each Taxing Authority and Tax Account Numbers from each Taxing Authority That Collects Personal Property Taxes on the Property:

Comal County Tax	Sherman Krause	560365010600
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Description of Personal Property:

1. 1 - Water Wells - 15hp
2. 1 - Ground Storage Tank - Bolted Steel - 84,500 gal each
3. 2 - 15hp Booster Pumps
4. 1 - 5hp Booster Pumps
5. 1 - Pressure Tank - 5,500 gal

Schedule 3.2(e)

PERSONAL PROPERTY
(2 of 3 Pages)

Kestrel Air Park:

Name of Each Taxing Authority and Tax Account Numbers from each Taxing Authority
That Collects Personal Property Taxes on the Property:

Comal County Tax

Sherman Krause

250360006400

Description of Personal Property:

1. 1 - Water Well - 15hp submersible pump - 6" casing.

Schedule 3.2(e)

PERSONAL PROPERTY
(3 of 3 Pages)

Rimrock:

Name of Each Taxing Authority and Tax Account Numbers from each Taxing Authority
That Collects Personal Property Taxes on the Property:

Comal County Tax	Sherman Krause	450050006101
		450050007601
		450050014001
		450050014001

Description of Personal Property:

1. 1 - Pressure Tank - 10,000 gal
2. 3 - 15hp Booster Pumps
3. 1 - Ground Storage Tank - 125,000 gal
4. 3 - Water Wells - 15hp

Schedule 3.2(f)

REAL PROPERTY
(Page 1 of 3)

The following described real property, including easements, together with the improvements thereon and fixtures related thereto, including without limitation, water wells and storage tanks, and all easements related to, in each individual water system shown by (i) the complete legal description, (ii) the recording (Volume and Page) information showing where the instrument under which DIAMOND acquired title to the Real Property is recorded; (iii) the tax appraisal district identification number(s); (iv) the real property's tax account number(s) from each taxing authority that collects taxes on the Real Property:

Windmill Ranch:

- (i) the complete legal description:
Lot 106 Windmill Ranch Sub 3 Well Site
- (ii) the recording (Volume and Page) information showing where the instrument under which DIAMOND acquired title to the Real Property is recorded:
Volume 10, Pages 326-330
- (iii) the names of the tax appraisal district(s) and identification number(s):
Comal County Tax Sherman Krause 560365010600
- (iv) the name of each real property taxing authority and the real property's tax account number(s) from each taxing authority that collects taxes on the Real Property:
Comal County Tax 5603650100600
Comal ISD
Comal RFPD #1
Emergency Serv #1
Bulverde City

Disclosure: Developer Nick McFadden is under an agreement to transfer title to the well lots and all easements to Diamond after completion of the Windmill Estates water system and its placement into commercial operation. This water supply also affects the adjacent Kestrel Air Park Subdivision's water supply. Mr. McFaden has refused to comply with this agreement. Diamond has initiated legal actions to enforce its rights in the matter under its tariff. BexarMet through General Counsel North O West and Deputy General Manager Charles Ahrens were advised of this matter by Thomas Baudat and Mark Zeppa on October 22, 2003. The Law Firm of Louis T. Rosenberg is representing Diamond Water Company in this matter and Diamond Water Company herein waives all perceived and/or actual conflicts of interest to this continuing legal representation for the mutual benefit of both parties to this agreement. It is Diamond's intent to have this title matter cleared before Closing or to give BexarMet the option to surrender its rights to purchase either or both of these affected subdivision water systems.

Schedule 3.2(f)

REAL PROPERTY
(Continued - Page 2 of 3)

Kestrel Air Park:

- (i) the complete legal description:
Blk 6 Lot 9 Kestrel Air Park
Acres 1.270
- (ii) the recording (Volume and Page) information showing where the instrument under which DIAMOND acquired title to the Real Property is recorded:
Volume 502, Page 145, out of the Elias Flint Survey Number 76, Abstract # 191
Comal County
- (iii) the names of the tax appraisal district(s) and identification number(s):
Comal County Tax Sherman Krause 250360006400
- (iv) the name of each real property taxing authority and the real property's tax account number(s) from each taxing authority that collects taxes on the Real Property:
Comal County Tax Sherman Krause 250360006400
Comal ISD
Comal RFPD #1
Emergency Serv #1
Bulverde City

Disclosure: This water system's supply is subject in part to the Windmill Estate water system's water supply referenced above.

Schedule 3.2(f)

REAL PROPERTY
(Continued - Page 3 of 3)

Rimrock:

- (i) the complete legal description:

Unit 1 Lot 4	Acres: .060
Unit 1 Lot 2	Acres: .060
Unit 1 Lot 1	Acres: .490
Unit 2 Lot 6	Acres: .060

- (ii) the recording (Volume and Page) information showing where the instrument under which DIAMOND acquired title to the Real Property is recorded:

Volume 12, Pages 116-120 Recorded in Comal County

- (iii) the names of the tax appraisal district(s) and identification number(s);

Comal County Tax	Sherman Krause	45-0050-0061-01
		45-0050-0076-01
		45-0050-0140-01
		45-0050-0178-01

- (iv) the name of each real property taxing authority and the real property's tax account number(s) from each taxing authority that collects taxes on the Real Property:

Comal County Tax	Sherman Krause
Comal ISD	
Comal RFPD #1	
Emergency Serv #1	
Bulverde City	

Schedule 3.2(f)

REAL PROPERTY
(Continued - Page 4 of 6)

Schedule 3.2(h)

**PREPAID ITEMS AND
ORDERS, CONTRACTS AND COMMITMENTS FOR SALE OF WATER**

All orders, contracts, and commitments for the sale of Water or otherwise related to the Water Systems, including, without limitation all such items relating to distribution and similar arrangements and including specifically and without limitation those orders, contracts and commitments described or referred to as follows:

None

NOTE: Those indicated by * above are required for the assignment of DIAMOND's rights.**

Those indicated by ** above are prepaid expenses, deferred charges, advance payments and other deferred charges and prepaid items.

