
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON DC 20549**

FORM 10-Q

(Mark One)

- QUARTERLY REPORT PURSUANT TO SECTION 13 or 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934.**

For the quarterly period ended **March 31, 2007**

- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.**

For the transition period from _____ to _____

Commission File Number **1-6659**

AQUA AMERICA, INC.

(Exact name of registrant as specified in its charter)

Pennsylvania

23-1702594

(State or other jurisdiction of
incorporation or organization)

(I.R.S. Employer
Identification No.)

762 W. Lancaster Avenue, Bryn Mawr, Pennsylvania

19010-3489

(Address of principal executive offices)

(Zip Code)

Registrant's telephone number, including area code: (610)527-8000

(Former Name, former address and former fiscal year, if changed since last report.)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer Accelerated Filer Non-Accelerated Filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of April 23, 2007.

132,593,971.

AQUA AMERICA, INC. AND SUBSIDIARIES

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Item 1. Financial StatementAQUA AMERICA, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(In thousands of dollars, except per share amounts)
(UNAUDITED)

	March 31, 2007	December 31, 2006
Assets		
Property, plant and equipment, at cost	\$ 3,307,288	\$ 3,185,111
Less: accumulated depreciation	<u>725,542</u>	<u>679,116</u>
Net property, plant and equipment	<u>2,581,746</u>	<u>2,505,995</u>
Current assets:		
Cash and cash equivalents	15,102	44,039
Accounts receivable and unbilled revenues, net	73,660	72,149
Materials and supplies	8,581	8,359
Prepayments and other current assets	<u>10,864</u>	<u>10,153</u>
Total current assets	<u>108,207</u>	<u>134,700</u>
Regulatory assets	182,584	165,063
Deferred charges and other assets, net	39,819	38,075
Funds restricted for construction activity	59,708	11,490
Goodwill	<u>33,453</u>	<u>22,580</u>
	<u>\$ 3,005,517</u>	<u>\$ 2,877,903</u>
Liabilities and Stockholders' Equity		
Common stockholders' equity:		
Common stock at \$.50 par value, authorized 300,000,000 shares, issued 133,261,172 and 133,017,325 in 2007 and 2006	\$ 66,630	\$ 66,509
Capital in excess of par value	553,518	548,806
Retained earnings	320,751	319,113
Treasury stock, 689,440 and 691,746 shares in 2007 and 2006	(12,934)	(12,992)
Accumulated other comprehensive income	<u>199</u>	<u>194</u>
Total common stockholders' equity	<u>928,164</u>	<u>921,630</u>
Minority interest	1,862	1,814
Long-term debt, excluding current portion	1,048,614	951,660
Commitments and contingencies	—	—
Current liabilities:		
Current portion of long-term debt	41,167	31,155
Loans payable	112,654	119,150
Accounts payable	28,875	49,406
Accrued interest	14,594	14,050
Accrued taxes	22,066	19,350
Other accrued liabilities	<u>18,899</u>	<u>22,500</u>
Total current liabilities	<u>238,255</u>	<u>255,611</u>
Deferred credits and other liabilities:		
Deferred income taxes and investment tax credits	287,703	273,199
Customers' advances for construction	78,079	76,820
Regulatory liabilities	12,078	11,592
Other	<u>83,541</u>	<u>64,879</u>
Total deferred credits and other liabilities	<u>461,401</u>	<u>426,490</u>
Contributions in aid of construction	<u>327,221</u>	<u>320,698</u>
	<u>\$ 3,005,517</u>	<u>\$ 2,877,903</u>

See notes to consolidated financial statements beginning on page 7 of this report.

AQUA AMERICA, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
(In thousands, except per share amounts)
(UNAUDITED)

	Three Months Ended March 31,	
	2007	2006
Operating revenues	\$ 137,301	\$ 117,949
Costs and expenses:		
Operations and maintenance	60,295	51,316
Depreciation	20,136	16,830
Amortization	1,209	1,114
Taxes other than income taxes	11,916	8,067
	<u>93,556</u>	<u>77,327</u>
Operating income	43,745	40,622
Other expense (income):		
Interest expense, net	16,549	14,172
Allowance for funds used during construction	(721)	(918)
Gain on sale of other assets	(69)	(267)
Income before income taxes	27,986	27,635
Provision for income taxes	11,128	11,071
Net income	<u>\$ 16,858</u>	<u>\$ 16,564</u>
Net income	\$ 16,858	\$ 16,564
Other comprehensive income, net of tax:		
Unrealized holding gain on investments	5	—
Comprehensive income	<u>\$ 16,863</u>	<u>\$ 16,564</u>
Net income per common share:		
Basic	<u>\$ 0.13</u>	<u>\$ 0.13</u>
Diluted	<u>\$ 0.13</u>	<u>\$ 0.13</u>
Average common shares outstanding during the period:		
Basic	<u>132,353</u>	<u>129,181</u>
Diluted	<u>133,243</u>	<u>130,893</u>
Cash dividends declared per common share	<u>\$ 0.1150</u>	<u>\$ 0.1069</u>

See notes to consolidated financial statements beginning on page 7 of this report.

AQUA AMERICA, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CAPITALIZATION
(In thousands of dollars, except per share amounts)
(UNAUDITED)

	March 31, 2007	December 31, 2006
Common stockholders' equity:		
Common stock, \$.50 par value	\$ 66,630	\$ 66,509
Capital in excess of par value	553,518	548,806
Retained earnings	320,751	319,113
Treasury stock	(12,934)	(12,992)
Accumulated other comprehensive income	199	194
Total common stockholders' equity	928,164	921,630
Long-term debt:		
Long-term debt of subsidiaries (substantially secured by utility plant):		
Interest Rate Range		
0.00% to 2.49%	30,026	25,740
2.50% to 2.99%	25,874	25,272
3.00% to 3.49%	17,155	17,220
3.50% to 3.99%	6,003	6,073
4.00% to 4.99%	30,645	30,645
5.00% to 5.49%	324,604	262,496
5.50% to 5.99%	86,500	79,000
6.00% to 6.49%	97,730	94,360
6.50% to 6.99%	22,000	22,000
7.00% to 7.49%	13,135	13,288
7.50% to 7.99%	24,717	24,778
8.00% to 8.49%	26,231	26,288
8.50% to 8.99%	9,000	9,000
9.00% to 9.49%	46,101	46,101
9.50% to 9.99%	38,244	38,738
10.00% to 10.50%	6,000	6,000
	803,965	726,999
Unsecured notes payable, 4.87%, maturing in various installments 2010 through 2023	135,000	135,000
Unsecured notes payable, 5.95%, due in 2023 through 2034	40,000	40,000
Unsecured notes payable, 5.64%, due in 2014 through 2021	20,000	20,000
Unsecured notes payable, 5.54%, due in 2013 through 2018	30,000	30,000
Unsecured notes payable, 5.01%, due 2015	18,000	18,000
Unsecured notes payable, 5.20%, due 2020	12,000	12,000
Unsecured notes payable, 5.63%, due 2022	15,000	—
Unsecured notes payable, 5.85%, due 2037	15,000	—
Notes payable, 6.05%, maturing in 2007 and 2008	816	816
	1,089,781	982,815
Current portion of long-term debt	41,167	31,155
Long-term debt, excluding current portion	1,048,614	951,660
Total capitalization	\$ 1,976,778	\$ 1,873,290

See notes to consolidated financial statements beginning on page 7 of this report.

AQUA AMERICA, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF COMMON STOCKHOLDERS' EQUITY
(In thousands of dollars)
(UNAUDITED)

	Common Stock	Capital in excess of par value	Retained earnings	Treasury Stock	Accumulated Other Comprehensive Income	Total
Balance at December 31, 2006	\$ 66,509	\$ 548,806	\$ 319,113	\$ (12,992)	\$ 194	\$ 921,630
Net income	—	—	16,858	—	—	16,858
Other comprehensive income:						
unrealized holding gain on investments, net of income tax of \$2	—	—	—	—	5	5
Dividends paid	—	—	(15,220)	—	—	(15,220)
Sale of stock (114,191 shares)	53	2,310	—	161	—	2,524
Repurchase of stock (4,445 shares)	—	—	—	(103)	—	(103)
Equity Compensation Plan (43,000 shares)	22	(22)	—	—	—	—
Exercise of stock options (93,407 shares)	46	1,036	—	—	—	1,082
Stock-based compensation	—	1,116	—	—	—	1,116
Employee stock plan tax benefits	—	272	—	—	—	272
Balance at March 31, 2007	<u>\$ 66,630</u>	<u>\$ 553,518</u>	<u>\$ 320,751</u>	<u>\$ (12,934)</u>	<u>\$ 199</u>	<u>\$ 928,164</u>

See notes to consolidated financial statements beginning on page 7 of this report.

AQUA AMERICA, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOW
(In thousands of dollars)
(UNAUDITED)

	Three Months Ended March 31,	
	2007	2006
Cash flows from operating activities:		
Net income	\$ 16,858	\$ 16,564
Adjustments to reconcile net income to net cash flows from operating activities:		
Depreciation and amortization	21,345	17,944
Deferred income taxes	2,412	2,026
Gain on sale of other assets	(69)	(267)
Stock-based compensation	963	662
Net decrease in receivables, inventory and prepayments	2,214	3,321
Net increase (decrease) in payables, accrued interest, accrued taxes and other accrued liabilities	918	(28,229)
Other	2,981	1,088
Net cash flows from operating activities	47,622	13,109
Cash flows from investing activities:		
Property, plant and equipment additions, including allowance for funds used during construction of \$721 and \$918	(60,701)	(46,888)
Acquisitions of utility systems and other, net	(27,843)	(2,506)
Proceeds from the sale of other assets	721	267
Additions to funds restricted for construction activity	(49,172)	(972)
Release of funds previously restricted for construction activity	2,631	7,075
Other	2	(372)
Net cash flows used in investing activities	(134,362)	(43,396)
Cash flows from financing activities:		
Customers' advances and contributions in aid of construction	2,511	2,167
Repayments of customers' advances	(1,089)	(747)
Net proceeds (repayments) of short-term debt	(6,496)	28,645
Proceeds from long-term debt	84,240	41,624
Repayments of long-term debt	(1,696)	(3,718)
Change in cash overdraft position	(8,150)	7,329
Proceeds from exercised stock options	1,082	5,257
Stock-based compensation windfall tax benefits	200	1,453
Proceeds from issuing common stock	2,524	2,345
Repurchase of common stock	(103)	(692)
Dividends paid on common stock	(15,220)	(13,803)
Net cash flows from financing activities	57,803	69,860
Net increase (decrease) in cash and cash equivalents	(28,937)	39,573
Cash and cash equivalents at beginning of period	44,039	11,872
Cash and cash equivalents at end of period	\$ 15,102	\$ 51,445

See notes to consolidated financial statements beginning on page 7 of this report.

AQUA AMERICA, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(In thousands of dollars, except per share amounts)
(UNAUDITED)

Note 1 Basis of Presentation

The accompanying consolidated balance sheets and statements of capitalization of Aqua America, Inc. (the "Company") at March 31, 2007, the consolidated statements of income and comprehensive income for the three months ended March 31, 2007 and 2006, the consolidated statements of cash flow for the three months ended March 31, 2007 and 2006, and the consolidated statement of common stockholders' equity for the three months ended March 31, 2007, are unaudited, but reflect all adjustments, consisting of only normal recurring accruals, which are, in the opinion of management, necessary to present fairly the consolidated financial position, the consolidated changes in common stockholders' equity, the consolidated results of operations, and the consolidated cash flow for the periods presented. Because they cover interim periods, the statements and related notes to the financial statements do not include all disclosures and notes normally provided in annual financial statements and, therefore, should be read in conjunction with the Company's Annual Report on Form 10-K for the year ended December 31, 2006. The results of operations for interim periods may not be indicative of the results that may be expected for the entire year.

Note 2 Goodwill

The following table summarizes the changes in the Company's goodwill, by business segment:

	Regulated Segment	Other	Consolidated
Balance at December 31, 2006	\$ 18,537	\$ 4,043	\$ 22,580
Goodwill acquired during year	10,808	—	10,808
Reclassifications to utility plant acquisition adjustment	(12)	—	(12)
Other	(3)	80	77
Balance at March 31, 2007	<u>\$ 29,330</u>	<u>\$ 4,123</u>	<u>\$ 33,453</u>

AQUA AMERICA, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(In thousands of dollars, except per share amounts)

(UNAUDITED)

Note 3 Long-term Debt and Loans Payable

In January 2007, the Company's Pennsylvania operating subsidiary, Aqua Pennsylvania, Inc., issued \$50,000 of tax-exempt bonds secured by a supplement to its first mortgage indenture at the following terms: \$25,000 at 4.43% due 2040 and \$25,000 at 4.44% due 2041. The proceeds are restricted to funding certain capital projects during the period 2007 through 2009. In March 2007, the Company issued \$30,000 of unsecured notes of which \$15,000 are due in 2022 with an interest rate of 5.63% and \$15,000 are due in 2037 with an interest rate of 5.83%. Proceeds from the sales of these notes were used to repay short-term borrowings.

Note 4 Acquisitions

Pursuant to our strategy to grow through acquisitions, on January 1, 2007 the Company completed the acquisition of the capital stock of New York Water Service Corporation ("New York Water") for \$28,866 in cash, as adjusted pursuant to the purchase agreement primarily based on working capital at closing, and the assumption of \$23,000 of long-term debt. The acquired operation provides water service to 44,792 customers in several water systems located in Nassau County, Long Island, New York. The operating results of New York Water have been included in our consolidated financial statements beginning January 1, 2007. Under the purchase method of accounting, the purchase price is allocated to the net tangible and intangible assets based upon their estimate fair values at the date of the acquisition. The Company is in the process of finalizing the allocation of the purchase price. The purchase price allocation is as follows, subject to final adjustments:

	January 1, 2007
Property, plant and equipment, net	\$ 42,057
Current assets	9,207
Other long-term assets	14,384
Goodwill	10,808
Total assets acquired	<u>76,456</u>
Current liabilities	1,852
Long-term debt	23,000
Other long-term liabilities	22,738
Total liabilities assumed	<u>47,590</u>
Net assets acquired	<u>\$ 28,866</u>

As of January 1, 2007, the Company recorded goodwill of \$10,808. The purchase price was arrived at through arms-length negotiations with the seller and is consistent with the multiples paid in other comparable transactions. Aqua America considered important regulatory, strategic and valuation considerations in arriving at the final purchase price.

AQUA AMERICA, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(In thousands of dollars, except per share amounts)

(UNAUDITED)

Note 5 Net Income per Common Share

Basic net income per common share is based on the weighted average number of common shares outstanding. Diluted net income per common share is based on the weighted average number of common shares outstanding and potentially dilutive shares. The dilutive effect of employee stock options and shares issuable under the forward equity sale agreement (from the date the Company entered into the forward equity sale agreement to the settlement date) is included in the computation of diluted net income per common share. The dilutive effect of stock options and shares issuable under the forward equity sale agreement is calculated using the treasury stock method and expected proceeds upon exercise of the stock options and settlement of the forward equity sale agreement. The following table summarizes the shares, in thousands, used in computing basic and diluted net income per common share:

	Three Months Ended	
	March 31,	
	2007	2006
Average common shares outstanding during the period for basic computation	132,353	129,181
Effect of dilutive securities:		
Employee stock options	817	1,712
Forward equity shares	73	—
Average common shares outstanding during the period for diluted computation	133,243	130,893

For the quarters ended March 31, 2007 and 2006, employee stock options to purchase 1,183,700 and 611,350 shares of common stock, respectively, were excluded from the calculations of diluted net income per share as the options' exercise price was greater than the average market price of the Company's common stock during these periods.

AQUA AMERICA, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(In thousands of dollars, except per share amounts)

(UNAUDITED)

Note 6 Stockholders' Equity

In August 2006, the Company entered into a forward equity sale agreement for 3,525,000 shares of common stock with a third-party (the "forward purchaser"). In connection with the forward equity sale agreement, the forward purchaser borrowed an equal number of shares of the Company's common stock from stock lenders and sold the borrowed shares to the public. The Company will not receive any proceeds from the sale of its common stock by the forward purchaser until settlement of the forward equity sale agreement. The actual proceeds to be received by the Company will vary depending upon the settlement date, the number of shares designated for settlement on that settlement date and the method of settlement. The Company intends to use any proceeds received upon settlement of the forward equity sale agreement to fund the Company's future capital expenditure program and acquisitions, and for working capital and other general corporate purposes. The forward equity sale agreement is accounted for as an equity instrument and was recorded at a fair value of \$0 at inception. It will not be adjusted so long as the Company continues to meet the accounting requirements for equity instruments.

The Company may elect to settle the forward equity sale agreement by means of a physical share settlement, net cash settlement, or net share settlement, on a settlement date or dates, no later than August 1, 2008. The forward equity sale agreement provides that the forward sale price will be computed based upon the initial forward sale price of \$21.857 per share. Under limited circumstances or certain unanticipated events, the forward purchaser also has the ability to require the Company to physically settle the forward equity sale agreement in shares prior to the maturity date. The maximum number of shares that could be required to be issued by the Company to settle the forward equity sale agreement is 3,525,000 shares. As of March 31, 2007, a net cash settlement under the forward equity sale agreement would have resulted in a payment by the Company to the forward purchaser of \$1,283 or a net share settlement would have resulted in the issuance of 57,154 shares by the Company to the forward purchaser. For each increase or decrease of one dollar in the average market price of the Company's common stock above or below the forward sale price on March 31, 2007, the cash settlement option from the Company's perspective would decrease or increase by \$3,525 and the net share settlement option would decrease by 150,320 shares or increase by 164,336 shares, respectively.

AQUA AMERICA, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
(In thousands of dollars, except per share amounts)
(UNAUDITED)Note 7 Stock-based Compensation

Under the Company's 2004 Equity Compensation Plan (the "2004 Plan"), as approved by the shareholders to replace the 1994 Equity Compensation Plan (the "1994 Plan"), qualified and nonqualified stock options may be granted to officers, key employees and consultants at prices equal to the market price of the stock on the day of the grant. Officers and key employees may also be granted dividend equivalents and restricted stock. Restricted stock may also be granted to non-employee members of the Board of Directors. The 2004 Plan authorizes 4,900,000 shares for issuance under the plan. A maximum of 50% of the shares available for issuance under the 2004 Plan may be issued as restricted stock and the maximum number of shares that may be subject to grants under the plans to any one individual in any one year is 200,000. Awards under the 2004 Plan are made by a committee of the Board of Directors. At March 31, 2007, 2,882,395 shares underlying stock option and restricted stock awards were still available for grant under the 2004 Plan, although under the terms of the 2004 Plan, terminated, expired or forfeited grants under the 1994 Plan and shares withheld to satisfy tax withholding requirements under the plan may be re-issued under the plan.

Stock Options—During the three months ended March 31, 2007 and 2006, the Company recognized compensation cost as a component of operations and maintenance expense of \$766 and \$662, respectively. For the three months ended March 31, 2007 and 2006, the Company recognized income tax benefits associated with stock options in its income statement of \$107 and \$162, respectively. In addition, the Company capitalized compensation costs within property, plant and equipment of \$152 and \$97 during the three months ended March 31, 2007 and 2006, respectively.

The fair value of options was estimated at the grant date using the Black-Scholes option-pricing model. The per share weighted-average fair value at the date of grant for stock options granted during the three months ended March 31, 2007 and 2006 was \$5.52 and \$7.82 per option, respectively. The application of this valuation model relies on the following assumptions that are judgmental and sensitive in the determination of the compensation expense for the periods reported:

	2007	2006
Expected term (years)	5.2	5.2
Risk-free interest rate	4.7%	4.7%
Expected volatility	22.5%	25.8%
Dividend yield	1.95%	1.76%

Historical information was the principal basis for the selection of the expected term and dividend yield. The expected volatility is based on a weighted-average combination of historical and implied volatilities over a time period that approximates the expected term of the option. The risk-free interest rate was selected based upon the U.S. Treasury yield curve in effect at the time of grant for the expected term of the option.

