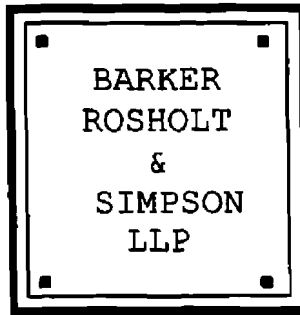


John A. Rosholt
Albert P. Barker
John K. Simpson
Travis L. Thompson
Shelley M. Davis
Paul L. Arrington



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Norman M. Semanko
Of Counsel

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April 29, 2008

Robert G. Haynes
Idaho Department of Water Resources
7600 N. Mineral Dr., Suite 100
Coeur d'Alene, ID 83815

Re: Applications for Permit 72-16693 and 72-16694 - Settlement Agreement

Dear Bob:

Please find enclosed a copy of the fully executed, recorded settlement agreement between Robin J. Wegner and my clients, J. R. and Patricia W. Challis. As you can see, the agreement calls for the above-referenced applications to be held in abeyance. It also calls for a status conference to be held no later than June 30, with quarterly status conferences thereafter. Accordingly, please take notice that my clients and I are available for a telephonic status conference on June 26, 27 or 30. If you need additional dates, please let me know. As I have received no response from Pat Brown regarding my request to set a date for the status conference, I will leave it to Pat Brown or his client to advise you of their availability. At your earliest convenience, please let us know when the status conference will be held and any details regarding a call-in number.

Thank you for your attention to this matter.

Sincerely,

Norman M. Semanko
Attorney at Law

Encs.

cc: Pat Brown
Jack and Patricia Challis

238759

J.R. Challis
10:50 A.M. Date 4-23-2008
C. Eresolova, Clerk
Betsy Doughty \$24.00

WATER RIGHTS TRANSFER AGREEMENT

THIS AGREEMENT is entered into between J. R. CHALLIS and PATRICIA W. CHALLIS, husband and wife, residing in Challis, Idaho (hereinafter referred to as "Challis") and ROBIN J. WEGNER, a single woman, residing in Challis, Idaho (hereinafter referred to as "Wegner").

WHEREAS, Wegner has filed Applications for Permit Nos. 72-16693 and 72-16694 ("the permit applications") with the Idaho Department of Water Resources ("IDWR"); and

WHEREAS, Challis has protested the applications; and

WHEREAS, Challis has filed a Petition for Declaratory Ruling Regarding Forfeiture and Illegal Use of Water Rights ("the forfeiture petition"), seeking certain determinations regarding Wegner's water rights nos. 72-00007A, 72-10032, 72-16560 and 72-16559; and

WHEREAS, an IDWR hearing is currently scheduled to be held in Challis, Idaho on April 24 and 25; and

WHEREAS, the parties desire to settle this matter upon mutually agreeable terms, including the transfer of certain of Wegner's water rights and withdrawal of Challis' protests and the forfeiture petition.

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

1. Transfer of Wegner's Water Rights. Wegner agrees to immediately prepare and file application(s) with IDWR to transfer the points of diversion for water right nos. 72-00007A, 72-10032 and 72-16560 to Eddy Creek. Wegner may, at her sole discretion, also seek an alternate point of diversion for water right no. 72-10032 to be located at the same point of diversion as water right no. 72-16559, an unnamed stream located on Wegner's property. Thereafter, the combined use of 72-10032 and 72-16559 shall be subject to the same conditions included in paragraph 9 of the May 15, 2001 Water Rights Agreement between the parties (Custer County, Idaho, Recording No. 0222723). It is further agreed and understood that Challis shall have the right to locate and install the four (4) foot strip for conveying the flow from Challis' water right no. 72-16561 to the Wegner property line by the buildup of fill on the sides of the undisturbed strip as stipulated in said May 15, 2001 agreement.

2. Relinquishment of Rights-of-Way and Easements. Upon completion or termination of the transfer process, or failure of Wegner to file or pursue the transfer application(s) required in paragraph 1, Wegner agrees to, and hereby does, relinquish any and all rights-of-way and easements on or across the properties of Challis and David W.J. Stanley, D.V.M., including, but not limited to, those rights-of-ways and easements recognized in the May 15, 2001 agreement between the parties, and Wegner also agrees to abandon all ditches located on the Challis and Stanley properties. Thereafter, Wegner shall not assert that any such right-of-way or easement exists or seek the establishment of such a right-of-way, easement, ditch or other conveyance by eminent domain, condemnation or by any other means.

3. Wegner Pond. Wegner shall immediately and fully comply with the criteria mandated in IDWR's letter to her dated April 27, 2007 RE: Illegal Storage Pond as per IDWR

representative Gary Spackman; provided, however, that Challis understands that IDWR has indicated that it will not require Wegner to breach the pond during the period that the permit applications are still pending with IDWR.