Schedule 3.2(i)

INTELLECTUAL PROPERTY

DIAMOND has (and after Closing BexarMet will have) exclusive Ownership of the intellectual Property listed as "owned" herebelow. DIAMOND has (and after Closing BexarMet will have) the exclusive right under valid and subsisting license, technology or similar agreements referred to herein to employ the intellectual Property listed as "licensed" herebelow in its conduct of the Water Systems subject only to the terms of any such agreements referred to herebelow.

Owned Intellectual Property:

NONE

Licensed Intellectual Property:

NONE

EMPLOYEE BENEFIT PLANS

A full and complete listing of all employee benefit plans (as defined in Section 3(3) of the Employee Retirement Income Security Act of 1974, as amended ("ERISA") which are maintained by or contributed to by DIAMOND in connection with the Water Systems (all such plans are herein referred to as "Plans"), and all employee stock option or stock purchase, bonus, incentive compensation, severance pay and fringe benefit arrangements of DIAMOND relating to, or applicable to the Water Systems or its employees, are described as follows:

None

EMPLOYMENT CONTRACTS

Diamond Water Company has no employment contract with any person.

Schedule 3.2(k)

PERMITS, APPROVALS AND AUTHORIZATIONS

All permits, approvals, authorizations, licenses, qualifications and the like issued by any governmental unit, agency, board, body or instrumentality, whether federal, state or local, and all applications therefore, including specifically and without limitation the CCN, and the permits, approvals and qualifications described or referred to as follows:

Texas Commission on Environmental Quality (TCEQ)

Certificate of Convenience (CCN) No. 12865 relating to the Rimrock Ranch, Windmill Ranch, Kestrel Air Park. Diamond owns other water systems under this CCN.

EXCEPTIONS TO COMPLIANCE WITH GOVERNMENTAL LAWS

At all times prior to the Closing, the conduct of Diamond and the Water Systems has been in all material respects in full compliance with all statutes, ordinances, codes, restrictions, regulations and other governmental requirements, except as expressly set forth below:

Diamond has used gas chlorine in its water systems and has, at various times, maintained gas chlorine in sufficient quantities on site to warrant registration with the state and local authorities as a hazardous material. This has not always occurred. To management's knowledge and belief, no spill or excursion of gas chlorine or other hazardous or toxic material has ever occurred on any Diamond property during Diamond's ownership or control. No potentially hazardous or toxic material has been stored or used on any Diamond property except in strict conformance with its intended use and manufacturer's instruction on such use, i.e., pesticide or herbicide to maintain well sites or dry chlorine powder as a disinfection agent during water line repairs in conformance with TCEQ public health rules.

Other violations are reflected in the TCEQ inspection reports maintained in Diamond's Bulverde offices which are voluminous and which are incorporated herein by reference and which will be made available to BexarMet for inspection and copying.

ENVIRONMENTAL MATTERS

Except as set forth herebelow, neither DIAMOND nor, to the knowledge of DIAMOND, any other person, has generated, processed, stored, transported, recycled, disposed of or otherwise handled any Hazardous materials, as defined in paragraph 3.2 hereof, in any manner that has resulted, or that could result, in a violation of Environmental Requirements or in a Hazardous Materials Contamination, beneath or about any of the premises used in the conduct of the Water Systems, or previously used in the conduct of the Water Systems, or in any manner otherwise related to the operation of the Water Systems. In addition, except as set forth below, DIAMOND has no knowledge that any property adjoining the premises used in the conduct of the Water Systems, or previously used in the conduct of the Water Systems, is being used, or has ever previously been used, for the generation, processing, storage, transport, recycling, disposal or other handling of any Hazardous Materials.

Diamond has used gas chlorine in its water systems and has, at various times, maintained gas chlorine in sufficient quantities on site to warrant registration with the state and local authorities as a hazardous material. This has not always occurred. To management's knowledge and belief, no spill or excursion of gas chlorine or other hazardous or toxic material has ever occurred on any Diamond property during Diamond's ownership or control. No potentially hazardous or toxic material has been stored or used on any Diamond property except in strict conformance with its intended use and manufacturer's instruction on such use, i.e., pesticide or herbicide to maintain well sites or dry chlorine powder as a disinfection agent during water line repairs in conformance with TCEQ public health rules.

Schedule 3.2(r)

OPERATING BOOKS AND RECORDS

All operating books and records, including without limitation all inventory records, customer lists, supplier lists and records, well and system water pumpage histories and all sales and promotional literature, correspondence and files, and including specifically and without limitation the books and records described or referred to as follows:

Electronic data from the utility billing system

Schedule 3.2(s)

SCHEDULE OF INSURANCE COVERAGE

A list of the policies and contracts (including insurer, named insured, type of coverage, limits of insurance, required deductibles or co-payments, annual premiums and expiration date) for fire, casualty, liability and other forms of insurance maintained by, or for the benefit of, DIAMOND, is as follows:

Diamond is co-insured with affiliates Diamond Water Company, a Texas corporation, and Apex Water Services, LLC, a Texas limited liability company. Copies of the consolidated schedules of coverages are attached.