AQUA AMERICA, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(In thousands of dollars, except per share amounts)

(UNAUDITED)

The following table summarizes stock option transactions for the three months ended March 31, 2007:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Life (years)	Aggregate Intrinsic Value
Options:				
Outstanding at beginning of period	3,364,778	\$ 16.72		
Granted	613,850	23.26		
Forfeited	(13,298)	24.75		
Expired	(9,782)	21.32		
Exercised	(93,407)	11.59		
Outstanding at end of period	<u>3,862,141</u>	<u>\$ 17.84</u>	<u>7.0</u>	<u>\$ 22,289</u>
Exercisable at end of period	<u>2,618,651</u>	<u>\$ 14.84</u>	<u>5.9</u>	<u>\$ 21,261</u>

Restricted Stock—During the three months ended March 31, 2007 and 2006, the Company recorded stock-based compensation related to restricted stock awards as operations and maintenance expense in the amounts of \$197 and \$105, respectively. The following table summarizes nonvested restricted stock transactions for the three months ended March 31, 2007:

	Number of Shares	Weighted Average Fair Value
Nonvested shares at beginning of period	56,888	\$ 23.98
Granted	43,000	23.38
Vested	(25,443)	21.36
Forfeited	—	—
Nonvested shares at end of period	<u>74,445</u>	<u>\$ 24.53</u>

AQUA AMERICA, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(In thousands of dollars, except per share amounts)

(UNAUDITED)

Note 8 Pension Plans and Other Postretirement Benefits

The Company maintains qualified defined benefit pension plans, nonqualified pension plans and other postretirement benefit plans for certain of its employees. The net periodic benefit cost is based on estimated values provided by independent actuaries. The following tables provide the components of net periodic benefit costs:

	Pension Benefits	
	Three Months Ended	
	March 31,	
	2007	2006
Service cost	\$ 1,257	\$ 1,275
Interest cost	2,926	2,566
Expected return on plan assets	(2,711)	(2,375)
Amortization of transition asset	(29)	(53)
Amortization of prior service cost	31	58
Amortization of actuarial loss	261	480
Capitalized costs	(593)	(472)
Net periodic benefit cost	<u>\$ 1,142</u>	<u>\$ 1,479</u>

	Other	
	Postretirement Benefits	
	Three Months Ended	
	2007	2006
Service cost	\$ 271	\$ 280
Interest cost	491	418
Expected return on plan assets	(377)	(320)
Amortization of transition obligation	24	203
Amortization of prior service cost	(22)	(183)
Amortization of actuarial loss	11	88
Amortization of regulatory asset	38	38
Capitalized costs	(210)	(188)
Net periodic benefit cost	<u>\$ 226</u>	<u>\$ 336</u>

The Company contributed \$805 in April 2007 to its defined benefit pension plans and intends to contribute \$7,623 during the balance of 2007. In addition, the Company expects to contribute approximately \$3,307 for the funding of its other postretirement benefits during 2007.

AQUA AMERICA, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(In thousands of dollars, except per share amounts)

(UNAUDITED)

Note 9 Water and Wastewater Rates

During the first three months of 2007, certain of the Company's operating divisions in New Jersey and Ohio were granted rate increases designed to increase total operating revenues on an annual basis by approximately \$3,620.

In 2004, the Company's operating subsidiaries in Texas filed an application with the Texas Commission on Environmental Quality ("TCEQ") to increase rates by \$11,920 over a multi-year period. The application seeks to increase annual revenues in phases and is accompanied by a plan to defer and amortize a portion of the Company's depreciation, operating and other tax expense over a similar multi-year period, such that the impact on operating income approximates the requested amount during the first years that the new rates are in effect. The application is currently pending before the TCEQ and several parties have joined the proceeding to challenge the rate request. The Company commenced billing for the requested rates and implemented the deferral plan in 2004. The additional revenue billed and collected prior to the final ruling is subject to refund based on the outcome of the ruling. The revenue recognized and the expenses deferred by the Company reflect an estimate of the final outcome of the ruling. As of March 31, 2007, the Company has deferred \$12,382 of operating costs and \$3,000 of rate case expenses and recognized \$17,553 of revenue that is subject to refund based on the outcome of the final commission order.

Note 10 Taxes Other than Income Taxes

The following table provides the components of taxes other than income taxes:

	Three Months Ended	
	March 31,	
	2007	2006
Property	\$ 6,439	\$ 3,279
Capital Stock	856	903
Gross receipts, excise and franchise	1,875	1,532
Payroll	2,066	1,929
Other	680	424
Total taxes other than income	<u>\$ 11,916</u>	<u>\$ 8,067</u>

AQUA AMERICA, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
(In thousands of dollars, except per share amounts)
(UNAUDITED)

Note 11 Segment Information

The Company has identified fourteen operating segments and has one reportable segment named the Regulated segment. The reportable segment is comprised of thirteen operating segments for our water and wastewater regulated utility companies which are organized by the states where we provide these services. In addition, one segment is not quantitatively significant to be reportable and is comprised of the businesses that provide on-site septic tank pumping, sludge hauling services and certain other non-regulated water and wastewater services. This segment is included as a component of "Other" in the tables below. Also included in "Other" are corporate costs that have not been allocated to the Regulated segment and intersegment eliminations.

The following tables present information about the Company's reportable segment:

	Three Months Ended March 31, 2007			Three Months Ended March 31, 2006		
	Regulated	Other	Consolidated	Regulated	Other	Consolidated
Operating revenues	\$ 134,588	\$ 2,713	\$ 137,301	\$ 117,038	\$ 911	\$ 117,949
Operations and maintenance expense	57,588	2,707	60,295	52,173	(857)	51,316
Depreciation	20,584	(448)	20,136	17,528	(698)	16,830
Operating income	43,678	67	43,745	38,502	2,120	40,622
Interest expense, net of AFUDC	14,745	1,083	15,828	10,671	2,583	13,254
Income tax	11,884	(756)	11,128	11,452	(381)	11,071
Net income	17,080	(222)	16,858	16,646	(82)	16,564
Capital expenditures	59,541	1,160	60,701	46,611	277	46,888
				March 31, 2007	December 31, 2006	
Total assets:						
Regulated				\$ 2,946,690	\$ 2,819,385	
Other				58,827	58,518	
Consolidated				<u>\$ 3,005,517</u>	<u>\$ 2,877,903</u>	

AQUA AMERICA, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(In thousands of dollars, except per share amounts)

(UNAUDITED)

Note 12 Recent Accounting Pronouncements

In June 2006, the Financial Accounting Standards Board (“FASB”) issued FASB Interpretation No. (“FIN”) 48, “Accounting for Uncertainty in Income Taxes—An Interpretation of FASB Statement No. 109,” which prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The Company adopted the provisions of FIN 48 as of January 1, 2007 and has analyzed filing positions in its federal and state jurisdictions where it is required to file income tax returns, as well as for all open tax years in these jurisdictions. The Company’s reserve for uncertain tax positions was insignificant upon adoption of FIN 48 and the Company did not record a cumulative effect adjustment related to the adoption of FIN 48. The Company believes its income tax filing positions and deductions will be sustained under audit and it believes it does not have significant uncertain tax positions that, in the event of adjustment, will result in a material effect on its results of operations or financial position. The Company has elected to recognize accrued interest and penalties related to uncertain tax positions as income tax expense. As of March 31, 2007, the Company’s Federal income tax returns for all years through 2002 have been closed. Tax years 2003 through 2006 remain open to examination by the major taxing jurisdictions to which we are subject, and 2004 has been settled through examination.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

AQUA AMERICA, INC. AND SUBSIDIARIES

MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS
(In thousands of dollars, except per share amounts)

Forward-looking Statements

This Management's Discussion and Analysis of Financial Condition and Results of Operations and other sections of this Quarterly Report contain, in addition to historical information, forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements address, among other things: our use of cash; projected capital expenditures; liquidity; possible acquisitions and other growth ventures; the completion of various construction projects; the projected timing and annual value of rate increases; the recovery of certain costs and capital investments through rate increase requests; the projected effects of recent accounting pronouncements, as well as information contained elsewhere in this report where statements are preceded by, followed by or include the words "believes," "expects," "anticipates," "plans," "intends," "will" or similar expressions. These statements are based on a number of assumptions concerning future events, and are subject to a number of uncertainties and other factors, many of which are outside our control. Actual results may differ materially from such statements for a number of reasons, including the effects of regulation, abnormal weather, changes in capital requirements and funding, acquisitions, and our ability to assimilate acquired operations. In addition to these uncertainties or factors, our future results may be affected by the factors and risk factors set forth in our Annual Report on Form 10-K for the fiscal year ended December 31, 2006. We undertake no obligation to update or revise forward-looking statements, whether as a result of new information, future events or otherwise.

General Information

Nature of Operations - Aqua America, Inc. ("we" or "us"), a Pennsylvania corporation, is the holding company for regulated utilities providing water or wastewater services to what we estimate to be approximately 2.8 million people in Pennsylvania, Ohio, North Carolina, Illinois, Texas, New Jersey, New York, Florida, Indiana, Virginia, Maine, Missouri, and South Carolina. Our largest operating subsidiary, Aqua Pennsylvania, Inc., provides water or wastewater services to approximately one-half of the total number of people we serve, which are located in the suburban areas north and west of the City of Philadelphia and in 23 other counties in Pennsylvania. Our other subsidiaries provide similar services in 12 other states. In addition, we provide water and wastewater service through operating and maintenance contracts with municipal authorities and other parties, and septage hauling services, close to our utility companies' service territories.

AQUA AMERICA, INC. AND SUBSIDIARIES
MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)
(In thousands of dollars, except per share amounts)

Financial Condition

During the first quarter of 2007, we had \$60,701 of capital expenditures, acquired water systems, wastewater systems and other acquisitions for \$27,843, repaid \$1,089 of customer advances for construction and repaid debt and made sinking fund contributions and other loan repayments of \$8,192. The capital expenditures were related to improvements to treatment plants, new and rehabilitated water mains, tanks, hydrants, and service lines, and well and booster improvements.

At March 31, 2007, we had \$15,102 of cash and cash equivalents compared to \$44,039 at December 31, 2006. During the first quarter of 2007, we used the proceeds from the issuance of long-term debt, the proceeds from the issuance of common stock, internally generated funds and available working capital to fund the cash requirements discussed above and to pay dividends. In January 2007, our Pennsylvania operating subsidiary issued \$50,000 of tax-exempt bonds secured by a supplement to its first mortgage indenture with a weighted-average maturity of 33.5 years and with a weighted-average interest rate of 4.435%. The proceeds are restricted to funding certain capital projects during the period 2007 through 2009. In March 2007, the Company issued \$30,000 of unsecured notes with a weighted-average maturity of 22.5 years and a weighted-average interest rate of 5.73%. We used the proceeds from the sales of these notes to repay short-term borrowings. At March 31, 2007, we had short-term lines of credit of \$238,000, of which \$125,346 was available.

Management believes that internally generated funds along with existing credit facilities and the proceeds from the issuance of long-term debt and common stock will be adequate to meet our financing requirements for the balance of the year and beyond.

Results of Operations

Analysis of First Quarter of 2007 Compared to First Quarter of 2006

Revenues for the quarter increased \$19,352 or 16.4% primarily due to additional revenues of \$10,339 resulting from increased water and wastewater rates implemented in various operating subsidiaries, additional revenues of \$6,925 associated with acquisitions, and \$766 of additional sewer revenues. Acquisitions provided additional operating revenues in the Regulated segment of \$5,250, primarily from the New York Water Service acquisition, and \$1,675 of additional revenues in Other as provided by the acquisition of several septage businesses during 2006.

Operations and maintenance expenses increased by \$8,979 or 17.5% primarily due to additional expenses associated with acquisitions of \$3,269, the receipt in the first quarter of 2006 of \$1,500 relating to a waiver of certain contractual rights without a corresponding amount in the current year, increased water production costs of \$1,180, additional bad debt expense of \$455 and normal increases in other operating costs. Of the total acquisition expenses, \$1,494 were associated with the New York Water Service acquisition that was completed on January 1, 2007 and other acquisitions in the Regulated segment. The receipt of the \$1,500 was a one-time payment recognized in the first quarter of 2006 as a reduction to operations and maintenance expense. The increased water production costs, principally purchased power and chemicals, were associated with vendor price increases.

AQUA AMERICA, INC. AND SUBSIDIARIES
MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)
(In thousands of dollars, except per share amounts)

Depreciation expense increased \$3,306 or 19.6% reflecting the utility plant placed in service since March 31, 2006, including the assets acquired through system acquisitions.

Amortization increased \$95 or 8.5% due to the amortization of the costs associated with, and other costs being recovered in, various rate filings.

Taxes other than income taxes increased by \$3,849 or 47.7% due to additional property taxes associated with the acquired operations of New York Water Service, and additional state and local taxes incurred in the first quarter of 2007.

Interest expense increased by \$2,377 or 16.8% primarily due to additional borrowings to finance capital projects and increased interest rates on short-term borrowings.

Allowance for funds used during construction ("AFUDC") decreased by \$197 primarily due to a decrease in the average balance of utility plant construction work in progress, to which AFUDC is applied; offset partially by an increase in the AFUDC rate which is based on short-term interest rates.

Gain on sale of other assets totaled \$69 in the first quarter of 2007 and \$267 in the first quarter of 2006. The decrease of \$198 is due to the timing of sales of land.

Our effective income tax rate was 39.8% in the first quarter of 2007 and 40.1% in the first quarter of 2006. The change was due to a decrease in our expenses that are not tax-deductible.

Net income for the quarter increased by \$294 or 1.8%, in comparison to the same period in 2006 primarily as a result of the factors described above. On a diluted per share basis, earnings were unchanged reflecting the change in net income and a 1.8% increase in the average number of common shares outstanding. The increase in the number of shares outstanding is primarily a result of the additional shares sold or issued through the employee stock and incentive plan, dividend reinvestment plan and the 2,250,000 additional shares issued by us in public offerings in June and August 2006.

AQUA AMERICA, INC. AND SUBSIDIARIES
MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)
(In thousands of dollars, except per share amounts)

Impact of Recent Accounting Pronouncements

In June 2006, the Financial Accounting Standards Board ("FASB") issued FASB Interpretation No. ("FIN") 48, "Accounting for Uncertainty in Income Taxes—An Interpretation of FASB Statement No. 109," which prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. We adopted the provisions of FIN 48 as of on January 1, 2007 and have analyzed filing positions in its federal and state jurisdictions where we are required to file income tax returns, as well as for all open tax years in these jurisdictions. Our reserve for uncertain tax positions was insignificant upon adoption of FIN 48 and we did not record a cumulative effect adjustment related to the adoption of FIN 48. We believe our income tax filing positions and deductions will be sustained under audit and we believe we do not have significant uncertain tax positions that, in the event of adjustment, will result in a material effect on our results of operations or financial position. We have elected to recognize accrued interest and penalties related to uncertain tax positions as income tax expense. As of March 31, 2007, our Federal income tax returns for all years through 2002 have been closed. Tax years 2003 through 2006 remain open to examination by the major taxing jurisdictions to which we are subject, and 2004 has been settled through examination.

AQUA AMERICA, INC. AND SUBSIDIARIES

Item 3. Quantitative and Qualitative Disclosures About Market Risk

We are subject to market risks in the normal course of business, including changes in interest rates and equity prices. There have been no significant changes in our exposure to market risks since December 31, 2006. Refer to Item 7A of the Company's Annual Report on Form 10-K for the year ended December 31, 2006 for additional information.

Item 4. Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures as of the end of the period covered by this report are effective such that the information required to be disclosed by us in reports filed under the Securities Exchange Act of 1934 is (i) recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and (ii) accumulated and communicated to our management, including the Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding disclosure.

(b) Changes in Internal Control over Financial Reporting

No change in our internal control over financial reporting occurred during our most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

AQUA AMERICA, INC. AND SUBSIDIARIES

Part II. Other Information

Item 1. Legal Proceedings

In 2004, our subsidiaries in Texas filed an application with the Texas Commission on Environmental Quality to increase rates over a multi-year period. In accordance with authorization from the Texas Commission on Environmental Quality, our subsidiaries commenced billing for the requested rates and deferred recognition of certain expenses for financial statement purposes. Several parties have joined the proceeding to challenge the rate request. In the event our request is denied completely or in part, we could be required to refund some or all of the revenue billed to-date, and write-off some or all of the regulatory asset for the expense deferral. For more information, see the description under the section captioned “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Results of Operations” in our Annual Report on Form 10-K for the year ended December 31, 2006, and refer to “Note 9 — Water and Wastewater Rates” to the Consolidated Financial Statements of Aqua America, Inc. and subsidiaries in this Quarterly Report on Form 10-Q for the quarter ended March 31, 2007.

There are no other pending legal proceedings to which we or any of our subsidiaries is a party or to which any of their properties is the subject that are material or are expected to have a material effect on our financial position, results of operations or cash flows.

Item 1A. Risk Factors

There have been no material changes to the risks disclosed in our Annual Report on Form 10-K for the year ended December 31, 2006 (“Form 10-K”) under “Part 1, Item 1A — Risk Factors”. The risks described in our Form 10-K are not the only risks facing the Company. Additional risks that we do not presently know or that we currently believe are immaterial could also impair our business or financial position.

AQUA AMERICA, INC. AND SUBSIDIARIES

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

The following table summarizes Aqua America's purchases of its common stock for the quarter ended March 31, 2007:

Period	Issuer Purchases of Equity Securities			Maximum Number of Shares that May Yet be Purchased Under the Plan or Programs (2)
	Total Number of Shares Purchased (1)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	
January 1 - 31, 2007	527	\$ 22.25	—	548,278
February 1 - 28, 2007	3,652	\$ 23.39	—	548,278
March 1 - 31, 2007	266	\$ 22.82	—	548,278
Total	4,445	\$ 23.22	—	548,278

- (1) These amounts consist of shares we purchased from our employees who elected to pay the exercise price of their stock options (and then hold shares of the stock) upon exercise by delivering to us (and, thus, selling) shares of Aqua America common stock in accordance with the terms of our equity compensation plans that were previously approved by our shareholders and disclosed in our proxy statements. This feature of our equity compensation plans is available to all employees who receive option grants under the plans. We purchased these shares at their fair market value, as determined by reference to the closing price of our common stock on the day prior to the option exercise.
- (2) On August 5, 1997, our Board of Directors authorized a common stock repurchase program that was publicly announced on August 7, 1997, for up to 1,007,351 shares. No repurchases have been made under this program since 2000. The program has no fixed expiration date. The number of shares authorized for purchase was adjusted as a result of the stock splits effected in the form of stock distributions since the authorization date.

AQUA AMERICA, INC. AND SUBSIDIARIES

Item 6. Exhibits

<u>Exhibit No.</u>	<u>Description</u>
4.1	Forty-first Supplemental Indenture, dated as of January 1, 2007.
10.1	Agreement among Aqua America, Inc. and Karl M. Kyriss
10.2	Bond Purchase Agreement among the Chester County Industrial Development Authority, Aqua Pennsylvania, Inc. and Sovereign Securities Corporation, LLC, dated December 21, 2006.
31.1	Certification of Chief Executive Officer, pursuant to Rule 13a-14(a) under the Securities and Exchange Act of 1934.
31.2	Certification of Chief Financial Officer, pursuant to Rule 13a-14(a) under the Securities and Exchange Act of 1934.
32.1	Certification of Chief Executive Officer, pursuant to 18 U.S.C. Section 1350.
32.2	Certification of Chief Financial Officer, pursuant to 18 U.S.C. Section 1350.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be executed on its behalf by the undersigned thereunto duly authorized.

May 7, 2007

AQUA AMERICA, INC.

Registrant

NICHOLAS DEBENEDICTIS

Nicholas DeBenedictis
Chairman, President and
Chief Executive Officer

DAVID P. SMELTZER

David P. Smeltzer
Chief Financial Officer

EXHIBIT INDEX

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Prepared by and Return to:
Mary T. Tomich, Esq.
Dilworth Paxson LLP
1735 Market Street
Philadelphia, PA 19103
215-575-7000

**FORTY-FIRST SUPPLEMENTAL
INDENTURE**

DATED AS OF JANUARY 1, 2007

TO

INDENTURE OF MORTGAGE

DATED AS OF JANUARY 1, 1941

AQUA PENNSYLVANIA, INC.

TO

J.P. MORGAN TRUST COMPANY, NATIONAL ASSOCIATION

THIS FORTY-FIRST SUPPLEMENTAL INDENTURE dated as of January 1, 2007, by and between AQUA PENNSYLVANIA, INC. (f/k/a Pennsylvania Suburban Water Company), a corporation duly organized and existing under the laws of the Commonwealth of Pennsylvania (the “Company”) as successor by merger to the Philadelphia Suburban Water Company (the “Original Company”), party of the first part, and J.P. MORGAN TRUST COMPANY, NATIONAL ASSOCIATION, a national banking association (the “Trustee”), party of the second part.