4. Further Proceedings. Upon execution of this agreement, the parties agree that the hearing currently scheduled for April 24-25 should be vacated and that further proceedings on the permit applications and the forfeiture petition should be held in abeyance until such time that the transfer process, including any and all appeals, is completed or otherwise terminated, or Wegner fails to file or pursue the transfer application(s) required in paragraph 1 above. The parties agree that a status conference on these matters shall be held with the hearing officer no later than June 30 and quarterly thereafter, or as may otherwise be agreed by the parties and IDWR, until such time that the transfer process is completed or otherwise terminated.

5. Withdrawal of Protests and Forfeiture Petition. Upon successful completion of the transfer process and all other terms of this agreement by Wegner, Challis agrees to withdraw the protests to the permit applications and to also withdraw the forfeiture petition. Under all other circumstances, including failure by Wegner to file or pursue the transfer application(s) required in paragraph 1 above or to meet any other terms of this agreement, the permit applications, including the protests thereto, and the forfeiture petition shall be immediately scheduled for hearing and further proceedings. Nothing herein shall be construed to prohibit Challis from withdrawing the protests and/or the forfeiture petition at any time that Challis may choose.

6. No Protest. Challis agrees not to protest Wegner's transfer application(s), provided that any said transfer application(s) comply with the provisions of paragraph 1 above.

7. Binding Nature. This agreement shall constitute a covenant which runs with the Wegner and Challis properties, as well as the water rights conditioned in this agreement, and shall be binding upon the parties and their heirs, successors and assigns, as well as their agents, employees, or anyone else acting on their behalf. Upon execution, the parties shall cause a copy of this agreement to be recorded with Custer County, the cost of which shall be borne evenly by both parties.

8. Attorney Fees and Costs. The parties agree to pay their own attorney fees and costs incurred as a result of the proceedings involving the permit applications and the forfeiture petition, including any withdrawals referenced in paragraph 5 above. In the event that either party is required to enforce any of the terms of this agreement in an administrative or judicial proceeding, the prevailing party shall be entitled to a reasonable attorney fee from the losing party.

9. Counterparts. This agreement may be executed in counterparts.

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DATED THIS 21st day of April, 2008.



J. R. CHALLIS

PATRICIA W. CHALLIS

ROBIN J. WEGNER

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IDWR/North

238759

STATE OF IDAHO)
County of Blaine) ss.

On the 21st day of April, 2008, before me, a Notary Public, in and for said County and State, personally appeared J. R. CHALLIS, known or identified to me to be the individual whose name is subscribed to the within instrument, and acknowledged to me that he executed the same.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my official seal the day and year in this certificate first above written.



Chris Matson
NOTARY PUBLIC FOR IDAHO
Residing at: Challis
My commission expires: 7/28/2011

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IDWR/Notary

238759

DATED THIS 22 day of April, 2008.

J. R. CHALLIS

Patricia W. Challis
PATRICIA W. CHALLIS

ROBIN J. WEGNER

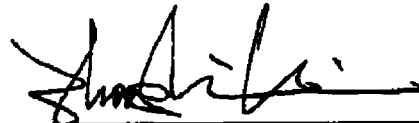
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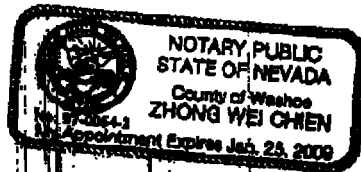
STATE OF Nevada)
) ss.
County of Washoe)

On the 22 day of April, 2008, before me, a Notary Public, in and for said County and State, personally appeared PATRICIA W. CHALLIS, known or identified to me to be the individual whose name is subscribed to the within instrument, and acknowledged to me that she executed the same.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my official seal the day and year in this certificate first above written.



NOTARY PUBLIC FOR NV
Residing at: RENO
My commission expires: 1/25/09



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MAY 01 2008
IDWR/North

238759

DATED THIS 21 day of April, 2008.

J. R. CHALLIS

PATRICIA W. CHALLIS

Robin J. Wegner
ROBIN J. WEGNER

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MAY 01 2008
IDWR/North

WATER RIGHTS TRANSFER AGREEMENT - 3

238759

STATE OF IDAHO)
County of Custer) ss.

On the 21st day of April, 2008, before me, a Notary Public, in and for said County and State, personally appeared ROBIN J. WEGNER, known or identified to me to be the individual whose name is subscribed to the within instrument, and acknowledged to me that she executed the same.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my official seal the day and year in this certificate first above written.



Lacinda Philips
NOTARY PUBLIC FOR IDAHO
Residing at: Provo, UT
My commission expires: 8-19-13

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MAY 01 2008
IDWR/North

WATER RIGHTS TRANSFER AGREEMENT - 6