WHEREAS, the Original Company heretofore duly executed and delivered to The Pennsylvania Company for Insurances on Lives and Granting Annuities, as trustee, an Indenture of Mortgage dated as of January 1, 1941 (the “Original Indenture”), which by reference is hereby made a part hereof, and in and by the Original Indenture the Original Company conveyed and mortgaged to such trustee certain property therein described, to secure the payment of its bonds to be generally known as its “First Mortgage Bonds” and to be issued under the Original Indenture in one or more series as therein provided; and

WHEREAS, through a series of mergers, changes of names and successions, J.P. Morgan Trust Company, National Association became the successor trustee; such mergers, changes of name and successions not involving any change in the title, powers, rights or duties of the trustee, as trustee under the Original Indenture as supplemented at the respective dates thereof; and

WHEREAS, the Original Company duly executed and delivered to the Trustee thirty-four supplemental indentures supplemental to the Original Indenture, and the Company duly executed and delivered to the Trustee six supplemental indentures to the Original Indenture so as to subject certain additional property to the lien of the Original Indenture and to provide for the creation of additional series of bonds; and

WHEREAS, pursuant to an Agreement and Plan of Merger and Reorganization dated December 20, 2001, and effective on January 1, 2002, the Original Company agreed to merge, in conjunction with its affiliated corporations, Consumers Pennsylvania Water Company — Shenango Valley Division, Consumers Pennsylvania Water Company — Roaring Creek Division, Consumers Pennsylvania Water Company — Susquehanna Division, Waymart Water Company, Fawn Lake Forrest Water Company, Western Utilities, Inc., and Northeastern Utilities, Inc. (such affiliates referred to hereinafter as the “Merging Entities”) with and into the Company; and

WHEREAS, pursuant to the Thirty-Fifth Supplemental Indenture dated as of January 1, 2002 (the “Thirty-Fifth Supplemental Indenture”), the Company agreed to assume the obligations of the Original Company under the Original Indenture and all supplements thereto; and

WHEREAS, the Company and its predecessor have issued under the Original Indenture, as supplemented at the respective dates of issue, forty-eight series of First Mortgage Bonds designated, respectively, as set forth in the following table, the Original or Supplemental Indenture creating each series and the principal amount of bonds thereof issued being indicated opposite the designation of such series:

Designation	Indenture	Amount
3 1/4% Series due 1971	Original	\$ 16,375,000
9 5/8% Series due 1975	Thirteenth Supplemental	10,000,000
9.15% Series due 1977	Fourteenth Supplemental	10,000,000
3% Series due 1978	First Supplemental	2,000,000
3 3/8% Series due 1982	Second Supplemental	4,000,000
3.90% Series due 1983	Third Supplemental	5,000,000
3 1/2% Series due 1986	Fourth Supplemental	6,000,000
4 1/2% Series due 1987	Fifth Supplemental	4,000,000
4 1/8% Series due 1988	Sixth Supplemental	4,000,000
5% Series due 1989	Seventh Supplemental	4,000,000
4 5/8% Series due 1991	Eighth Supplemental	3,000,000
4.70% Series due 1992	Ninth Supplemental	3,000,000
6 7/8% Series due 1993	Twelfth Supplemental	4,500,000
4.55% Series due 1994	Tenth Supplemental	4,000,000
10 1/8% Series due 1995	Sixteenth Supplemental	10,000,000
5 1/2% Series due 1996	Eleventh Supplemental	4,000,000
7 7/8% Series due 1997	Fifteenth Supplemental	5,000,000
8.44% Series due 1997	Twenty-Third Supplemental	12,000,000
9.20% Series due 2001	Seventeenth Supplemental	7,000,000
8.40% Series due 2002	Eighteenth Supplemental	10,000,000
5.95% Series due 2002	Twenty-Seventh Supplemental	4,000,000
12.45% Series due 2003	Twentieth Supplemental	10,000,000
13% Series due 2005	Twenty-First Supplemental	8,000,000
10.65% Series due 2006	Twenty-Second Supplemental	10,000,000
9.89% Series due 2008	Twenty-Fourth Supplemental	5,000,000
7.15% Series due 2008	Twenty-Eighth Supplemental	22,000,000
9.12% Series due 2010	Twenty-Fifth Supplemental	20,000,000
8 7/8% Series due 2010	Nineteenth Supplemental	8,000,000
6.50% Series due 2010	Twenty-Seventh Supplemental	3,200,000
9.17% Series due 2011	Twenty-Sixth Supplemental	5,000,000
9.93% Series due 2013	Twenty-Fourth Supplemental	5,000,000
9.97% Series due 2018	Twenty-Fourth Supplemental	5,000,000
9.17% Series due 2021	Twenty-Sixth Supplemental	8,000,000
9.29% Series due 2026	Twenty-Sixth Supplemental	12,000,000
1995 Medium Term Note Series	Twenty-Ninth Supplemental	77,000,000
6.35% Series due 2025	Thirtieth Supplemental	22,000,000
1997 Medium Term Note Series	Thirty-First Supplemental	65,000,000
6.75% Subseries A due 2007		10,000,000
6.30% Subseries B due 2002		10,000,000
6.14% Subseries C due 2008		10,000,000
5.80% Subseries D due 2003		10,000,000
5.85% Subseries E due 2004		10,000,000

Designation	Indenture	Amount
6.00% Subseries F due 2004		15,000,000
6.00% Series due 2029	Thirty-Second Supplemental	25,000,000
1999 Medium Term Note Series	Thirty-Third Supplemental	222,334,480
7.40% Subseries A due 2005		15,000,000
7.40% Subseries B due 2005		11,000,000
6.21% Subseries C due 2011		15,000,000
9.53% Subseries D due 2019		4,000,000
6.375% Subseries E due 2023		14,000,000
8.26% Subseries F due 2022		1,500,000
9.50% Subseries G due 2006		1,440,000
9.22% Subseries H due 2019		2,534,480
8.32% Subseries I due 2022		3,500,000
8.14% Subseries J due 2025		4,000,000
6.00% Subseries K due 2030		18,360,000
5.93% Subseries L due 2012		25,000,000
2.65% Subseries M due 2006		5,000,000
3.461% Subseries N due 2007		12,000,000
5.08% Subseries O due 2015		20,000,000
5.17% Subseries P due 2017		7,000,000
5.751% Subseries Q due 2019		15,000,000
5.751% Subseries R due 2019		5,000,000
6.06% Subseries S due 2027		15,000,000
6.06% Subseries T due 2027		5,000,000
5.98% Subseries U due 2028		3,000,000
5.35% Series due 2031	Thirty-Fourth Supplemental	30,000,000
5.55% Series due 2032	Thirty-Sixth Supplemental	25,000,000
3.75% Series due 2010	Thirty-Seventh Supplemental	3,200,000
5.15% Series due 2032	Thirty-Seventh Supplemental	25,000,000
5.05% Series due 2039	Thirty-Eighth Supplemental	14,000,000
5.00% Series due 2036	Thirty-Ninth Supplemental	21,770,000
5.00% Series due 2037	Thirty-Ninth Supplemental	24,165,000
5.00% Series due 2038	Thirty-Ninth Supplemental	25,375,000
5.00% Series due 2035	Fortieth Supplemental	24,675,000

WHEREAS, the bonds of each of said series that are presently outstanding are listed on Exhibit A attached hereto and made a part hereof; and

WHEREAS, in order to secure the lien of the Original Indenture on the properties of the Original Company and the Company, the Original Indenture and the first forty supplemental indentures supplemental to the Original Indenture were duly recorded in the Commonwealth of Pennsylvania on the dates and in the office for the Recording of Deeds for the counties and in the Mortgage Books at the pages indicated in Exhibit B hereto; and

WHEREAS, in addition to the property described in the Original Indenture and the First through Fortieth Supplemental Indentures thereto, the Company has acquired certain other property and desires to confirm the lien of the Original Indenture thereon and in order to confirm such lien shall cause this Forty-First supplemental Indenture, with a true and correct copy of the Original Indenture attached hereto as Exhibit D (redacted to delete property descriptions for counties in which such Original Indenture has already been recorded), to be recorded in the office for the Recording of Deeds for the counties of Crawford and Lehigh; and

WHEREAS, the lien of the Original Indenture, as supplemented, has been perfected as a security interest under the Pennsylvania Uniform Commercial Code by filing a financing statement in the office of the Secretary of the Commonwealth; and

WHEREAS, the Company proposes to create under the Original Indenture, as supplemented by this Forty-first Supplemental Indenture, two series of bonds to be designated “First Mortgage Bonds, 5.00% Series due 2040” (herein referred to as the “5.00% Series due 2040”) to be limited in aggregate principal amount to \$23,915,000, to bear interest at the rate of 5.00% per annum, and to mature on February 1, 2040, and “First Mortgage Bonds, 5.00% Series due 2041” (herein referred to as the “5.00% Series due 2041”) to be limited in aggregate principal amount to \$23,915,000, to bear interest at the rate of 5.00% per annum, and to mature on February 1, 2041, each series to be issued only as registered bonds without coupons and to be dated the date of delivery thereof; and

WHEREAS, in order to finance the costs of numerous acquisitions, constructions, modifications, expansions, installations and replacements of the Company’s water distribution, treatment and related operating systems located in the Counties of Chester, Bucks, Delaware and Montgomery in Pennsylvania and that are part of the Company’s system for the distribution of water to its customers and related financing costs, which are to be financed under a Financing Agreement dated as of January 1, 2007 (the “Financing Agreement”) between the Company and the Chester County Industrial Development Authority, a Pennsylvania body politic and corporate (the “Authority”), and which are described in Exhibit A thereto (which facilities, less any deletions therefrom and together with any additions, improvements and modifications thereto and substitutions therefore made in accordance with the provisions of the Financing Agreement are referred to as the “Facilities”), the Company has requested the Authority to issue a new series of bonds to be known as the Authority’s Water Facilities Revenue Bonds (Aqua Pennsylvania, Inc. Project), Series A of 2007 the aggregate principal amount of \$47,830,000 (the “Authority Bonds”); and

WHEREAS, the Company proposes to issue the Bonds under the provisions of Article IV of the Original Indenture, and will comply with the provisions thereof as well as with other provisions of the Original Indenture and indentures supplemental thereto in connection with the issuance of additional bonds so that it will be entitled to procure the authentication and delivery of the Bonds; and

WHEREAS, the Authority Bonds are to be issued under a Trust Indenture, dated as of January 1, 2007 (the “Authority Indenture”), between the Authority and U.S. Bank National Association, as trustee (the “Authority Trustee”); and

WHEREAS, the proceeds of the Authority Bonds are to be loaned to the Company pursuant to the terms of the Financing Agreement and the Bonds are to be issued by the Company to secure the obligation of the Company to pay to or for the account of the Authority an amount equal to the principal of, redemption premium, if any, and interest on the Authority Bonds pursuant to the Financing Agreement; and

WHEREAS, the right, title and interest of the Authority in and to the Financing Agreement and the payments thereunder and the security for such payments are to be assigned by the Authority to the Authority Trustee, and the Bonds are to be delivered by the Company on behalf of the Authority directly to the Authority Trustee, as assignee of the Authority, as security for the payment of the principal of, redemption premium, if any, and interest on, the Authority Bonds; and

WHEREAS, Article XVIII of the Original Indenture provides that the Company, when authorized by resolution of its Board of Directors, may with the Trustee enter into an indenture supplemental to the Original Indenture, which thereafter shall form a part of the Original Indenture, for the purposes, inter alia, of subjecting to the lien of the Original Indenture additional property, of defining the covenants and provisions applicable to any bonds of any series other than the 3 1/4% Series due 1971, of adding to the covenants and agreements of the Company contained in the Original Indenture other covenants and agreements thereafter to be observed by the Company, of surrendering any right or power in the Original Indenture reserved to or conferred upon the Company, and of making such provisions in regard to matters or questions arising under the Original Indenture as may be necessary or desirable and not inconsistent therewith; and

WHEREAS, the Company, by proper corporate action, has duly authorized the creation of the 5.00% Series due 2040 and the 5.00% Series due 2041 (to be issued in accordance with the terms and provisions of the Original Indenture and indentures supplemental thereto, including this Forty-first Supplemental Indenture, and to be secured by said Original Indenture and indentures supplemental thereto, including this Forty-first Supplemental Indenture) and has further duly authorized the execution, delivery and recording of this Forty-first Supplemental Indenture setting forth the terms and provisions of the 5.00% Series due 2040 and the 5.00% Series due 2041 insofar as said terms and provisions are not set forth in said Original Indenture; and

WHEREAS, the Bonds and the Trustee's certificate upon said Bonds are to be substantially in the following form, the proper amount, names of registered owners and numbers to be inserted therein, and such appropriate insertions, omissions and changes to be made therein as may be required or permitted by this Indenture to conform to any pertinent law or usage:

[Form of 5.00% Series due 2040]

No. R-1

\$23,915,000

AQUA PENNSYLVANIA, INC.

(Incorporated under the Laws of the Commonwealth
of Pennsylvania)

First Mortgage Bond, 5.00% Series Due 2040

Aqua Pennsylvania, Inc. (f/k/a known as Pennsylvania Suburban Water Company, successor by merger to Philadelphia Suburban Water Company), a corporation organized and existing under the laws of the Commonwealth of Pennsylvania (hereinafter called the "Company", which term shall include any successor corporation as defined in the Indenture hereinafter referred to), for value received, hereby promises to pay to Chester County Industrial Development Authority or its registered assigns, on the 1st day of February, 2040, at the designated office of J.P. Morgan Trust Company, National Association (hereinafter called the "Trustee") in Philadelphia, Pennsylvania, the sum of Twenty-three Million Nine Hundred Fifteen Thousand Dollars in such coin or currency of the United States of America as at the time of payment is legal tender for the payment of public and private debts and to pay interest thereon to the registered owner hereof by draft or check of the Trustee mailed to such registered owner from the interest payment date next preceding the date of the authentication of this Bond (or if this Bond is authenticated after a Record Date as defined below and on or before the succeeding interest payment date, from such succeeding interest payment date, or if this Bond is authenticated on or prior to August 1, 2007, from the date hereof) until the principal hereof shall become due and payable, at the rate of five percent (5.00%) per annum, payable semiannually in like coin or currency on the first day of February and the first day of August in each year, commencing August 1, 2007 and to pay interest on overdue principal (including any overdue required or optional prepayment of principal) and premium, if any, and, to the extent legally enforceable, on any overdue installment of interest at a rate of 5.00% per annum after maturity whether by acceleration or otherwise until paid.

The interest so payable will (except as otherwise provided in the Forty-first Supplemental Indenture referred to herein) be calculated on the basis of a 360-day year of twelve 30-day months and be paid to the person in whose name this Bond (or a Bond or Bonds in exchange for which this Bond was issued) is registered at the close of business on the fifteenth day of the calendar month next preceding the month in which the interest payment date occurs whether or not such day is a business day (a "Record Date") and principal, premium, if any, and interest on this Bond shall be paid in accordance with written payment instructions of the registered owner delivered to the Trustee on or before such record date.

This Bond is one of a duly authorized issue of bonds of the Company known as its First Mortgage Bonds, issued and to be issued without limitation as to aggregate principal amount except as set forth in the Indenture hereinafter mentioned in one or more series and equally secured (except insofar as a sinking fund or other similar fund established in accordance with the provisions of the Indenture may afford additional security for the bonds of any specific series) by an Indenture of Mortgage (herein called the "Indenture") dated as of January 1, 1941, executed by the Philadelphia Suburban Water Company (now Aqua Pennsylvania, Inc., f/k/a Pennsylvania Suburban Water Company, as successor by merger) to The Pennsylvania Company for Insurances on Lives and Granting Annuities (succeeded as trustee by J.P. Morgan Trust Company, National Association), as Trustee (the "Trustee"), to which Indenture and all indentures supplemental thereto reference is hereby made for a description of the property mortgaged and pledged, the nature and extent of the security, the rights of the holders and registered owners of the bonds and of the Trustee in respect of such security, and the terms and conditions under which the bonds are and are to be secured and may be issued under the Indenture; but neither the foregoing reference to the Indenture nor any provision of this Bond or of the Indenture or of any indenture supplemental thereto shall affect or impair the obligation of

the Company, which is absolute and unconditional, to pay at the stated or accelerated maturity herein and in the Indenture provided, the principal of and premium, if any, and interest on this Bond as herein provided. As provided in the Indenture, the bonds may be issued in series for various principal amounts, may bear different dates and mature at different times, may bear interest at different rates and may otherwise vary as in the Indenture provided or permitted. This Bond is one of the Bonds described in an indenture supplemental to said Indenture known as the "Forty-first Supplemental Indenture" dated as of January 1, 2007, and designated therein as "First Mortgage Bonds, 5.00% Series due 2040" (the "Bonds").

Concurrently herewith the Company is issuing is "First Mortgage Bonds, 5.00% Series due 2041" in the aggregate principal amount of \$23,915,000 (the "5.00% Series due 2041") and, together with the 5.00% Series due 2040, the "2007 Bonds").

To the extent permitted by and as provided in the Indenture, modifications or alterations of the Indenture, or of any indenture supplemental thereto, and of the rights and obligations of the Company and of the holders and registered owners of bonds issued and to be issued thereunder may be made with the consent of the Company by an affirmative vote of the holders and registered owners of not less than 75% in principal amount of bonds then outstanding under the Indenture and entitled to vote, at a meeting of the bondholders called and held as provided in the Indenture, and, in case one or more but less than all of the series of bonds then outstanding under the Indenture are so affected, by an affirmative vote of the holders and registered owners of not less than 75% in principal amount of bonds of any series then outstanding under the Indenture and entitled to vote on and affected by such modification or alteration, or by the written consent of the holders and registered owners of such percentages of bonds; provided, however, that no such modification or alteration shall be made which shall reduce the percentage of bonds the consent of the holders or registered owners of which is required for any such modification or alteration or which shall affect the terms of payment of the principal of or interest on the bonds, or permit the creation by the Company of any lien prior to or on a parity with the lien of the Indenture with respect to any property subject to the lien of the Indenture as a first mortgage lien thereon, or which shall affect the rights of the holders or registered owners of less than all of the bonds of any series affected thereby.

The Bonds have been issued by the Company to secure the obligation of the Company to pay to or for the account of the Authority (defined below) an amount equal to the principal, premium, if any, of, and interest on, the Authority Bonds (defined below) pursuant to the Financing Agreement (the "Financing Agreement") dated as of January 1, 2007 between the Chester County Industrial Development Authority, a Pennsylvania body politic and corporate (the "Authority"), and the Company, which Authority Bonds are being issued to finance the costs of numerous constructions, modifications, expansions, installations and replacements of the Company's water distribution, treatment and related operating systems located in the Counties of Chester, Bucks, Delaware and Montgomery in Pennsylvania and that are part of the Company's system for the distribution of water to its customers and related financing costs which are to be financed under the Financing Agreement and which are described in Exhibit A thereto (which facilities, less any deletions therefrom and together with any additions, improvements and modifications thereto and substitutions therefor made in accordance with the provisions of the Financing Agreement are referred to as the "Facilities"). The Facilities are to be financed through the sale of the Authority's Water Facilities Revenue Bonds (Aqua Pennsylvania, Inc. Project), Series A of 2007, in the aggregate principal amount of \$47,830,000 (the "Authority Bonds").

The Authority Bonds are to be issued under a Trust Indenture, dated as of January 1, 2007 (the "Authority Indenture") between the Authority and U.S. Bank National Association, as trustee (the "Authority Trustee"). The right, title and interest of the Authority in and to the Financing Agreement and the payments thereunder and the security for such payments have been assigned by the Authority to the Authority Trustee, and the Bonds have been delivered by the Company on behalf of the Authority directly to the Authority Trustee, as assignee, as security for the payment of the principal of, and premium, if any, and interest on, the Authority Bonds. The Authority Trustee may not sell, assign or otherwise transfer the Bonds except for a transfer of the entire outstanding principal amount thereof to its successor as trustee under the Authority Indenture, which successor and each subsequent successor shall hold such Authority Bonds subject to the same restriction on transfer.

In the event any Authority Bonds shall be purchased by the Company and cancelled pursuant to the Authority Indenture, Bonds corresponding in principal amount to the Authority Bonds so purchased and cancelled shall be deemed to be paid in full, and in the event and to the extent the principal of, and premium, if any, or interest on, any Authority Bonds is paid out of funds held by the Authority Trustee other than payments on Bonds, the corresponding payment of the principal of and premium, if any, or interest on, an aggregate principal amount of Bonds shall be deemed to have been satisfied.

In the event this Bond shall be deemed to have been paid in full, this Bond shall be surrendered to the Trustee for cancellation. In the event this Bond shall be deemed to have been paid in part, this Bond shall be presented to the Trustee for notation hereon of the payment of the portion of the principal hereof so deemed to have been paid.

The Bonds are redeemable only as follows:

(a) The Bonds are subject to redemption prior to maturity, at the option of the Company, on or after February 1, 2017, in whole or in part, at a redemption price of 100% of the principal amount of the Bonds to be redeemed, plus interest accrued thereon to the date fixed for redemption.

(b) The Bonds are also subject to redemption at the direction of the Company, in whole, at any time prior to maturity, at a redemption price of 100% of the principal amount of the bonds to be redeemed, plus interest accrued thereon to the date fixed for redemption, at any time the Authority Bonds are subject to extraordinary optional redemption pursuant to Section 7.01(a)(ii) of the Authority Indenture.

(c) The Bonds are also subject to special mandatory redemption at the direction of the Company, in part, prior to maturity, at a redemption price of 100% of the principal amount of the bonds to be redeemed, plus interest accrued thereon to the date fixed for redemption, at such time and in such amount as the Authority Bonds are subject to special mandatory redemption pursuant to Section 7.01(a)(iii) of the Authority Indenture.

(d) The Bonds are also subject to mandatory redemption by the Company in whole if the Trustee shall receive a written demand from the Authority Trustee for redemption of all such Bonds held by the Authority Trustee stating that an "Event of Default" as defined in Section 9.01(a) of the Authority Indenture has occurred and is continuing and that payment of the principal of the Authority Bonds has been accelerated pursuant to Section 9.01(b) of the Authority Indenture, provided that at the time of notice of such redemption as provided in Section 2 of Article V of the Original Indenture (i) said written demand shall not have been withdrawn by the Authority Trustee, and (ii) no event of default under Section 1 of Article XI of the Original Indenture shall have occurred and be continuing.

If this Bond or any portion hereof is called for redemption and payment thereof is duly provided for as specified in the Indenture, interest shall cease to accrue hereon or on such portion, as the case may be, from and after the date fixed for redemption.

The principal hereof may be declared or may become due prior to its maturity date on the conditions, in the manner and with the effect set forth in the Indenture upon the happening of an event of default, as in the Indenture provided; subject, however, to the right, under certain circumstances, of the registered owners of a majority in principal amount of Bonds outstanding to annul such declaration.

This Bond is transferable by the registered owner hereof in person or by attorney duly authorized in writing, on books of the Company to be kept for that purpose at the designated office of the Trustee in Philadelphia, Pennsylvania upon surrender hereof for cancellation at such office and upon presentation of a written instrument of transfer duly executed, and thereupon the Company shall issue in the name of the transferee or transferees, and the Trustee shall authenticate and deliver, a new Bond or Bonds in authorized denominations, of equal aggregate unpaid principal amount. Any such transfer or exchange shall be subject to the terms and conditions and to the payment of the charges specified in the Indenture.

The Company and the Trustee may deem and treat the registered owner of this Bond as the absolute owner hereof for the purpose of receiving payment of or on account of the principal hereof and the interest hereon, and for all other purposes, and shall not be affected by any notice to the contrary.

No recourse shall be had for the payment of the principal of or interest on this Bond or for any claim based hereon or otherwise in respect hereof or of the Indenture or of any indenture supplemental thereto against any incorporator or any past, present or future stockholder, officer or director of the Company or of any predecessor or successor corporation, as such, either directly or through the Company or through any such predecessor or successor corporation or through any receiver or trustee in bankruptcy, by virtue of any constitutional provision, statute or rule of law or equity, or by the enforcement of any assessment or penalty or otherwise; all such liability being, by the acceptance hereof and as part of the consideration for the issue hereof, expressly waived and released by every holder or registered owner hereof, as more fully provided in the Indenture.

This Bond shall not be entitled to any benefit under the Indenture or any indenture supplemental thereto, or become valid or obligatory for any purpose, until J.P. Morgan Trust Company, National Association, as Trustee under the Indenture, or a successor trustee thereunder, shall have signed the certificate of authentication endorsed hereon.

IN WITNESS WHEREOF, Aqua Pennsylvania, Inc. has caused this Bond to be signed by its President or a Vice President and its corporate seal to be hereto affixed and attested by its Secretary or an Assistant Secretary, and this Bond to be dated January 16, 2007.

Attest:

AQUA PENNSYLVANIA, INC.

(Assistant) Secretary

By: _____
Vice President and Treasurer

(Form of Trustee's Certificate)

This Bond is one of the Bonds, of the series designated therein, referred to in the within-mentioned Forty-first Supplemental Indenture.

J.P. MORGAN TRUST COMPANY,
NATIONAL ASSOCIATION
as Trustee

By: The Bank of New York
Attorney-in-fact

By: _____
Authorized Signer

[Form of 5.00% Series due 2041]

No. R-1

\$23,915,000

AQUA PENNSYLVANIA, INC.

(Incorporated under the Laws of the Commonwealth
of Pennsylvania)

First Mortgage Bond, 5.00% Series Due 2041

Aqua Pennsylvania, Inc. (f/k/a known as Pennsylvania Suburban Water Company, successor by merger to Philadelphia Suburban Water Company), a corporation organized and existing under the laws of the Commonwealth of Pennsylvania (hereinafter called the "Company", which term shall include any successor corporation as defined in the Indenture hereinafter referred to), for value received, hereby promises to pay to Chester County Industrial Development Authority or its registered assigns, on the 1st day of February, 2041, at the designated office of J.P. Morgan Trust Company, National Association (hereinafter called the "Trustee") in Philadelphia, Pennsylvania, the sum of Twenty-three Million Nine Hundred Fifteen Thousand Dollars in such coin or currency of the United States of America as at the time of payment is legal tender for the payment of public and private debts and to pay interest thereon to the registered owner hereof by draft or check of the Trustee mailed to such registered owner from the interest payment date next preceding the date of the authentication of this Bond (or if this Bond is authenticated after a Record Date as defined below and on or before the succeeding interest payment date, from such succeeding interest payment date, or if this Bond is authenticated on or prior to August 1, 2007, from the date hereof) until the principal hereof shall become due and payable, at the rate of five percent (5.00%) per annum, payable semiannually in like coin or currency on the first day of February and the first day of August in each year, commencing August 1, 2007 and to pay interest on overdue principal (including any overdue required or optional prepayment of principal) and premium, if any, and, to the extent legally enforceable, on any overdue installment of interest at a rate of 5.00% per annum after maturity whether by acceleration or otherwise until paid.

The interest so payable will (except as otherwise provided in the Forty-first Supplemental Indenture referred to herein) be calculated on the basis of a 360-day year of twelve 30-day months and be paid to the person in whose name this Bond (or a Bond or Bonds in exchange for which this Bond was issued) is registered at the close of business on the fifteenth day of the calendar month next preceding the month in which the interest payment date occurs whether or not such day is a business day (a "Record Date") and principal, premium, if any, and interest on this Bond shall be paid in accordance with written payment instructions of the registered owner delivered to the Trustee on or before such record date.

This Bond is one of a duly authorized issue of bonds of the Company known as its First Mortgage Bonds, issued and to be issued without limitation as to aggregate principal amount except as set forth in the Indenture hereinafter mentioned in one or more series and equally secured (except insofar as a sinking fund or other similar fund established in accordance with the provisions of the Indenture may afford additional security for the bonds of any specific series) by an Indenture of Mortgage (herein called the "Indenture") dated as of January 1, 1941, executed by the Philadelphia Suburban Water Company (now Aqua Pennsylvania, Inc., f/k/a Pennsylvania Suburban Water Company, as successor by merger) to The Pennsylvania Company for Insurances on Lives and Granting Annuities (succeeded as trustee by J.P. Morgan Trust Company, National Association), as Trustee (the "Trustee"), to which Indenture and all indentures supplemental thereto reference is hereby made for a description of the property mortgaged and pledged, the nature and extent of the security, the rights of the holders and registered owners of the bonds and of the Trustee in respect of such security, and the terms and conditions under which the bonds are and are to be secured and may be issued under the Indenture; but neither the foregoing reference to the Indenture nor any provision of this Bond or of the Indenture or of any indenture supplemental thereto shall affect or impair the obligation of the Company, which is absolute and unconditional, to pay at the stated or accelerated maturity herein and in the Indenture provided, the principal of and premium, if any, and interest on this Bond as herein provided. As provided in the Indenture, the bonds may be issued in series for

various principal amounts, may bear different dates and mature at different times, may bear interest at different rates and may otherwise vary as in the Indenture provided or permitted. This Bond is one of the Bonds described in an indenture supplemental to said Indenture known as the "Forty-first Supplemental Indenture" dated as of January 1, 2007, and designated therein as "First Mortgage Bonds, 5.00% Series due 2041" (the "Bonds").

Concurrently herewith the Company is issuing is "First Mortgage Bonds, 5.00% Series due 2040" in the aggregate principal amount of \$23,915,000 (the "5.00% Series due 2040") and, together with the 5.00% Series due 2041, the "2007 Bonds").

To the extent permitted by and as provided in the Indenture, modifications or alterations of the Indenture, or of any indenture supplemental thereto, and of the rights and obligations of the Company and of the holders and registered owners of bonds issued and to be issued thereunder may be made with the consent of the Company by an affirmative vote of the holders and registered owners of not less than 75% in principal amount of bonds then outstanding under the Indenture and entitled to vote, at a meeting of the bondholders called and held as provided in the Indenture, and, in case one or more but less than all of the series of bonds then outstanding under the Indenture are so affected, by an affirmative vote of the holders and registered owners of not less than 75% in principal amount of bonds of any series then outstanding under the Indenture and entitled to vote on and affected by such modification or alteration, or by the written consent of the holders and registered owners of such percentages of bonds; provided, however, that no such modification or alteration shall be made which shall reduce the percentage of bonds the consent of the holders or registered owners of which is required for any such modification or alteration or which shall affect the terms of payment of the principal of or interest on the bonds, or permit the creation by the Company of any lien prior to or on a parity with the lien of the Indenture with respect to any property subject to the lien of the Indenture as a first mortgage lien thereon, or which shall affect the rights of the holders or registered owners of less than all of the bonds of any series affected thereby.

The Bonds have been issued by the Company to secure the obligation of the Company to pay to or for the account of the Authority (defined below) an amount equal to the principal, premium, if any, of, and interest on, the Authority Bonds (defined below) pursuant to the Financing Agreement (the "Financing Agreement") dated as of January 1, 2007 between the Chester County Industrial Development Authority, a Pennsylvania body politic and corporate (the "Authority"), and the Company, which Authority Bonds are being issued to finance the costs of numerous constructions, modifications, expansions, installations and replacements of the Company's water distribution, treatment and related operating systems located in the Counties of Chester, Bucks, Delaware and Montgomery in Pennsylvania and that are part of the Company's system for the distribution of water to its customers and related financing costs which are to be financed under the Financing Agreement and which are described in Exhibit A thereto (which facilities, less any deletions therefrom and together with any additions, improvements and modifications thereto and substitutions therefor made in accordance with the provisions of the Financing Agreement are referred to as the "Facilities"). The Facilities are to be financed through the sale of the Authority's Water Facilities Revenue Bonds (Aqua Pennsylvania, Inc. Project), Series A of 2007, in the aggregate principal amount of \$47,830,000 (the "Authority Bonds").

The Authority Bonds are to be issued under a Trust Indenture, dated as of January 1, 2007 (the "Authority Indenture") between the Authority and U.S. Bank National Association, as trustee (the "Authority Trustee"). The right, title and interest of the Authority in and to the Financing Agreement and the payments thereunder and the security for such payments have been assigned by the Authority to the Authority Trustee, and the Bonds have been delivered by the Company on behalf of the Authority directly to the Authority Trustee, as assignee, as security for the payment of the principal of, and premium, if any, and interest on, the Authority Bonds. The Authority Trustee may not sell, assign or otherwise transfer the Bonds except for a transfer of the entire outstanding principal amount thereof to its successor as trustee under the Authority Indenture, which successor and each subsequent successor shall hold such Authority Bonds subject to the same restriction on transfer.

In the event any Authority Bonds shall be purchased by the Company and cancelled pursuant to the Authority Indenture, Bonds corresponding in principal amount to the Authority Bonds so purchased and cancelled shall be deemed to be paid in full, and in the event and to the extent the principal of, and premium, if any, or interest on, any Authority Bonds is paid out of funds held by the Authority Trustee other than payments on Bonds, the corresponding payment of the principal of and premium, if any, or interest on, an aggregate principal amount of Bonds shall be deemed to have been satisfied.

In the event this Bond shall be deemed to have been paid in full, this Bond shall be surrendered to the Trustee for cancellation. In the event this Bond shall be deemed to have been paid in part, this Bond shall be presented to the Trustee for notation hereon of the payment of the portion of the principal hereof so deemed to have been paid.

The Bonds are redeemable only as follows:

(e) The Bonds are subject to redemption prior to maturity, at the option of the Company, on or after February 1, 2017, in whole or in part, at a redemption price of 100% of the principal amount of the Bonds to be redeemed, plus interest accrued thereon to the date fixed for redemption.

(f) The Bonds are also subject to redemption at the direction of the Company, in whole, at any time prior to maturity, at a redemption price of 100% of the principal amount of the bonds to be redeemed, plus interest accrued thereon to the date fixed for redemption, at any time the Authority Bonds are subject to extraordinary optional redemption pursuant to Section 7.01(a)(ii) of the Authority Indenture.

(g) The Bonds are also subject to special mandatory redemption at the direction of the Company, in part, prior to maturity, at a redemption price of 100% of the principal amount of the bonds to be redeemed, plus interest accrued thereon to the date fixed for redemption, at such time and in such amount as the Authority Bonds are subject to special mandatory redemption pursuant to Section 7.01(a)(iii) of the Authority Indenture.

(h) The Bonds are also subject to mandatory redemption by the Company in whole if the Trustee shall receive a written demand from the Authority Trustee for redemption of all such Bonds held by the Authority Trustee stating that an "Event of Default" as defined in Section 9.01(a) of the Authority Indenture has occurred and is continuing and that payment of the principal of the Authority Bonds has been accelerated pursuant to Section 9.01(b) of the Authority Indenture, provided that at the time of notice of such redemption as provided in Section 2 of Article V of the Original Indenture (i) said written demand shall not have been withdrawn by the Authority Trustee, and (ii) no event of default under Section 1 of Article XI of the Original Indenture shall have occurred and be continuing.

If this Bond or any portion hereof is called for redemption and payment thereof is duly provided for as specified in the Indenture, interest shall cease to accrue hereon or on such portion, as the case may be, from and after the date fixed for redemption.

The principal hereof may be declared or may become due prior to its maturity date on the conditions, in the manner and with the effect set forth in the Indenture upon the happening of an event of default, as in the Indenture provided; subject, however, to the right, under certain circumstances, of the registered owners of a majority in principal amount of Bonds outstanding to annul such declaration.

This Bond is transferable by the registered owner hereof in person or by attorney duly authorized in writing, on books of the Company to be kept for that purpose at the designated office of the Trustee in Philadelphia, Pennsylvania upon surrender hereof for cancellation at such office and upon presentation of a written instrument of transfer duly executed, and thereupon the Company shall issue in the name of the transferee or transferees, and the Trustee shall authenticate and deliver, a new Bond or Bonds in authorized denominations, of equal aggregate unpaid principal amount. Any such transfer or exchange shall be subject to the terms and conditions and to the payment of the charges specified in the Indenture.

The Company and the Trustee may deem and treat the registered owner of this Bond as the absolute owner hereof for the purpose of receiving payment of or on account of the principal hereof and the interest hereon, and for all other purposes, and shall not be affected by any notice to the contrary.

No recourse shall be had for the payment of the principal of or interest on this Bond or for any claim based hereon or otherwise in respect hereof or of the Indenture or of any indenture supplemental thereto against any incorporator or any past, present or future stockholder, officer or director of the Company or of any predecessor or successor corporation, as such, either directly or through the Company or through any such predecessor or successor corporation or through any receiver or trustee in bankruptcy, by virtue of any constitutional provision, statute or rule of law or equity, or by the enforcement of any assessment or penalty or otherwise; all such liability being, by the acceptance hereof and as part of the consideration for the issue hereof, expressly waived and released by every holder or registered owner hereof, as more fully provided in the Indenture.

This Bond shall not be entitled to any benefit under the Indenture or any indenture supplemental thereto, or become valid or obligatory for any purpose, until J.P. Morgan Trust Company, National Association, as Trustee under the Indenture, or a successor trustee thereunder, shall have signed the certificate of authentication endorsed hereon.

IN WITNESS WHEREOF, Aqua Pennsylvania, Inc. has caused this Bond to be signed by its President or a Vice President and its corporate seal to be hereto affixed and attested by its Secretary or an Assistant Secretary, and this Bond to be dated January 16, 2007.

Attest:

AQUA PENNSYLVANIA, INC.

(Assistant) Secretary

By: _____
Vice President and Treasurer

(Form of Trustee's Certificate)

This Bond is one of the Bonds, of the series designated therein, referred to in the within-mentioned Forty-first Supplemental Indenture.

J.P. MORGAN TRUST COMPANY,
NATIONAL ASSOCIATION
as Trustee

By: The Bank of New York
Attorney-in-fact

By: _____
Authorized Signer

and;

WHEREAS, all acts and things necessary to make the Bonds, when executed by the Company and authenticated and delivered by the Trustee as in this Forty-first Supplemental Indenture provided and issued by the Company, valid, binding and legal obligations of the Company, and this Forty-first Supplemental Indenture a valid and enforceable supplement to said Original Indenture, have been done, performed and fulfilled, and the execution of this Forty-first Supplemental Indenture has been in all respects duly authorized; and

NOW, THEREFORE, THIS FORTY-FIRST SUPPLEMENTAL INDENTURE WITNESSETH: That, in order to secure the payment of the principal and interest of all bonds issued under the Original Indenture and all indentures supplemental thereto, according to their tenor and effect, and according to the terms of the Original Indenture and of any indenture supplemental thereto, and to secure the performance of the covenants and obligations in said bonds and in the Original Indenture and any indenture supplemental thereto respectively contained, and to provide for the proper issuing, conveying and confirming unto the Trustee, its successors in said trust and its and their assigns forever, upon the trusts and for the purposes expressed in the Original Indenture and in any indenture supplemental thereto, all and singular the estates, property and franchises of the Company thereby mortgaged or intended so to be, the

Company, for and in consideration of the premises and of the sum of One Dollar (\$1.00) in hand paid by the Trustee to the Company upon the execution and delivery of this Forty-first Supplemental Indenture, receipt whereof is hereby acknowledged, and of other good and valuable consideration, and intending to be legally bound, has granted, bargained, sold, aliened, enfeoffed, released and confirmed and by these presents does grant, bargain, sell, alien, enfeoff, release and confirm unto J.P. Morgan Trust Company, National Association, as Trustee, and to its successors in said trust and its and their assigns forever:

All and singular the premises, property, assets, rights and franchises of the Company, whether now or hereafter owned, constructed or acquired, of whatever character and wherever situated (except as herein expressly excepted), including among other things the following, but reference to or enumeration of any particular kinds, classes, or items of property shall not be deemed to exclude from the operation and effect of the Original Indenture or any indenture supplemental thereto any kind, class or item not so referred to or enumerated:

I.

REAL ESTATE AND WATER RIGHTS.

The real estate described in the deeds from the grantors named in Exhibit C hereto, dated and recorded as therein set forth, and any other real estate and water rights acquired since the date of the Fortieth Supplemental Indenture.

II.

BUILDINGS AND EQUIPMENT.

All mains, pipes, pipe lines, service pipes, buildings, improvements, standpipes, reservoirs, wells, flumes, sluices, canals, basins, cribs, machinery, conduits, hydrants, water works, plants and systems, tanks, shops, structures, purification systems, pumping stations, fixtures, engines, boilers, pumps, meters and equipment which are now owned or may hereafter be acquired by the Company (except as herein expressly excepted), including all improvements, additions and extensions appurtenant to any real or fixed property now or hereafter subject to the lien of the Original Indenture or any indenture supplemental thereto which are used or useful in connection with the business of the Company as a water company or as a water utility, whether any of the foregoing property is now owned or may hereafter be acquired by the Company.

It is hereby declared by the Company that all property of the kinds described in the next preceding paragraph, whether now owned or hereafter acquired, has been or is or will be owned or acquired with the intention of using the same in carrying on the business or branches of the business of the Company, and it is hereby declared that it is the intention of the Company that all thereof (except property hereinafter specifically excepted) shall be subject to the lien of the Original Indenture.

It is agreed by the Company that so far as may be permitted by law, tangible personal property now owned or hereafter acquired by the Company, except such as is hereafter expressly excepted from the lien hereof, shall be deemed to be and construed as fixtures and appurtenances to the real property of the Company.

III.

FRANCHISES AND RIGHTS OF WAY.

All the corporate and other franchises of the Company, all water and flowage rights, riparian rights, easements and rights of way, and all permits, licenses, rights, grants, privileges and immunities, and all renewals, extensions, additions or modifications of any of the foregoing, whether the same or any thereof, or any renewals, extensions, additions or modifications thereof, are now owned or may hereafter be acquired, owned, held, or enjoyed by the Company.

IV.

AFTER ACQUIRED PROPERTY.

All real and fixed property and all other property of the character hereinabove described which the Company may hereafter acquire.

TOGETHER WITH all and singular the tenements, hereditaments and appurtenances belonging or in any way appertaining to the aforesaid property or any part thereof, with the reversion and reversions, remainder and remainders, tolls, rents, revenues, issues, income, product and profits thereof, and all the estate, right, title, interest and claim whatsoever, at law as well as in equity, which the Company now has or may hereafter acquire in and to the aforesaid premises, property, rights and franchises and every part and parcel thereof.

EXCEPTING AND RESERVING, HOWEVER, certain premises, not used or useful in the supplying of water by the Company, expressly excepted and reserved from the lien of the Original Indenture and not subject to the terms thereof.

AND ALSO SAVING AND EXCEPTING from the property hereby mortgaged and pledged, all of the following property (whether now owned by the Company or hereafter acquired by it): All bills, notes and accounts receivable, cash on hand and in banks, contracts, choses in action and leases to others (as distinct from the property leased and without limiting any rights of the Trustee with respect thereto under any of the provisions of the Original Indenture or of any indenture supplemental thereto), all bonds, obligations, evidences of indebtedness, shares of stock and other securities, and certificates or evidences of interest therein, all automobiles, motor trucks, and other like automobile equipment and all furniture, and all equipment, materials, goods, merchandise and supplies acquired for the purpose of sale in the ordinary course of business or for consumption in the operation of any properties of the Company other than any of the foregoing which may be specifically transferred or assigned to or pledged or deposited with the Trustee hereunder or required by the provisions of the Original Indenture or any indenture supplemental thereto so to be; provided, however, that if, upon the happening of a completed default, as specified in Section 1 of Article XI of the Original Indenture, the Trustee or any receiver appointed hereunder shall enter upon and take possession of the mortgaged property, the Trustee or any such receiver may, to the extent permitted by law, at the same time likewise take possession of any and all of the property described in this paragraph then on hand and any and all other property of the Company then on hand, not described or referred to in the foregoing granting clauses, which is used or useful in connection with the business of the Company as a water company or as a water utility, and use and administer the same to the same extent as if such property were part of the mortgaged property, unless and until such completed default shall be remedied or waived and possession of the mortgaged property restored to the Company, its successors or assigns.

SUBJECT, HOWEVER, to the exceptions, reservations and matters hereinabove and in the Original Indenture recited, to releases executed since the date of the Original Indenture in accordance with the provisions thereof, to existing leases, to easements and rights of way for pole lines and electric transmission lines and other similar encumbrances and restrictions which the Company hereby certifies, in its judgment, do not impair the use of said property by the Company in its business, to liens existing on or claims against, and rights in and relating to, real estate acquired for right-of-way purposes, to taxes and assessments not delinquent, to alleys, streets and highways that may run across or encroach upon said lands, to liens, if any, incidental to construction, and to Permitted Liens, as defined in the Original Indenture; and, with respect to any property which the Company may hereafter acquire, to all terms, conditions, agreements, covenants, exceptions and reservations expressed or provided in such deeds and other instruments, respectively, under and by virtue of which the Company shall hereafter acquire the same and to any and all liens existing thereon at the time of such acquisition.

TO HAVE AND TO HOLD, all and singular the property, rights, privileges and franchises hereby conveyed, transferred or pledged or intended so to be unto the Trustee and its successors in the trust heretofore and hereby created, and its and their assigns forever.

IN TRUST NEVERTHELESS, for the equal pro rata benefit and security of each and every entity who may be or become the holders of bonds and coupons secured by the Original Indenture or by any indenture supplemental thereto, or both, without preference, priority or distinction as to lien or otherwise of any bond or coupon over or from any other bond or coupon, so that each and every of said bonds and coupons issued or to be issued, of whatsoever series, shall have the same right, lien and privilege under the Original Indenture and all indentures supplemental thereto and shall be equally secured hereby and thereby, with the same effect as if said bonds and coupons had all been made, issued and negotiated simultaneously on the date thereof; subject, however, to the provisions with reference to extended, transferred or pledged coupons and claims for interest contained in the Original Indenture and subject to any sinking or improvement fund or maintenance deposit provisions, or both, for the benefit of any particular series of bonds.

IT IS HEREBY COVENANTED, DECLARED AND AGREED, by and between the parties hereto, that all such bonds and coupons are to be authenticated, delivered and issued, and that all property subject or to become subject hereto is to be held subject to the further covenants, conditions, uses and trusts hereinafter set forth, and the Company, for itself and its successors and assigns, does hereby covenant and agree to and with the Trustee and its successor or successors in said trust, for the benefit of those who shall hold said bonds and coupons, or any of them, issued under this Indenture or any indenture supplemental hereto, or both, as follows:

ARTICLE I.
Form, Authentication and Delivery of the Bonds; Redemption Provisions

SECTION 1. There shall be a forty-ninth series of bonds, limited in aggregate principal amount to \$23,915,000 designated as "Aqua Pennsylvania, Inc., First Mortgage Bonds, 5.00% Series due 2040" and a fiftieth series of bonds, limited in aggregate principal amount to \$23,915,000 designated as "Aqua Pennsylvania, Inc., First Mortgage Bonds, 5.00% Series due 2041".

Interest on the Bonds shall be payable semiannually on February 1 and August 1 of each year (each an "interest payment date"), commencing August 1, 2007. Each Bond shall be dated the date of its authentication and shall bear interest from the interest payment date next preceding the date of the authentication of such Bond (or if such Bond is authenticated after a Record Date as defined below and on or before the succeeding interest payment date, from such succeeding interest payment date, or if such Bond is authenticated on or prior to the record date for the first interest payment date for the Bonds, in which case it shall bear interest from the date of original issuance of the Bonds); provided, however, that, if at the time of authentication of any Bond, interest on the predecessor Bond of such Bond is in default, such Bond shall bear interest from the date to which interest has been paid, or, if no interest has been paid, from the date of original issuance thereof. The 5.00% Series due 2040 shall be stated to mature (subject to the right of earlier redemption at the prices and dates and upon the terms and conditions hereinafter set forth) on February 1, 2040 and shall bear interest at the rate of 5.00%. The 5.00% Series due 2041 shall be stated to mature (subject to the right of earlier redemption at the prices and dates and upon the terms and conditions hereinafter set forth) on February 1, 2041 and shall bear interest at the rate of 5.00%.

The Bonds of each series shall be issuable only as registered bonds without coupons, shall be in the form hereinabove recited, in the denomination of Five Thousand Dollars (\$5,000) or any integral multiple thereof, shall be lettered "R-1" and shall bear such numbers as the Company may reasonably require.

The principal of, and interest on the Bonds shall be payable at the designated office of the trustee in Philadelphia, Pennsylvania, and shall be payable, along with interest on the Bonds, in such coin or currency of the United States of America as at the time of payment is legal tender for the payment of public and private debts; each installment of interest shall be paid by check to the order of the person entitled thereto, mailed to such person's address as the same appears on the books maintained for such purpose by or on behalf of the Company, or by bank wire transfer of immediately available funds pursuant to instructions and conditions incorporated in an agreement between such person and the Trustee or the Company.

The person in whose name any Bond is registered at the close of business on any Record Date (as hereinafter defined) with respect to any interest payment date shall be entitled to receive the interest payable on such interest payment date notwithstanding the cancellation of such Bond upon any transfer or exchange subsequent to the Record Date and prior to such interest payment date; provided, however, that if and to the extent the Company shall default in the payment of the interest due on such interest payment date, such defaulted interest shall be paid to the persons in whose names outstanding Bonds are registered at the close of business on a subsequent Record Date established by notice given by mail by or on behalf of the Company to the holders of Bonds not less than fifteen days preceding such subsequent Record Date, such Record Date to be not less than ten days preceding the date of payment of such defaulted interest.

The term "Record Date" with respect to any regular interest payment date shall mean the fifteenth day of the calendar month next preceding the month in which such interest payment date occurs.

The Bonds are being issued by the Company to secure the obligation of the Company to pay to or for the account of the Authority an amount equal to the principal of, at maturity or earlier redemption, and interest on, the Authority Bonds pursuant to the Financing Agreement. The Authority Bonds are being sold to finance the Facilities.

The Authority Bonds are to be issued under the Authority Indenture and the right, title and interest of the Authority in and to the Financing Agreement and the payments thereunder and the security for such payments have been assigned by the Authority to the Authority Trustee, and the Bonds are to be delivered by the Company on behalf of the Authority directly to the Authority Trustee, as assignee, as security for the payment of the principal of, at maturity or earlier redemption, and premium, if any, and interest on, the Authority Bonds. The Authority Trustee may not sell, assign or otherwise transfer the Bonds except for a transfer of the entire outstanding principal amount thereof to its successor as Trustee under the Authority Indenture, which successor and each subsequent successor shall hold the Bonds subject to the same restriction on transfer.

The text of the Bonds and of the certificate of the Trustee upon such Bonds shall be, respectively, substantially of the tenor and effect hereinbefore recited.

Exchange of any Bonds shall be effected in accordance with the applicable provisions of Sections 7, 8 and 9 of Article II of the Original Indenture.

SECTION 2. The Bonds are redeemable only as follows:

(a) The 5.00% Series due 2040 are subject to redemption prior to maturity on or after February 1, 2017 by the Company, to the extent that the Authority Bonds are called for redemption under Section 7.01(a)(i) of the Authority Indenture, and then out of moneys deposited with or held by the Trustee for such purpose, as a whole or in part, at any time in the manner described below, at the redemption price of one hundred percent (100%) of the principal amount to be redeemed, plus interest accrued thereon to the date fixed for redemption;

(b) The 5.00% Series due 2041 are subject to redemption prior to maturity on or after February 1, 2017 by the Company, to the extent that the Authority Bonds are called for redemption under Section 7.01(a)(i) of the Authority Indenture, and then out of moneys deposited with or held by the Trustee for such purpose, as a whole or in part, at any time in the manner described below, at the redemption price of one hundred percent (100%) of the principal amount to be redeemed, plus interest accrued thereon to the date fixed for redemption;

(c) The 5.00% Series due 2040 are subject to redemption at the direction of the Company, in whole, at any time prior to maturity, at a redemption price of 100% of the principal amount to be redeemed, plus interest accrued thereon to the date fixed for redemption, at any time the Authority Bonds maturing February 1, 2040 are subject to extraordinary optional redemption pursuant to Section 7.01(a)(ii) of the Authority Indenture;

(d) The 5.00% Series due 2041 are subject to redemption at the direction of the Company, in whole, at any time prior to maturity, at a redemption price of 100% of the principal amount to be redeemed, plus interest accrued thereon to the date fixed for redemption, at any time the Authority Bonds maturing February 1, 2041 are subject to extraordinary optional redemption pursuant to Section 7.01(a)(ii) of the Authority Indenture;

(e) The 5.00% Series due 2040 are also subject to special mandatory redemption at the direction of the Company, in part, prior to maturity, at a redemption price of 100% of the principal amount of the bonds to be redeemed, plus interest accrued thereon to the date fixed for redemption, at such time and in such amount as the Authority Bonds maturing February 1, 2040 are subject to special mandatory redemption pursuant to Section 7.01(a)(iii) of the Authority Indenture.

(f) The 5.00% Series due 2041 are also subject to special mandatory redemption at the direction of the Company, in part, prior to maturity, at a redemption price of 100% of the principal amount of the bonds to be redeemed, plus interest accrued thereon to the date fixed for redemption, at such time and in such amount as the Authority Bonds maturing February 1, 2041 are subject to special mandatory redemption pursuant to Section 7.01(a)(iii) of the Authority Indenture.

(g) The 5.00% Series due 2040 and the 5.00% Series due 2041 are also subject to mandatory redemption by the Company in whole if the Trustee shall receive a written demand from the Authority Trustee for redemption of all such Bonds held by the Authority Trustee stating that an "Event of Default" as defined in Section 9.01(a) of the Authority Indenture has occurred and is continuing and that payment of the principal of the Authority Bonds has been accelerated pursuant to Section 9.01(b) of the Authority Indenture, provided that at the time of notice of such redemption as provided in Section 2 of Article V of the Original Indenture (i) said written demand shall not have been withdrawn by the Authority Trustee, and (ii) no event of default under Section 1 of Article XI of the Original Indenture shall have occurred and be continuing.

SECTION 3. Any redemption of the Bonds shall be effected in accordance with the provisions of Article V of the Original Indenture.

SECTION 4. In the event any Authority Bonds shall be purchased by the Company, surrendered by the Company to the Authority Trustee for cancellation and cancelled by the Authority Trustee, Bonds corresponding in principal amount to the Authority Bonds so purchased, surrendered and cancelled shall be deemed to have been paid in full.

SECTION 5. In the event and to the extent the principal of and premium, if any, or interest on, any Authority Bonds is paid out of funds held by the Authority Trustee other than payments of Bonds, the corresponding payment of the principal of, and premium, if any, or interest on, an aggregate principal amount of Bonds equal to the aggregate principal amount of such Authority Bonds shall be deemed to have been satisfied.

SECTION 6. All Bonds deemed to have been paid in full as provided in Section 4 and 5 of this Article I of this Forty-first Supplemental Indenture shall be surrendered to the Trustee for cancellation, and the Trustee shall forthwith cancel the same and, in accordance with applicable laws and regulations and the Trustee's policies and procedures, and on the written request of the Company, deliver the same to the Company. In case part of an outstanding Bond shall be deemed to have been partially paid as provided in said Section 4 or Section 5, upon presentation of such Bond at the designated office of the Trustee, the Trustee shall make a notation thereon of the payment of the portion of the principal amount of such Bond so deemed to have been paid unless the registered owner shall elect to surrender such Bond to the Trustee, in which case the Company shall execute and the Trustee shall authenticate and deliver, without charge to the registered owner, Bonds in such authorized denominations as shall be specified by the registered owner for the unpaid balance of the principal amount of such outstanding Bond.

SECTION 7. The 5.00% Series due 2040 in the aggregate principal amount of \$23,915,000 and the 5.00% Series due 2041 in the aggregate principal amount of \$23,915,000 may be issued under the provisions of Article IV of the Original Indenture and may forthwith be executed by the Company and delivered to the Trustee and shall be authenticated by the Trustee and delivered to or upon the order of the Company, upon receipt by the Trustee of the resolutions, certificates, opinions or other instruments or all of the foregoing required to be delivered upon the issue of bonds pursuant to the provisions of the Original Indenture.

ARTICLE II.

Maintenance or Improvement Deposit.

SECTION 1. The Company covenants that it will deposit with the Trustee on or before the March 1 next occurring after the bonds of the 9.89% Series due 2008 cease to be outstanding, or on or before the March 1 next occurring after the bonds of the 9.93% Series due 2013 cease to be outstanding, or on or before the next March 1 next occurring after the bonds of the 9.97% Series due 2018 cease to be outstanding, or on or before the March 1 next occurring after the bonds of the 9.12% Series due 2010 cease to be outstanding, or on or before the March 1 next occurring after the bonds of the 9.29% Series due 2026 cease to be outstanding, or on or before the March 1 next occurring after the bonds of the 9.17% Series due 2021 cease to be outstanding, or on or before the next March 1 next occurring after the bonds of the 9.17% Series due 2011 cease to be outstanding, or on or before the March 1 next occurring after the bonds of the 7.15% Series due 2008 cease to be outstanding, or on or before the March 1 next occurring after the bonds of any of the Subseries of the 1995 Medium Term Note Series issued under the Twenty-Ninth Supplemental Indenture (consisting of the 7.72% Subseries A due 2025 and the 6.89% Subseries C due 2015) shall cease to be outstanding, or on or before the March 1 next occurring after the bonds of any of the Subseries of the 1997 Medium Term Note Series issued under the Thirty-First Supplemental Indenture (consisting of the 6.75% Subseries A due 2007 and the 6.14% Subseries C due 2008) cease to be outstanding, or on or before March 1 next occurring after the bonds of 6.00% Series due 2029 cease to be outstanding, or on or before March 1 next occurring after the bonds of any of the Subseries of the 1999 Medium Term Note Series issued under the Thirty-Third Supplemental Indenture (consisting of the 6.21% Series due 2011, the 9.53% Subseries D due 2019, the 8.26% Subseries F due 2022, the 9.22% Subseries H due 2019, the 8.32% Subseries I due 2022, the 8.14% Subseries J due 2025, the 6.00% Subseries K due 2030, the 5.93% Subseries L due 2012, the 3.461% Subseries N due 2007, the 5.08% Subseries O due 2015, the 5.17% Subseries P due 2017, the 5.751% Subseries Q due 2019, the 5.751% Subseries R due 2019, the 6.06% Subseries S due 2027, the 6.06% Subseries T due 2027

and the 5.98% Subseries U due 2028) cease to be outstanding, or on or before March 1 next occurring after the bonds of the 5.35% Series due 2031 cease to be outstanding, or on or before March 1 next occurring after the bonds of the 5.55% Series due 2032 cease to be outstanding, or on or before March 1 next occurring after the bonds of the 3.75% Series due 2010 cease to be outstanding, or on or before March 1 next occurring after the bonds of the 5.15% Series due 2032 cease to be outstanding, or on or before March 1 next occurring after the bonds of the 5.05% Series due 2039 cease to be outstanding, or on or before March 1 next occurring after the bonds of the 5.00% Series due 2036 cease to be outstanding, or on or before March 1 next occurring after the bonds of the 5.00% Series due 2037 cease to be outstanding, or on or before March 1 next occurring after the bonds of the 5.00% Series due 2038 cease to be outstanding, or on or before March 1 next occurring after the bonds of the 5.00% Series due 2035 cease to be outstanding, whichever is latest, an amount in cash (the "Maintenance or Improvement Deposit") equal to 9% of the Gross Operating Revenues of the Company during the preceding calendar year less, to the extent that the Company desires to take such credits, the following:

(a) the amount actually expended for maintenance during such calendar year; and

(b) the Cost or Fair Value, whichever is less, of Permanent Additions acquired during such calendar year which at the time of taking such credit constitute Available Permanent Additions; and

(c) the unapplied balance, or any part thereof, of the Cost or Fair Value, whichever is less, of Available Permanent Additions acquired by the Company during the five calendar years preceding such calendar year and specified in the Officers' Certificates delivered to the Trustee pursuant to Section 2 of this Article, but only to the extent that the Permanent Additions with respect to which such Cost or Fair Value was determined shall at the time of taking such credit constitute Available Permanent Additions.

SECTION 2. The Company covenants that it will on or before March 1 in each year, beginning with the first deposit made with the Trustee under the provisions of Section 1 of this Article, as long as any of the Bonds are outstanding, deliver to the Trustee the following:

(a) An Officers' Certificate, which shall state:

(i) The amount of the Gross Operating Revenues for the preceding calendar year;

(ii) 9% of such Gross Operating Revenues;

(iii) The amount actually expended by the Company for maintenance during such calendar year;

(iv) The amount set forth in subparagraph (xii) of each Officers' Certificate delivered to the Trustee pursuant to the provisions of this Section during the preceding five calendar years (specifying each such Officers' Certificate), after deducting from each such amount the aggregate of (a) the Cost or Fair Value, whichever is less, of all Permanent Additions represented by such amount which have ceased to be Available Permanent Additions; and (b) any part of such amount for which the Company has previously taken credit against any Maintenance or Improvement Deposit (specifying the Officers' Certificate in which such credit was taken); and (c) any part of such amount for which the Company then desires to take credit against the Maintenance or Improvement Deposit;

(v) An amount which shall be the aggregate of all amounts set forth pursuant to the provisions of clause (c) of the foregoing subparagraph (iv);

(vi) The Cost or Fair Value, whichever is less, of Available Permanent Additions acquired by the Company during the preceding calendar year;

(vii) That part of the amount set forth in subparagraph (vi) which the Company desires to use as a credit against the Maintenance or Improvement Deposit;

(viii) The amount of cash payable to the Trustee under the provisions of Section 1 of this Article, which shall be the amount by which the amount set forth in subparagraph (ii) hereof exceeds the sum of the amounts set forth in subparagraphs (iii), (v) and (vii) hereof;

(ix) The sum of all amounts charged on the books of the Company against any reserve for retirement or depreciation during the preceding calendar year representing the aggregate of the Cost when acquired of any part of the Company's plants and property of the character described in the granting clauses hereof which has been permanently retired or abandoned;

(x) The aggregate of the amounts set forth in subparagraphs (v) and (vii) hereof;

(xi) The amount by which the amount set forth in subparagraph (x) exceeds the amount set forth in subparagraph (ix), being the amount required to be deducted from the Cost or Fair Value of Available Permanent Additions in order to determine a Net Amount of Available Permanent Additions pursuant to the provisions of Section 9 of Article I of the Original Indenture;

(xii) The amount set forth in subparagraph (vi) after deducting the amount, if any, set forth in subparagraph (vii); and

(xiii) That all conditions precedent to the taking of the credit or credits so requested by the Company have been complied with.

(b) In the event that the Officers' Certificate delivered to the Trustee pursuant to the provisions of paragraph (a) of this Section shall state, pursuant to the requirements of subparagraph (vi), the Cost or Fair Value of Available Permanent Additions acquired by the Company during the preceding calendar year, the documents specified in paragraphs 2, 3, 5, 6 and 7 of subdivision (B) of Section 3 of Article IV of the Original Indenture.

(c) An amount in cash equal to the sum set forth in subparagraph (viii) of the Officers' Certificate provided for in paragraph (a) hereof.

SECTION 3. All cash deposited with the Trustee as part of any Maintenance or Improvement Deposit provided for in Section 1 of this Article, may, at the option of the Company, be applied to the purchase of bonds under the provisions of Section 2 of Article X of the Original Indenture or to the redemption of bonds under the provisions of Section 3 of Article X of the Original Indenture or may be withdrawn by the Company at any time to reimburse the Company for the cost of a Net Amount of Available Permanent Additions (excluding, however, from any such Available Permanent Additions all Permanent Additions included in any certificate delivered to the Trustee for the purpose of obtaining a credit against any Maintenance or Improvement Deposit provided for in Section 1 of this Article to the extent that such Permanent Additions have been used for any such credit). The Trustee shall pay to or upon the written order of the Company all or any part of such cash upon the receipt by the Trustee of:

(a) A Resolution requesting such payment; and

(b) The documents specified in paragraphs 2, 5, 6 and 7 of subdivision (B) of Section 3 of Article IV of the Original Indenture, with such modifications, additions and omissions as may be appropriate in the light of the purposes for which they are used.

ARTICLE III.
Covenants of the Company.

SECTION 1. The Company hereby covenants and agrees with the Trustee, for the benefit of the Trustee and all the present and future holders of the Bonds, that the Company will pay the principal of, and premium, if any, and interest on, all bonds issued or to be issued as aforesaid under and secured by the Original Indenture as hereby supplemented, as well as all bonds which may be hereafter issued in exchange or substitution therefor, and will perform and fulfill all of the terms, covenants and conditions of the Original Indenture and of this Forty-first Supplemental Indenture with respect to the additional bonds to be issued under the Original Indenture as hereby supplemented.

SECTION 2. The Company covenants and agrees that so long as any of the Bonds are outstanding (a) the Company will not make any Stock Payment if, after giving effect thereto, its retained earnings, computed in accordance with generally accepted accounting principles consistently applied, will be less than the sum of (i) Excluded Earnings, if any, since December 31, 2006, and (ii) \$20,000,000; (b) Stock Payments made more than 40 days after the commencement, and prior to the expiration, of any Restricted Period shall not exceed 65% of the Company's Net Income during such Restricted Period; and (c) the Company will not authorize a Stock Payment if there has occurred and is continuing an event of default under subsections (a) and (b) of Section 1 of Article XI of the Original Indenture.

For the purposes of this Section 2 the following terms shall have the following meanings:

"Capitalization" shall mean the sum of (i) the aggregate principal amount of all Debt at the time outstanding, (ii) the aggregate par or stated value of all capital stock of the Company of all classes at the time outstanding, (iii) premium on capital stock, (iv) capital surplus, and (v) retained earnings.

“Debt” means (i) all indebtedness, whether or not represented by bonds, debentures, notes or other securities, for the repayment of money borrowed, (ii) all deferred indebtedness for the payment of the purchase price of property or assets purchased (but Debt shall not be deemed to include customer advances for construction or any bonds issued under the Indenture which are not Outstanding Bonds), (iii) leases which have been or, in accordance with generally accepted accounting principles, should be recorded as capital leases and (iv) guarantees of the obligations of another of the nature described in clauses (i), (ii) or (iii) which have been or, in accordance with generally accepted accounting principles, should be recorded as debt.

“Determination Date” shall mean the last day of each calendar quarter. Any calculation with respect to any Determination Date shall be based on the Company’s balance sheet as of such date.

“Excluded Earnings” shall mean 35% of the Company’s Net Income during any Restricted Period.

“Net Income” for any particular Restricted Period shall mean the amount of net income properly attributable to the conduct of the business of the Company for such period, as determined in accordance with generally accepted accounting principles consistently applied, after payment of or provision for taxes on income for such period.

“Outstanding Bonds” shall mean bonds which are outstanding within the meaning indicated in Section 20 of Article I of the Original Indenture except that, in addition to the bonds referred to in clauses (a), (b) and (c) of said Section 20, said term shall not include bonds for the retirement of which sufficient funds have been deposited with the Trustee with irrevocable instructions to apply such funds to the retirement of such bonds at a specified time, which may be either the maturity thereof or a specified redemption date, whether or not notice of redemption shall have been given.

“Restricted Period” shall mean a period commencing on any Determination Date on which the total Debt of the Company is, or as the result of any Stock Payment then declared or set aside and to be made thereafter will be, more than 70% of Capitalization, and continuing until the third consecutive Determination Date on which the total Debt of the Company does not exceed 70% of Capitalization.

“Stock Payment” shall mean any payment in cash or property (other than stock of the Company) to any holder of shares of any class of capital stock of the Company as such holder, whether by dividend or upon the purchase, redemption, conversion or other acquisition of such shares, or otherwise.

SECTION 3. The Company covenants and agrees that so long as any of the Bonds are outstanding, neither the Company nor any subsidiary of the Company will, directly or indirectly, lend or in any manner extend its credit to, or indemnify, or make any donation or capital contribution to, or purchase any security of, any corporation which directly or indirectly controls the Company, or any subsidiary or affiliate (other than an affiliate which is a subsidiary of the Company) of any such corporation.

ARTICLE IV.
The Trustee.

SECTION 1. The Trustee hereby accepts the trust hereby declared and provided, and agrees to perform the same upon the terms and conditions in the Original Indenture, as supplemented by this Forty-first Supplemental Indenture.

SECTION 2. Subject to the provisions of Article XIII of the Original Indenture, the Trustee may execute any of the trusts or powers hereof and perform any of its duties by or through and consult with attorneys, agents, officers or employees selected by the Trustee in its sole discretion. The Trustee shall be entitled to advice of counsel concerning all matters of trusts hereof and the duties hereunder and may in all cases pay such reasonable compensation to all such attorneys, agents, officers and employees as may reasonably be employed in connection with the trusts hereof. The Trustee may act or refrain from acting and rely upon and be free from all liability for so relying upon the opinion or advice of any attorney (who may be the attorney or attorneys for the Company). The Trustee may act and rely on written opinions of experts employed by the Trustee and such advice shall be full and complete authorization and protection in respect of any action taken, suffered or omitted by the Trustee hereunder in good faith and in reliance thereon. The Trustee shall not be responsible for any loss or damage resulting from any action or non-action in good faith taken in reliance upon such opinion or advice. The Trustee shall not be bound to confirm, verify or make any investigation into the facts or matters stated in any financial or other statements, resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order or other paper or document furnished pursuant to the terms hereof.

SECTION 3. Before the Trustee shall be required to foreclose on, or to take control or possession of, the real property or leasehold interest (the "Premises") which may be the subject of any mortgage or mortgages for which the Trustee is mortgagee in connection with the issuance of the Bonds, the Trustee shall be indemnified and held harmless by the holders and/or beneficial owners of the Bonds from and against any and all expense, loss, or liability that may be suffered by the Trustee in connection with any spill, leak or release which may have occurred on or invaded the Premises or any contamination by any Hazardous Substance (hereinafter defined), whether caused by the Company or any other person or entity, including, but not limited to, (1) any and all reasonable expenses that the Trustee may incur in complying with any of the Environmental Statutes (hereinafter defined), (2) any and all reasonable costs that the Trustee may incur in studying or remedying any spill, leak or release which may have occurred on or invaded the Premises or any contamination, (3) any and all fines or penalties assessed upon the Trustee by reason of such contamination, (4) any and all loss of value of the Premises or the improvements thereon by reason of such contamination, and (5) any and all legal fees and costs reasonably incurred by the Trustee in connection with any of the foregoing. As used in this Section, contamination by any Hazardous Substance shall include contamination, arising from the presence, creation, production, collection, treatment, disposal, discharge, release, storage, transport or transfer of any Hazardous Substance at or from the Premises or any improvements thereon. As used in this Section, the term "Hazardous Substance" shall mean petroleum hydrocarbons or any substance which (a) constitutes a hazardous waste or substance under any applicable federal, state or local law, rule, order or regulation now or hereafter adopted; (b) constitutes a "hazardous substance" as such term is defined under the

Comprehensive Environmental Response, Compensation and Liability Act, as amended (42 U.S.C. §9601 et seq.) and the regulations issued thereunder and any comparable state or local law or regulation; (c) constitutes a “hazardous waste” under the Resource Conservation and Recovery Act, (42 U.S.C. §6991) and the regulations issued thereunder and any comparable state or local law or regulation; (d) constitutes a pollutant, contaminant, chemical or industrial, toxic or hazardous substance or waste as such terms are defined under Federal Clean Water Act, as amended (33 U.S.C. §1251 et seq.), the Toxic Substances Control Act, as amended (15 U.S.C. §2601 et seq.), or any comparable state or local laws or regulations; (e) exhibits any of the characteristics enumerated in 40 C.F.R. Sections 261.20 — 261.24, inclusive; (f) those extremely hazardous substances listed in Section 302 of the Superfund Amendments and Reauthorization Act of 1986 (Public Law 99-499, 100 Stat. 1613) which are present in threshold planning or reportable quantities as defined under such act; (g) toxic or hazardous chemical substances which are present in quantities which exceed exposure standards as those terms are defined under Sections 6 and 8 of the Occupational Safety and Health Act, as amended (29 U.S.C. §§655 and 657 and 29 C.F.R. Part 1910, subpart 2); and (h) any asbestos, petroleum-based products or any Hazardous Substance contained within or release from any underground or aboveground storage tanks. As used in this Section, the term “Environmental Statutes” shall mean the statutes, laws, rules, orders and regulations referred to in (a) through (g) inclusive in the preceding sentence.

ARTICLE V.

Miscellaneous.

SECTION 1. This instrument is executed and shall be construed as an indenture supplemental to the Original Indenture, and shall form a part thereof, and except as hereby supplemented, the Original Indenture and the First, Second, Third, Fourth, Fifth, Sixth, Seventh, Eighth, Ninth, Tenth, Eleventh, Twelfth, Thirteenth, Fourteenth, Fifteenth, Sixteenth, Seventeenth, Eighteenth, Nineteenth, Twentieth, Twenty-First, Twenty-Second, Twenty-Third, Twenty-Fourth, Twenty-Fifth, Twenty-Sixth, Twenty-Seventh, Twenty-Eighth, Twenty-Ninth, Thirtieth, Thirty-First, Thirty-Second, Thirty-Third, Thirty-Fourth, Thirty-Fifth, Thirty-Sixth, Thirty-Seventh, Thirty-Eighth, Thirty-Ninth and Fortieth Supplemental Indentures are hereby confirmed. All references in this Forty-first Supplemental Indenture to the Original Indenture shall be deemed to refer to the Original Indenture as heretofore amended and supplemented, and all terms used herein and not specifically defined herein shall be taken to have the same meaning as in the Original Indenture, as so amended, except in the cases where the context clearly indicates otherwise.

SECTION 2. Any notices to the Trustee under this Forty-first Supplemental Indenture shall be delivered to the Trustee by registered or certified mail, hand delivery or other courier or express delivery service (with receipt confirmed) or by telecopy (with receipt confirmed) at the following address:

J.P. Morgan Trust Company, National Association
c/o The Bank of New York
Global Corporate Finance
100 Barclay Street
New York, NY 10286
Attention: Francine Kincaid
Telecopy: 212-623-6166

Any change in such address or telecopy number may be made by notice to the Company delivered in the manner set forth above.

SECTION 3. All recitals in this Forty-first Supplemental Indenture are made by the Company only and not by the Trustee; and all of the provisions contained in the Original Indenture in respect of the rights, privileges, immunities, powers and duties of the Trustee shall be applicable in respect hereof as fully and with like effect as if set forth herein in full.

SECTION 4. Although this Forty-first Supplemental Indenture is dated as of January 1, 2007 for convenience and for the purpose of reference, the actual date or dates of execution hereof by the Company and the Trustee are as indicated by their respective acknowledgments annexed hereto.

SECTION 5. In order to facilitate the recording or filing of this Forty-first Supplemental Indenture, the same may be simultaneously executed in several counterparts, each of which shall be deemed to be an original and such counterparts shall together constitute but one and the same instrument.

SECTION 6. This Forty-first Supplemental Indenture shall become effective for the incurrence of debt upon delivery to the Trustee by the Company of the certificates required by Articles IV, VI and VII of the Original Indenture, which shall occur concurrently with or prior to the authentication of the 5.00% Series due 2040 and the 5.00% Series due 2041. This Forty-first Supplemental Indenture is effective to evidence the Trustee's lien on the property described herein immediately upon execution.

IN WITNESS WHEREOF the parties hereto have caused their corporate seals to be hereunto affixed and their authorized officers have hereto affixed their signatures, and their authorized officers have duly attested the execution hereof, as of the day first above written.

[CORPORATE SEAL]

AQUA PENNSYLVANIA, INC.,
as successor by merger to
Philadelphia Suburban Water Company

Attest: Roy H. Stahl

By: Kathy L. Pape
Vice President and Treasurer

[CORPORATE SEAL]

J.P. MORGAN TRUST COMPANY,
NATIONAL ASSOCIATION
as Trustee

Attest: Laurence O'Brien
Authorized Officer

By: The Bank of New York
Attorney-in-fact

By: Francine Kincaid
Name: Francine Kincaid
Title: Vice President

EXHIBIT A
OUTSTANDING FIRST MORTGAGE BONDS

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EXHIBIT B
RECORDING INFORMATION

BUCKS, CHESTER, DELAWARE AND MONTGOMERY COUNTIES

Indenture	Date of Recording	Bucks		Chester		Delaware		Montgomery	
		Book	Page	Book	Page	Book	Page	Book	Page
Original	2/20/41	496	1	H-13.Vol.307	20	1034	1	1625	1
First Supplemental	8/26/48	632	1	F-16.Vol.380	200	1668	169	2031	257
Second Supplemental	7/1/52	768	438	18.Vol.425	186	1962	376	2360	517
Third Supplemental	11/25/53	895	1	18.Vol.442	325	2052	1	2493	1
Fourth Supplemental	1/9/56	1089	155	Z-20.Vol.499	1	2199	1	2722	425
Fifth Supplemental	3/20/57	1181	316	B-22.Vol.536	601	2294	50	2850	335
Sixth Supplemental	5/9/58	1254	1	G-23	201	2380	039	2952	289
Seventh Supplemental	9/25/59	1332	509	B-25	109	2442	1	3090	249
Eighth Supplemental	5/9/61	—	—	Z-26	17	2526	312	—	—
Eighth Supplemental	5/10/61	1409	225	—	—	—	—	3249	289
Ninth Supplemental	4/10/62	1458	372	G-28	126	2581	463	3307	169
Tenth Supplemental	3/19/64	1568	1	M-30	967	2976	1043	3310	237
Eleventh Supplemental	11/4/66	1655	695	Q-32	6682	762	223	3549	129
Twelfth Supplemental	1/23/68	1691	531	N-33	219	2792	708	3542	315
Thirteenth Supplemental	7/2/70	1763	1167	D-35	80	2850	301	3687	23
Fourteenth Supplemental	11/5/70	1774	331	K-35	713	2858	3113	700	548
Fifteenth Supplemental	12/11/72	1869	196	O-37	998	2926	550	3786	96
Sixteenth Supplemental	5/28/75	1979	14	E-44	77	3005	511	4010	307
Seventeenth Supplemental	12/18/77	2072	683	L-51	1	3072	43	5002	436

Indenture	Date of Recording	Bucks		Chester		Delaware		Montgomery	
		Book	Page	Book	Page	Book	Page	Book	Page
Eighteenth Supplemental	4/29/77	2082	567	B-52	344	3078	728	5003	291
Nineteenth Supplemental	6/23/80	2303	714	J-62	92	3261	293	5030	502
Twentieth Supplemental	8/2/83	2487	370	D-72	1	96	810	5662	1045
Twenty-First Supplemental	8/27/85	2690	806	54	550	—	—	5864	1347
Twenty-First Supplemental	8/28/85	—	—	—	—	264	159	—	—
Twenty-Second Supplemental	4/22/86	2774	160	263	275	326	592	5944	360
Twenty-Third Supplemental	4/1/87	2960	693	—	—	—	—	—	—
Twenty-Third Supplemental	4/2/87	—	—	680	337	447	1807	6115	602
Twenty-Fourth Supplemental	7/25/88	3199	1095	1224	389	0593	0585	6324	143
Twenty-Fifth Supplemental	1/12/90	0136	0250	1848	205	731	1571	6538	376
Twenty-Sixth Supplemental	11/8/91	369	2190	2660	205	894	2241	6780	891
Twenty-Seventh Supplemental	6/29/92	0487	1829	3055	182	0969	2023	6918	302
Twenty-Eighth Supplemental	4/22/93	0652	1335	3542	1542	1081	0852	7112	0539
Twenty-Ninth Supplemental	3/30/95	1045	1872	3875	1368	1349	0829	7561	1155
Thirtieth Supplemental	8/30/95	1111	0798	3932	0471	1393	2255	7631	0689
Thirty-First Supplemental	7/11/97	1421	2196	4201	2133	1607	138	7968	779
Thirty-Second Supplemental	10/6/99	1939	421	4646	642	1936	1207	8548	1067

Indenture	Date of Recording	Bucks		Chester		Delaware		Montgomery	
		Book	Page	Book	Page	Book	Page	Book	Page
Thirty-Third Supplemental	11/30/99	1970	1573	4675	1272	1936	1207	8548	1067
Thirty-Fourth Supplemental	10/31/01	2471	1207	5101	2142	2288	0174	9225	761
Thirty-Fifth Supplemental	1/10/02	2541	765	5152	818	2329	1019	9314	1079
Thirty-Sixth Supplemental	6/5/02	2731	1881	5296	356	2448	1862	9593	1416
Thirty-Seventh Supplemental	12/27/02	3036	1425	12/31/02 B-5514	1552	12/31/02 02631	0294	12/30/02 10018	0204
Thirty-Eighth Supplemental	11/9/04	4196	1557	11/23/04 B-6342	800	11/22/04 B-3348	1698	11/22/04 B-00020	0237
Thirty-Ninth Supplemental	5/18/05	4441	#2005066104	5/19/05 6496	1375 #10534807	03487	32005044507	0020	2005069126
Fortieth Supplemental	12/27/05	4768	1853	12/23/05 6720	897 #10608829	12/23/05 03687	2206 #2005123053	12/29/05 11689	1156

BERKS COUNTY

Indenture	Date of Recording	Book	Page
Original	8/16/99	3113	707
Thirty-Second Supplemental	10/6/99	3132	1510
Thirty-Third Supplemental	11/30/99	3149	1260
Thirty-Fourth Supplemental	10/31/01	3421	896
Thirty-Fifth Supplemental	1/10/02	3461	417
Thirty-Sixth Supplemental	6/4/02	3544	1357

<u>Indenture</u>	<u>Date of Recording</u>	<u>Book</u>	<u>Page</u>
Thirty-Seventh Supplemental	12/30/02	3664	0001
Thirty-Eighth Supplemental	11/30/04	4197	988
Thirty-Ninth Supplemental	5/18/05	04583	1017
Fortieth Supplemental	02/09/06	04782	1916

BRADFORD, COLUMBIA, LAWRENCE, MERCER, NORTHUMBERLAND, PIKE, SCHUYLKILL AND WAYNE COUNTIES

<u>Indenture</u>	<u>BRADFORD</u>		<u>COLUMBIA</u>		<u>LAWRENCE</u>			<u>MERCER</u>	
	<u>Date of Recording</u>	<u>Instrument No.</u>	<u>Date of Recording</u>	<u>Instrument No.</u>	<u>Date of Recording</u>	<u>Book</u>	<u>Page</u>	<u>Date of Recording</u>	<u>Instrument No.</u>
Thirty-Fifth Supplemental	12/21/01	200115497				1688	744		
Thirty-Sixth Supplemental	07/04/02	200207151							
Thirty-Seventh Supplemental	12/30/02	200216472							
Thirty-Eighth Supplemental	11/22/04	200415112	11/30/04	200413567	11/24/04	1992	0291	11/24/04	2004020435
Thirty-Ninth Supplemental	5/16/05	200504827	5/18/05	200505042	5/16/2005	2032	200	5/13/05	2005-7340
Fortieth Supplemental	12/23/05	200594992	12/23/05	200513981	12/27/05	2088	#005488 0934	12/27/05	2005- 00020320

Indenture	NORTHUMBERLAND			PIKE			SCHUYLKILL			WAYNE		
	Date of Rec.	Book	Page	Date of Rec.	Book	Page	Date of Rec.	Book	Page	Date of Rec.	Book	Page
Thirty-Fifth Supplemental		1404	246		1909	2328		1413	1		1911	1
Thirty-Sixth Supplemental		1445	028					1584	0259			
Thirty-Seventh Supplemental	12/30/02	1500	911	12/30/02	1959	2447	12/27/02	2022	1006	12/30/02	2136	148
Thirty-Eighth Supplemental	11/22/04	1714	748	11/23/04	2081	1757	11/24/04	2126	569	11/23/04	2658	252
Thirty-Ninth Supplemental			50			2201			1871-1919		Vol.	1
	5/18/05	1761	#200509076	5/17/05	2109	#200500008491	5/18/05	2150	#200500010263	5/16/05	2769	#200500004960
Fortieth Supplemental	12/27/05	1828	571	12/27/05	2151	1334	12/23/05	2184	875	12/27/05	2944	243

ADAMS, CARBON, CUMBERLAND, FOREST, JUNIATA, LACKAWANNA, LUZERNE, MONROE, NORTHAMPTON, SNYDER, SUSQUEHANNA AND WYOMING COUNTIES

Indenture	ADAMS			CARBON			CUMBERLAND			FOREST		
	Date of Rec.	Book	Page	Date of Rec.	Book	Page	Date of Rec.	Book	Page	Date of Rec.	Book	Page
Thirty-Eighth Supplemental	11/23/04	3781	1	11/30/04	200416309		11/22/04	2004047145		11/29/04	231	306
Thirty-Ninth Supplemental						689						345
	5/19/05	3970	54	5/18/05	1330	#200505926	5/13/05	1907	0247	5/16/05	234	#478
Fortieth Supplemental	12/28/05	4261	162	12/27/05	1408	576	12/27/05	1935	3233	12/27/05	0238	0304

Indenture	JUNIATA			LACKAWANNA			LUZERNE			MONROE		
	Date of Rec.	Book	Page	Date of Rec.	Book	Page	Date of Rec.	Book	Page	Date of Recording	Book	Page
Thirty-Eighth Supplemental	11/22/04	345	1047	11/29/04	#200441665		11/23/04	3004	294775	11/24/04	2208	7674
Thirty-Ninth Supplemental			0049						117727			8444
	5/13/05	354	#2005-1512	5/16/05	#200512642		5/17/05	3005	#5637329	5/18/05	2225	#200521128
Fortieth Supplemental												

Indenture	NORTHAMPTON			SNYDER			SUSQUEHANNA			WYOMING		
	Date of Rec.	Book	Page	Date of Rec.	Book	Page	Date of Rec.	Book	Page	Date of Rec.	Book	Page
Thirty-Eighth Supplemental	11/22/04	2004-1	452932	11/24/04	631	0001	11/24/04	200411624		11/24/04	0513	0774
Thirty-Ninth Supplemental	5/17/05	2005-1	182906 #2005026917	5/17/05	650	135 #2005028880	5/16/05	#200504384 Instrument		5/18/05	0522 0536	1289
Fortieth Supplemental	12/23/05	2005-1	521563	12/27/05	677	684	12/22/05	#200512620	n/a	12/22/05	#2005004922	0748

EXHIBIT C

<u>County and Grantor</u>	<u>Company's Real Estate Index No.</u>	<u>Date of Deed</u>	<u>Book</u>	<u>Recorded Page</u>	<u>Tax Parcel I.D. Number</u>
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NONE

C-1

EXHIBIT D

Original Indenture

(attached to Forty-First Supplemental Indenture to be recorded in Crawford County
and Lehigh County only; redacted to delete property descriptions for counties
in which the Original Indenture has already been recorded)

J.P. Morgan Trust Company, National Association, Mortgagee and Trustee named in the foregoing Forty-first Supplemental Indenture, hereby certifies that its precise name and the post office address are as follows:

J.P. Morgan Trust Company, National Association
c/o The Bank of New York
Global Corporate Finance
100 Barclay Street
New York, NY 10286
Attention: Francine Kincaid
Telecopy: 212-623-6166

J.P. MORGAN TRUST COMPANY,
NATIONAL ASSOCIATION
as Trustee

By: The Bank of New York
Attorney-in-fact

By: Francine Kincaid
Name: Francine Kincaid
Title: Vice President

COMMONWEALTH OF PENNSYLVANIA

COUNTY OF MONTGOMERY

On the 3rd day of January, 2007, before me, the Subscriber, a Notary Public for the Commonwealth of Pennsylvania, personally appeared Kathy L. Pape, who acknowledged herself to be the Vice President and Treasurer of Aqua Pennsylvania, Inc., a corporation, and that she as such Vice President and Treasurer, being authorized to do so, executed the foregoing Forty-first Supplemental Indenture as and for the act and deed of said corporation and for the uses and purposes therein mentioned, by signing the name of the corporation by herself as such officer.

In Witness Whereof I hereunto set my hand and official seal.

[NOTARIAL SEAL]

Maria Gordiany

STATE OF NEW YORK

COUNTY OF NEW YORK

On the 3rd day of January, 2007 before me, the Subscriber, a Notary Public for the State of New York, personally appeared Francine Kincaid, who acknowledged herself to be a Vice President of The Bank of New York, a New York banking corporation, and that she as such Vice President, being authorized to do so, executed the foregoing Forty-first Supplemental Indenture as and for the act and deed of said New York banking corporation and for the uses and purposes therein mentioned by signing the name of said New York banking corporation by herself as such officer.

In Witness Whereof I hereunto set my hand and official seal.

[NOTARIAL SEAL]

Gerold Picard

STATE OF NEW YORK

COUNTY OF NEW YORK

On this, the ___9th___ day of January, 2007, before me ___Gerold Picard___, the undersigned officer, personally appeared Francine Kincaid, known to me (or satisfactorily proven) to be the person whose name is subscribed as attorney in fact for J.P. Morgan Trust Company, National Association, and acknowledged that she executed the same as the act of her principal for the purposes therein contained.

In Witness Whereof I hereunto set my hand and official seal.

[NOTARIAL SEAL]

Gerold Picard

Power of Attorney

This POWER OF ATTORNEY (this "Power of Attorney") is made as of October 1, 2006, by J.P. Morgan Trust Company, National Association. ("JPM") in favor of The Bank of New York ("BNY").

WHEREAS, JP Morgan Chase & Co. and The Bank of New York Company, Inc. have entered into that certain Amended and Restated Purchase and Assumption Agreement, amended and restated as of October 1, 2006 (as it may be amended from time to time, the "Purchase Agreement"), which provides for the sale of the Corporate Trust Business by JPM to BNY and, in connection therewith, the entering into of a Servicing Agreement, dated as of the date hereof, which provides for the terms and conditions upon which BNY will perform as agent of JPM all delegable duties of JPM in a Corporate Trust Capacity under any Serviced Agreement;

WHEREAS, THIS Power Of Attorney is being entered into in connection with the Servicing Agreement and capitalized terms used in this Power of Attorney without definitions will have the meanings assigned to them in the Servicing Agreement.

NOW, THEREFORE, subject to the terms and conditions of the Servicing Agreement, the parties hereto agree as follows:

JPM appoints BNY its true and lawful attorney-in-fact to take all Specified Actions, and any other actions, and to execute documents or others papers in JPM's place and stead, in each case to the fullest extent of BNY's capacity as Servicer with respect to a Serviced Appointment (other than a London Trustee Appointment).

"Specified Action" means any action (including any determination to take no action) with respect to a Serviced Appointment requiring or permitting the exercise of judgment in connection with decisions between or among alternative courses of action, which may include, without limitation, determinations with respect to the following:

1. the release or subordination of any lien on assets pledged to secure any Securities;
 2. the sale or other disposition of any assets underlying or pledged to secure any Securities;
-

3. the creation or imposition of any encumbrance (other than encumbrances created by the Corporate Trust Agreements) upon any assets underlying or pledged to secure any Securities;
 4. the acceptance of any substitute collateral pledged for or assets underlying any Securities;
 5. the acceptance of any substitute credit enhancement or liquidity facility (such as a replacement letter of credit, replacement standby bond purchase agreements or a reserve fund to be substituted for a letter of credit) for any Securities;
 6. the removal of any trustee, custodian or servicer or any agent of a trustee, issuer, seller, servicer, depositor or any other Person that is a party to any Corporate Trust Agreement (whether or not for cause) or to determine whether there is sufficient cause to remove any such Person;
 7. any waiver, amendment or modification of the terms of any Corporate Trust Agreement;
 8. any defeasance of obligations in respect of any Securities;
 9. any early termination of any Corporate Trust Agreement;
 10. any plan of liquidation of a grantor or pass-through trust or other issuer of Securities;
 11. the approval of the amount or kind of indemnity given or security pledged, for the benefit of JPM (such as indemnity or security required to be given or pledged by Securityholders in connection with such Securityholders' request that JOM, as the named fiduciary, take extraordinary actions under a Corporate Trust Agreement);
 12. the release of any documents from any custody arrangement established for the direct or indirect benefit of Securityholders (not including any such release that can be accomplished pursuant to a power of attorney that has been granted by JPM (other than the power of attorney granted to BNY herein) or any release of documents that can be accomplished pursuant to standing arrangements, such as a form of request for release that can be evaluated objectively on its face for sufficiency and does not require an exercise of discretion);
 13. taking any action requiring the exercise of discretion (either in carrying out the action or in deciding whether to take the action) that is requested by a party to the Corporate Trust Agreements or any Securityholder(s) that is not required to be taken under the terms of the Corporate Trust Agreements;
-

14. taking any other action related to a default or the sending of default notices to issuers or Securityholders; other than an Event of Default (pursuant to which BNY and its Subsidiaries shall act only in accordance with Sections 3.2(g) and 5.3 of the Servicing Agreement);

15. the execution of documentation in connection with New Appointments; or

16. taking any other action of a nature similar to any of the foregoing.

The parties hereto agree that this Power of Attorney shall terminate with respect to a particular Serviced Appointment at such time as BNY is no longer acting as Servicer under the Servicing Agreement with respect to such Serviced Appointment.

[Signature pages to follow.]

IN WITNESS WHEREOF, the party below has executed this Power of Attorney by its duly authorized corporate officers as of the date first above written.

J.P. MORGAN TRUST COMPANY NATIONAL ASSOCIATION

By: GAIL M. INABA

Name: Gail M. Inaba

Title: Senior Vice President

STATE OF NEW YORK)

COUNTY OF NEW YORK)ss.:

On this 9th of January, 2007, before me personally came Gail M. Inaba known to me to be the individual described in and who executed the foregoing instrument and she duly acknowledged and verified to me that the execution thereof was her act and deed/the act and deed of the entity identified therein.

Eui Sun Lisa

Notary Public

AGREEMENT

THIS Agreement made as of the 30th day of March, 2007 by and between, Aqua America, Inc., a Pennsylvania corporation (“Aqua America”), and Karl M. Kyriess (the “Executive”).

WHEREAS, the Executive is presently employed as an executive of the Aqua America or one of its Subsidiaries; and

WHEREAS, Aqua America considers it essential to foster the employment of well-qualified, key management personnel, and, in this regard, the board of directors of Aqua America recognize that, as is the case with many publicly-held corporations such as Aqua America, the possibility of a change of control of Aqua America may exist and that such possibility, and the uncertainty and questions which it may raise among management, may result in the departure or distraction of key management personnel to the detriment of Aqua America;

WHEREAS, the board of directors of Aqua America have determined that appropriate steps should be taken to reinforce and encourage the continued attention and dedication of key members of management of Aqua America and its Subsidiaries to their assigned duties without distraction in the face of potentially disturbing circumstances arising from the possibility of a change of control of Aqua America, although no such change is now contemplated; and

WHEREAS, in order to induce the Executive to remain in the employ of Aqua America or its Subsidiaries, for which the Executive provides key executive services, Aqua America is entering into this Agreement to provide that the Executive with certain compensation in the event Executive’s employment is terminated subsequent to a “Change of Control” (as defined in Section 1 hereof) of Aqua America as a cushion against the financial and career impact on the Executive of any such Change of Control; and

NOW, THEREFORE, in consideration of the foregoing and the mutual covenants and agreements hereinafter set forth and intending to be legally bound hereby, the parties hereto agree as follows:

1. Definitions. For all purposes of this Agreement, the following terms shall have the meanings specified in this Section unless the context clearly otherwise requires:

(a) “Affiliate” and “Associate” shall have the respective meanings ascribed to such terms in Rule 12b-2 of the General Rules and Regulations under the Securities Exchange Act of 1934, as amended (the “Exchange Act”).

(b) "Base Compensation" shall mean the average of the total of cash base salary and annual bonus paid to, and dividend equivalents under the Equity Compensation Plan accrued for, the Executive in each calendar year in all capacities with Aqua America, and its Subsidiaries or Affiliates, as would be reported for Federal income tax purposes on Form W-2 if currently subject to tax, together with (i) any amounts the payment of which has been deferred by the Executive under any deferred compensation plan of Aqua America, and its Subsidiaries or Affiliates, or otherwise, (ii) any and all salary reduction authorized amounts under any of the benefit plans or programs of Aqua America, and its Subsidiaries or Affiliates, (iii) the value, calculated on the same basis as the value of stock option grants shown in Aqua America's Proxy, for each calendar year in which a grant was made, of the stock option grants made to the Executive under the Equity Compensation Plan, but excluding any amounts attributable to the exercise of stock options, and (iv) the value, based on the average value of shares vesting in each year, of any grants of Restricted Stock made to the Executive under the Equity Compensation Plan, for the three calendar years (or such number of actual full calendar years of employment, if less than three) immediately preceding the calendar year in which occurs a Change of Control or the Executive's Termination Date, whichever period produces the higher amount.

(c) A Person shall be deemed the "Beneficial Owner" of any securities: (i) that such Person or any of such Person's Affiliates or Associates, directly or indirectly, has the right to acquire (whether such right is exercisable immediately or only after the passage of time) pursuant to any agreement, arrangement or understanding (whether or not in writing) or upon the exercise of conversion rights, exchange rights, rights, warrants or options, or otherwise; provided, however, that a Person shall not be deemed the "Beneficial Owner" of securities tendered pursuant to a tender or exchange offer made by such Person or any of such Person's Affiliates or Associates until such tendered securities are accepted for payment, purchase or exchange; (ii) that such Person or any of such Person's Affiliates or Associates, directly or indirectly, has the right to vote or dispose of or has "beneficial ownership" of (as determined pursuant to Rule 13d-3 of the General Rules and Regulations under the Exchange Act), including without limitation pursuant to any agreement, arrangement or understanding, whether or not in writing; provided, however, that a Person shall not be deemed the "Beneficial Owner" of any security under this clause (ii) as a result of an oral or written agreement, arrangement or understanding to vote such security if such agreement, arrangement or understanding (A) arises solely from a revocable proxy given in response to a public proxy or consent solicitation made pursuant to, and in accordance with, the applicable provisions of

the General Rules and Regulations under the Exchange Act, and (B) is not then reportable by such Person on Schedule 13D under the Exchange Act (or any comparable or successor report); or (iii) that are beneficially owned, directly or indirectly, by any other Person (or any Affiliate or Associate thereof) with which such Person (or any of such Person's Affiliates or Associates) has any agreement, arrangement or understanding (whether or not in writing) for the purpose of acquiring, holding, voting (except pursuant to a revocable proxy as described in the proviso to clause (ii) above) or disposing of any voting securities of Aqua America; provided, however, that nothing in this Section 1(c) shall cause a Person engaged in business as an underwriter of securities to be the "Beneficial Owner" of any securities acquired through such Person's participation in good faith in a firm commitment underwriting until the expiration of forty days after the date of such acquisition.

(d) "Board" shall mean the board of directors of Aqua America.

(e) "Change of Control" shall mean:

(i) any Person (including any individual, firm, corporation, partnership or other entity except Aqua America or any employee benefit plan of Aqua America or of any Affiliate or Associate, any Person or entity organized, appointed or established by Aqua America for or pursuant to the terms of any such employee benefit plan), together with all Affiliates and Associates of such Person, shall become the Beneficial Owner in the aggregate of 20% or more of the Common Stock of Aqua America then outstanding;

(ii) during any twenty-four month period, individuals who at the beginning of such period constitute the Board cease for any reason to constitute a majority thereof, unless the election, or the nomination for election by Aqua America's shareholders, of at least seventy-five percent of the directors who were not directors at the beginning of such period was approved by a vote of at least seventy-five percent of the directors in office at the time of such election or nomination who were directors at the beginning of such period; or

(iii) there occurs a sale of substantially all of the assets of Aqua America or its liquidation is approved by a majority of its shareholders or Aqua America is merged into or is merged with an unrelated entity such that following the merger the shareholders of Aqua America no longer own more than 51% of the resultant entity.

Notwithstanding anything in this subsection 1(e) to the contrary, a Change of Control shall not be deemed to have taken place under clause (e)(i) above if (i) such Person becomes the beneficial owner in the aggregate of 20% or more of the Common Stock of Aqua America then outstanding as a result, in the determination of a majority of those members of the Board of Directors of Aqua America in office prior to the acquisition, of an inadvertent acquisition by such Person if such Person, as soon as practicable, divests itself of a sufficient amount of its Common Stock so that it no longer owns 20% or more of the Common Stock then outstanding, or (ii) such Person becomes the beneficial owner in the aggregate of 20% or more of the Common Stock of Aqua America outstanding as a result of an acquisition of common stock by Aqua America which, by reducing the number of common stock outstanding, increases the proportionate number of shares of common stock beneficially owned by such Person to 20% or more of the shares of common stock then outstanding; provided, however that if a Person shall become the beneficial owner of 20% or more of the shares of common stock then outstanding by reason of common stock purchased by Aqua America and shall, after such share purchases by Aqua America become the beneficial owner of any additional shares of common stock, then the exemption set forth in this clause shall be inapplicable.

(f) "Cause" shall mean 1) misappropriation of funds, 2) habitual insobriety or substance abuse, 3) conviction of a crime involving moral turpitude, or 4) gross negligence in the performance of duties, which gross negligence has had a material adverse effect on the business, operations, assets, properties or financial condition of Aqua America or its Subsidiaries and Affiliates.

(g) "Equity Compensation Plan" shall mean Aqua America's 1994 and 2004 Equity Compensation Plan, and its predecessors and successors.

(h) "Good Reason Termination" shall mean a Termination of Employment initiated by the Executive upon one or more of the following occurrences:

(i) any failure of Aqua America or its successor(s) to comply with and satisfy any of the terms of this the Agreement;

(ii) any significant involuntary reduction of the authority, duties, responsibilities or reporting relationships held by the Executive immediately prior to the Change of Control;

(iii) any involuntary removal of the Executive from the employment grade, compensation level or officer positions which the Executive holds with Aqua America or, if the Executive is employed by a Subsidiary, with a Subsidiary, immediately prior to the Change of Control, except in connection with promotions to higher office;

(iv) any involuntary reduction in the Executive's target level of annual and long-term compensation as in effect immediately prior to the Change of Control;

(v) any transfer of the Executive, without Executive's express written consent, to a location which is outside the Bryn Mawr, Pennsylvania area by more than 50 miles, other than on a temporary basis (less than 6 months); or

(vi) the Executive being required to undertake business travel to an extent substantially greater than the Executive's business travel obligations immediately prior to the Change of Control.

(i) "Normal Retirement Date" shall mean the first day of the calendar month coincident with or next following the Executive's 65th birthday.

(j) "Subsidiary" shall mean any corporation in which Aqua America, directly or indirectly, owns at least a 50% interest or an unincorporated entity of which Aqua America, directly or indirectly, owns at least 50% of the profits or capital interests.

(k) "Termination Date" shall mean the date of receipt of the Notice of Termination described in Section 2 hereof or any later date specified therein, as the case may be.

(l) "Termination of Employment" shall mean the termination of the Executive's actual employment relationship with Aqua America and any of its Subsidiaries that actually employs the Executive.

2. Notice of Termination. Any Termination of Employment following a Change of Control shall be communicated by a Notice of Termination to the other party hereto given in accordance with Section 14 hereof. For purposes of this Agreement, a "Notice of Termination" means a written notice which (i) indicates the specific provision in this Agreement relied upon, (ii) briefly summarizes the facts and circumstances deemed to provide a basis for the Executive's Termination of Employment under the provision so indicated, and (iii) if the Termination Date is other than the date of receipt of such notice, specifies the Termination Date (which date shall not be more than 15 days after the giving of such notice).

3. Severance Compensation upon Termination.

(a) Subject to the provisions of Section 11 hereof, in the event of the Executive's involuntary Termination of Employment for any reason other than Cause or in the event of a Good Reason Termination, in either event within two years after a Change of Control, Aqua America shall pay to the Executive, upon the execution of a release in the form required by Aqua America of its terminating executives prior to the Change of Control, within 15 days after the Termination Date (or as soon as possible thereafter in the event that the procedures set forth in Section 11(b) hereof cannot be completed within 15 days), an amount in cash equal to **two (2) times** the Executive's Base Compensation, subject to required employment taxes and deductions.

(b) In the event the Executive's Normal Retirement Date would occur prior to 24 months after the Termination Date, the aggregate cash amount determined as set forth in (a) above shall be reduced by multiplying it by a fraction, the numerator of which shall be the number of days from the Termination Date to the Executive's Normal Retirement Date and the denominator of which shall be 730 days. In the event the Termination Date occurs after the Executive's Normal Retirement Date, no payments shall be made under this Section 3.

4. Other Payments and Benefits. The payment due under Section 3 hereof shall be in addition to and not in lieu of any payments or benefits due to the Executive under any other plan, policy or program of Aqua America, and its Subsidiaries or Affiliates. In addition, the Executive shall be entitled to (i) a continuation of health, dental, life and welfare benefits, excluding disability benefits, otherwise provided to senior level executives or employees generally, as the same may be amended for all such individuals from time to time, for the period of **two years**, (ii) continued use of the automobile furnished to the Executive for the lesser of (1) **two years** after the Termination Date or (2) the balance of the applicable lease term, if any, in either case to the same extent as was provided to the Executive, if any, in the calendar year immediately preceding the Change of Control and the ability to purchase such automobile at its book value at the completion of such period and (iii) fully-paid executive level outplacement services from the provider or the Executive's choice for six (6) months following the Termination Date.

5. Trust Fund. Aqua America sponsors an irrevocable trust fund pursuant to a trust agreement to hold assets to satisfy its obligations to the Executive under this Agreement. Funding of such trust fund shall be subject to the discretion of Aqua America's President, as set forth in the agreement pursuant to which the fund has been established.

6. Enforcement.

(a) In the event that Aqua America shall fail or refuse to make payment of any amounts due the Executive under Sections 3 and 4 hereof within the respective time periods provided therein, Aqua America shall pay to the Executive, in addition to the payment of any other sums provided in this Agreement, interest, compounded daily, on any amount remaining unpaid from the date payment is required under Section 3 or 4, as appropriate, until paid to the Executive, at the rate from time to time announced by PNC Bank as its "prime rate" plus 1%, each change in such rate to take effect on the effective date of the change in such prime rate.

(b) It is the intent of the parties that the Executive not be required to incur any expenses associated with the enforcement of his rights under this Agreement by arbitration, litigation or other legal action because the cost and expense thereof would substantially detract from the benefits intended to be extended to the Executive hereunder. Accordingly, Aqua America shall pay the Executive on demand the amount necessary to reimburse the Executive in full for all reasonable expenses (including all attorneys' fees and legal expenses) incurred by the Executive in enforcing any of the obligations of Aqua America under this Agreement.

7. No Mitigation. The Executive shall not be required to mitigate the amount of any payment or benefit provided for in this Agreement by seeking other employment or otherwise, nor shall the amount of any payment or benefit provided for herein be reduced by any compensation earned by other employment or otherwise.

8. Non-exclusivity of Rights. Nothing in this Agreement shall prevent or limit the Executive's continuing or future participation in or rights under any benefit, bonus, incentive or other plan or program provided by Aqua America, or any of its Subsidiaries or Affiliates, and for which the Executive may qualify.

9. No Set-Off. Aqua America's obligation to make the payments provided for in this Agreement and otherwise to perform its obligations hereunder shall not be affected by any circumstances, including, without limitation, any set-off, counterclaim, recoupment, defense or other right which Aqua America, or any of its Subsidiaries or Affiliates may have against the Executive or others.

10. Taxes. Any payment required under this Agreement shall be subject to all requirements of the law with regard to the withholding of taxes, filing, making of reports and the like, and Aqua America shall use its best efforts to satisfy promptly all such requirements.

11. Certain Reduction of Payments.

(a) Anything in this Agreement to the contrary notwithstanding, in the event that it shall be determined that any payment or distribution by Aqua America to or for the benefit of the Executive, whether paid or payable or distributed or distributable pursuant to the terms of this Agreement or otherwise (a "Payment"), would constitute an "excess parachute payment" within the meaning of Section 280G of the Internal Revenue Code of 1986, as amended (the "Code"), the aggregate present value of amounts payable or distributable to or for the benefit of the Executive pursuant to this Agreement (such payments or distributions pursuant to this Agreement are

hereinafter referred to as “Agreement Payments”) shall be reduced (but not below zero) to the Reduced Amount. The “Reduced Amount” shall be an amount expressed in present value, which maximizes the aggregate present value of Agreement Payments without causing any Payment to be subject to the loss of deduction under Section 280G of the Code. For purposes of this Section 11, present value shall be determined in accordance with Section 280G(d)(4) of the Code.

(b) All determinations to be made under this Section 11 shall be made by Aqua America’s independent public accountant immediately prior to the Change of Control (the “Accounting Firm”), which firm shall provide its determinations and any supporting calculations both to Aqua America and the Executive within 10 days of the Termination Date. Any such determination by the Accounting Firm shall be binding upon Aqua America and the Executive. The Executive shall then have the right to determine which of the Agreement Payments shall be eliminated or reduced in order to produce the Reduced Amount in accordance with the requirements of this Section. Within five days after this determination, Aqua America shall pay (or cause to be paid) or distribute (or cause to be distributed) to or for the benefit of the Executive such amounts as are then due to the Executive under this Agreement.

(c) As a result of the uncertainty in the application of Section 280G of the Code at the time of the initial determination by the Accounting Firm hereunder, it is possible that Agreement Payments, as the case may be, will have been made by Aqua America which should not have been made (“Overpayment”) or that additional Agreement Payments which have not been made by Aqua America could have been made (“Underpayment”), in each case, consistent with the calculations required to be made hereunder. Within two years after the Termination of Employment, the Accounting Firm shall review the determination made by it pursuant to the preceding paragraph and Aqua America shall cooperate and provide all information necessary for such review. In the event that the Accounting Firm determines that an Overpayment has been made, any such Overpayment shall be treated for all purposes as a loan to the Executive which the Executive shall repay to Aqua America together with interest from the date of payment under this Agreement at the applicable Federal rate provided for in Section 7872(f)(2) of the Code (the “Federal Rate”); provided, however, that no amount shall be payable by the Executive to Aqua America if and to the extent such payment would not reduce the limit on the amount that is deductible under Section 280G of the Code. In the event that the Accounting Firm determines that an Underpayment has occurred, any such Underpayment shall be promptly paid by Aqua America to or for the benefit of the Executive together with interest from the date of payment under this Agreement at the Federal Rate.

(d) All of the fees and expenses of the Accounting Firm in performing the determinations referred to in subsections (b) and (c) above shall be borne solely by Aqua America. Aqua America agrees to indemnify and hold harmless the Accounting Firm of and from any and all claims, damages and expenses resulting from or relating to its determinations pursuant to subsections (b) and (c) above, except for claims, damages or expenses resulting from the gross negligence or willful misconduct of the Accounting Firm.

12. Term of Agreement. The term of this Agreement shall be indefinite until Aqua America notifies the Executive in writing that this Agreement will not be renewed at least sixty days prior to the proposed termination; provided, however, that (i) after a Change of Control during the term of this Agreement, this Agreement shall remain in effect until all of the obligations of the parties hereunder are satisfied or have expired, and (ii) this Agreement shall terminate if, prior to a Change of Control, the employment of the Executive with Aqua America and its Subsidiaries, as the case may be, shall terminate for any reason; provided, however, that if a Change of Control occurs within 18 months after (a) the Executive's termination incurred for any reason other than a voluntary resignation or retirement (a Good Reason Termination shall not be deemed voluntary) or termination for Cause or (b) the termination of this Agreement, the Executive shall be entitled to all of the terms and conditions of this Agreement as if the Executive's termination had occurred on the date of the Change of Control.

13. Successor Company. Aqua America shall require any successor or successors (whether direct or indirect, by purchase, merger or otherwise) to all or substantially all of the business and/or assets of Aqua America, by agreement in form and substance satisfactory to the Executive, to acknowledge expressly that this Agreement is binding upon and enforceable against the successor or successors, in accordance with the terms hereof, and to become jointly and severally obligated with Aqua America to perform this Agreement in the same manner and to the same extent that Aqua America would be required to perform if no such succession or successions had taken place. Failure of Aqua America to notify the Executive in writing as to such successorship, to provide the Executive the opportunity to review and agree to the successor's assumption of this Agreement or to obtain such agreement prior to the effectiveness of any such succession shall be a breach of this Agreement. As used in this Agreement, Aqua America Aqua America and any successor or successors to its business and/or assets, jointly and severally.

14. Notice. All notices and other communications required or permitted hereunder or necessary or convenient in connection herewith shall be in writing and shall be delivered personally or mailed by registered or certified mail, return receipt requested, or by overnight express courier service, as follows:

If to Aqua America or, to:

Aqua America, Inc.
762 W. Lancaster Avenue
Bryn Mawr, PA 19010-3489
Attention: Chairman, Executive Compensation
and Employee Benefits Committee

If to the Executive, to:

Karl M. Kyriss

or to such other names or addresses as Aqua America or the Executive, as the case may be, shall designate by notice to the other party hereto in the manner specified in this Section; provided, however, that if no such notice is given by Aqua America following a Change of Control, notice at the last address of Aqua America or to any successor pursuant to Section 13 hereof shall be deemed sufficient for the purposes hereof. Any such notice shall be deemed delivered and effective when received in the case of personal delivery, five days after deposit, postage prepaid, with the U.S. Postal Service in the case of registered or certified mail, or on the next business day in the case of overnight express courier service.

15 Governing Law. This Agreement shall be governed by and interpreted under the laws of the Commonwealth of Pennsylvania without giving effect to any conflict of laws provisions.

16. Contents of Agreement, Amendment and Assignment. This Agreement supersedes all prior agreements, sets forth the entire understanding between the parties hereto with respect to the subject matter hereof and cannot be changed, modified, extended or terminated except upon written amendment executed by the Executive and Aqua America. The provisions of this Agreement may require a variance from the terms and conditions of certain compensation or bonus plans under circumstances where such plans would not provide for payment thereof in order to obtain the maximum benefits for the Executive. It is the specific intention of the parties that the provisions of this Agreement shall supersede any provisions to the contrary in such plans, and such plans shall be deemed to have been amended to correspond with this Agreement without further action by Aqua America.

17. No Right to Continued Employment. Nothing in this Agreement shall be construed as giving the Executive any right to be retained in the employ of Aqua America or any of its Subsidiaries.

18. Successors and Assigns. All of the terms and provisions of this Agreement shall be binding upon and inure to the benefit of and be enforceable by the respective heirs, representatives, successors and assigns of the parties hereto, except that the duties and responsibilities of Aqua America hereunder shall not be assignable in whole or in part.

19. Severability. If any provision of this Agreement or application thereof to anyone or under any circumstances shall be determined to be invalid or unenforceable, such invalidity or unenforceability shall not affect any other provisions or applications of this Agreement which can be given effect without the invalid or unenforceable provision or application.

20. Remedies Cumulative; No Waiver. No right conferred upon the Executive by this Agreement is intended to be exclusive of any other right or remedy, and each and every such right or remedy shall be cumulative and shall be in addition to any other right or remedy given hereunder or now or hereafter existing at law or in equity. No delay or omission by the Executive in exercising any right, remedy or power hereunder or existing at law or in equity shall be construed as a waiver thereof.

21. Miscellaneous. All section headings are for convenience only. This Agreement may be executed in several counterparts, each of which is an original. It shall not be necessary in making proof of this Agreement or any counterpart hereof to produce or account for any of the other counterparts.

22. Arbitration. In the event of any dispute under the provisions of this Agreement other than a dispute in which the sole relief sought is an equitable remedy such as an injunction, the parties shall be required to have the dispute, controversy or claim settled by arbitration in Bryn Mawr, Pennsylvania, in accordance with the National Rules for the Settlement of Employment Disputes of the American Arbitration Association, before one arbitrator who shall be an executive officer or former executive officer of a publicly traded corporation, selected by the parties. Any award entered by the arbitrator shall be final, binding and nonappealable and judgment may be entered thereon by either party in accordance with applicable law in any court of competent jurisdiction. This arbitration provision shall be specifically enforceable. The arbitrator shall have no authority to modify any provision of this Agreement or to award a remedy for a dispute involving this Agreement other than a benefit specifically provided under or by virtue of the Agreement. Aqua America shall be responsible for all of the fees of the American Arbitration Association and the arbitrator and any expenses relating to the conduct of the arbitration (including reasonable attorneys' fees and expenses).

IN WITNESS WHEREOF, the undersigned, intending to be legally bound, have executed this Agreement as of the date first above written.

ATTEST:

AQUA AMERICA, INC.

/s/ Roy H. Stahl
Secretary

By _____
/s/ Nicholas DeBenedictis

EXECUTIVE

/s/ Joy Ellen Ambrogio
Witness

/s/ Karl M. Kyriss

BOND PURCHASE AGREEMENT**\$47,830,000****CHESTER COUNTY INDUSTRIAL DEVELOPMENT AUTHORITY****Water Facilities Revenue Bonds
(Aqua Pennsylvania, Inc. Project)
Series A of 2007**

Bond Purchase Agreement dated December 21, 2006, among the CHESTER COUNTY INDUSTRIAL DEVELOPMENT AUTHORITY (the "Authority"), AQUA PENNSYLVANIA, INC., a Pennsylvania corporation (the "Company"), and SOVEREIGN SECURITIES CORPORATION, LLC, a Pennsylvania limited liability company (the "Underwriter").

1. Background.

(a) The Authority proposes to enter into a Financing Agreement (the "Financing Agreement") dated as of January 1, 2007 with the Company, under which the Authority will agree to loan to the Company funds to (i) finance certain capital costs of numerous acquisitions, constructions, modifications, expansions, installations and replacements of water distribution, treatment and related operating systems located in the counties of Chester, Bucks, Delaware and Montgomery in Pennsylvania (the "Facilities") that are part of the Company's system (the "System") for the distribution of water to its customers, and (ii) pay related financing costs (collectively, the "Project"). To finance the loan under the Financing Agreement, the Authority proposes to issue and sell \$47,830,000 aggregate principal amount of Chester County Industrial Development Authority Water Facilities Revenue Bonds (Aqua Pennsylvania, Inc. Project), Series A of 2007 (the "Bonds") to the Underwriter, who will in turn reoffer the Bonds for sale to the public.

(b) The Bonds will be issued pursuant to the Pennsylvania Economic Development Financing Law, Act of August 23, 1967, P.L. 251, as amended and supplemented (the "Act"), resolutions adopted by the Authority on November 15, 2006 and December 18, 2006 (collectively, the "Authority Resolution") and under a Trust Indenture dated as of January 1, 2007 (the "Trust Indenture"), between the Authority and U.S. Bank National Association, as trustee (the "Trustee"). The Bonds will have such terms as are set forth in Schedule I attached hereto.

The Bonds will be payable out of payments by the Company under the Financing Agreement, including payments under its First Mortgage Bond, 5.00% Series due 2040 in the principal amount of \$23,915,000 (the "2040 First Mortgage Bond"); and its First Mortgage Bond, 5.00% Series due 2041 in the principal amount of \$23,915,000 (the "2041 First Mortgage Bond" and along with the 2040 First Mortgage Bond collectively, the "First Mortgage Bonds") issued with respect to the Bonds. The First Mortgage Bonds will be issued under and secured by the Company's Indenture of Mortgage dated as of January 1, 1941 (the "Indenture of Mortgage"), from the Company to The Bank of New York Trust Company, N.A., trustee

(successor to The Pennsylvania Company for Insurance on Lives and Granting Annuities, The Pennsylvania Company for Banking and Trusts, The First Pennsylvania Banking and Trust Company, First Pennsylvania Bank, N.A., CoreStates Bank, N.A., Mellon Bank, N.A., Chase Manhattan Trust Company, National Association and J.P. Morgan Trust Company, National Association) (the "Mortgage Trustee"), as presently amended and supplemented and as to be further supplemented by a Forty-first Supplemental Indenture of Mortgage to be dated as of January 1, 2007 (the "Forty-first Supplemental Mortgage," which together with the Indenture of Mortgage, as amended and supplemented, is referred to hereinafter as the "Mortgage"). Each First Mortgage Bond will be issued in the same aggregate principal amount and will mature on the same date and bear interest at the same rate as the Bonds that they secure. All of the Authority's rights under the Financing Agreement to receive and enforce repayment of its loan to the Company and to enforce payment of the Bonds, including all of the Authority's rights to the First Mortgage Bonds, and all of the Authority's rights to moneys and securities in the Project Funds, the Revenue Funds and the Debt Service Funds (and the accounts within all such Funds applicable to the Bonds) established by the Trust Indenture, except for the Authority's rights to certain fees and reimbursements for expenses, indemnification and notice thereunder and rights relating to amendments of and notices under the Financing Agreement, will be assigned to the Trustee as security for the Bonds pursuant to the Trust Indenture.

(c) The Project will finance the acquisition, construction, installation and equipping of facilities for the furnishing of water for purposes of Section 142(a)(4) of the Internal Revenue Code of 1986, as amended (the "Code"), so that the interest on the Bonds will not be includable in gross income for federal income tax purposes under the Code and the Underwriter may offer the Bonds for sale without registration under the Securities Act of 1933, as amended (the "1933 Act") or qualification of the Trust Indenture under the Trust Indenture Act of 1939, as amended (the "1939 Act").

(d) A Preliminary Official Statement dated December 15, 2006, including the Appendices thereto and all documents incorporated therein by reference (the "Preliminary Official Statement"), has been supplied to the parties hereto, and a final Official Statement to be dated the date hereof, including the Appendices thereto and all documents incorporated therein by reference, prepared for use in such offerings will be supplied to the parties hereto as soon as it is available, subject to Section 10 hereof (such final Official Statement, as it may be amended or supplemented with the consent of the Authority, the Underwriter and the Company, is hereinafter referred to as the "Official Statement").

(e) The Bonds will be insured by a bond insurance policy (the "Bond Insurance Policy") issued by Financial Guaranty Insurance Company (the "Bond Insurer").

2. Purchase, Sale and Closing. On the terms and conditions herein set forth, the Underwriter will buy from the Authority, and the Authority will sell to the Underwriter, all (but not less than all) of the Bonds at a purchase price equal to \$49,282,118.80, which is equal to the \$47,830,000.00 aggregate principal amount of the Bonds, plus original issue premium of \$2,169,568.80 less the underwriting discount of \$717,450.00. Payment for the Bonds shall be made in immediately available funds to the Trustee for the account of the Authority. Closing (the "Closing") will be at the offices of Ballard Spahr Andrews & Ingersoll, LLP, Philadelphia, Pennsylvania, bond counsel, at 10:00 a.m., Eastern Daylight Time, on January 16, 2007 or at

such other date, time or place or in such other manner as may be agreed on by the parties hereto. The Bonds will be delivered as fully registered bonds in the aggregate principal amount of \$47,830,000 in the name of Cede & Co., as nominee for The Depository Trust Company (“DTC”), with CUSIP numbers printed thereon, and shall conform in all respects to DTC’s Book-Entry Only System. Delivery of the Bonds to DTC will be made by delivering the Bonds to the Trustee utilizing the DTC FAST system. If the Underwriter so requests, the Bonds shall be made available to the Underwriter (prior to their delivery to DTC) in Philadelphia, Pennsylvania at least three full business days before the Closing for purposes of inspection.

The Underwriter agrees to make a bona fide public offering of the Bonds at the initial offering prices or yields set forth in the Official Statement; provided, however, that the Underwriter reserves the right (and the Authority and the Company hereby expressly acknowledge such right): to make concessions to dealers; to effect transactions that stabilize or maintain the market price of the Bonds above that which might otherwise prevail in the open market and to discontinue at any time such stabilizing transactions; and to change such initial offering prices, all as the Underwriter shall deem necessary in connection with the marketing of the Bonds.

3. **Authority’s Representations and Warranties.** The Authority makes the following representations and warranties, all of which shall survive Closing; that:

(a) The Authority is a body politic and corporate, duly created and existing under the Constitution and laws of the Commonwealth of Pennsylvania (the “Commonwealth”), and has, and at the date of Closing will have, full legal right, power and authority to: enter into this Bond Purchase Agreement; execute and deliver the Bonds, the Trust Indenture, the Financing Agreement, this Bond Purchase Agreement and the Authority’s tax certificate and the other various certificates executed by the Authority in connection therewith (collectively, with the Authority Resolution, the “Authority Financing Documents”); issue, sell and deliver the Bonds to the Underwriter as provided herein; and carry out and consummate the transactions contemplated by the Authority Financing Documents and the Official Statement to be carried out and/or consummated by it;

(b) The Authority Resolution was duly adopted at a public meeting of the Authority at which a quorum was present and acted throughout; and the Authority Resolution is in full force and effect and has not been amended, repealed or superseded in any way;

(c) The sections entitled “INTRODUCTORY STATEMENT” (insofar as it relates to the Authority), “THE AUTHORITY” and “ABSENCE OF MATERIAL LITIGATION” (solely insofar as the information set forth therein relates to the Authority) contained in the Preliminary Official Statement as of its date did not contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary in order to make the statements contained therein, in the light of the circumstances under which they were made, not misleading;

(d) The sections entitled “INTRODUCTORY STATEMENT” (insofar as it relates to the Authority), “THE AUTHORITY” and “ABSENCE OF MATERIAL LITIGATION” (solely insofar as the information set forth therein relates to the Authority) contained in the Official Statement as of its date does not or will not contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary in order to make the statements contained therein, in the light of the circumstances under which they were made, not misleading;

(e) The Authority has complied, and will at the Closing be in compliance, in all material respects with the provisions of the Act;

(f) The Authority has duly authorized and approved the Preliminary Official Statement and the Official Statement; and has duly authorized and approved the execution and delivery of, and the performance by the Authority of the obligations on its part contained in, the Authority Financing Documents;

(g) To the best of the knowledge of the officer of the Authority executing this Bond Purchase Agreement, the Authority is not in material breach of or in default under any applicable law or administrative regulation of the Commonwealth or the United States; and the execution and delivery of the Authority Financing Documents, and compliance with the provisions of each thereof, do not and will not conflict with or constitute a breach of or default under any existing law, administrative regulation, judgment, decree, loan agreement, note, resolution, agreement or other instrument to which the Authority is a party or is otherwise subject;

(h) All approvals, consents and orders of any governmental authority, board, agency or commission having jurisdiction that would constitute a condition precedent to the Authority’s legal ability to issue the Bonds or to the Authority’s performance of its obligations hereunder and under the Authority Financing Documents have been obtained or will be obtained prior to the Closing;

(i) The Bonds, when issued, authenticated and delivered in accordance with the Trust Indenture and sold to the Underwriter as provided herein, will be validly issued and will be valid and binding limited obligations of the Authority enforceable against the Authority in accordance with their terms (except as enforcement of remedies may be limited by bankruptcy, insolvency, reorganization, moratorium or other laws or legal or equitable principles affecting the enforcement of creditors’ rights (“Creditors’ Rights Limitations”));

(j) The terms and provisions of the Authority Financing Documents when executed and delivered by the respective parties thereto will constitute the valid, legal and binding obligations of the Authority enforceable against the Authority in accordance with their respective terms (except as enforcement of remedies may be limited by Creditors’ Rights Limitations);

(k) There is no action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any court, or public board or body, pending or, to the knowledge of the Authority after due inquiry, threatened against the Authority, affecting the existence of the Authority or the titles of its officers to their respective offices or seeking to prohibit, restrain or enjoin the sale, issuance or delivery of the Bonds or of the revenues or assets of the Authority pledged or to be pledged to pay the principal of and interest on the Bonds, or the pledge thereof;

or in any way contesting or affecting the validity or enforceability of the Authority Financing Documents or contesting in any way the completeness or accuracy of the Preliminary Official Statement or the Official Statement, or contesting the power or authority of the Authority with respect to the issuance of the Bonds or the execution, delivery or performance of any of the Authority Financing Documents, wherein an unfavorable decision, ruling or finding would affect in any way the validity or enforceability of any of the Authority Financing Documents;

(l) The net proceeds received from the Bonds and applied in accordance with the Trust Indenture and Financing Agreement shall be used in accordance with the Act as described in the Official Statement;

(m) The Authority has not been notified of any listing or proposed listing by the Internal Revenue Service to the effect that the Authority is a bond issuer whose arbitrage certifications may not be relied upon; and

(n) Any certificate signed by any of the authorized officers of the Authority and delivered to the Underwriter shall be deemed a representation and warranty by the Authority to the Underwriter as to the statements made therein.

4. Company's Representations and Warranties. The Company makes the following representations and warranties on and as of the date hereof and as of the date of Closing, all of which will survive the Closing:

(a) The Company has not sustained since December 31, 2005 any material loss or interference with its business from fire, explosion, flood or other calamity, whether or not covered by insurance, or from any labor dispute or court or governmental action, order or decree; and since the respective dates as of which information is given in the Official Statement, there have not been any material changes in the outstanding capital stock or the long-term debt of the Company or any material adverse change, or a development involving a prospective material adverse change, in or affecting the general affairs, management, financial position, stockholders' equity or results of operations of the Company, otherwise than as set forth or contemplated in the Official Statement;

(b) The Company was organized, is in good standing and subsists as a corporation under the laws of the Commonwealth, with power (corporate and other) to own its properties and conduct its business as described in the Official Statement;

(c) The First Mortgage Bonds have been duly authorized; and, when issued and delivered as contemplated by this Bond Purchase Agreement, will have been duly executed, authenticated, issued and delivered and will constitute valid and legally binding obligations of the Company entitled to the benefits provided by the Mortgage;

(d) The Original Indenture has been duly authorized, executed and delivered by the Company, and the Forty-first Supplemental Mortgage has been duly authorized by the Company. When the Forty-first Supplemental Mortgage, in substantially the form approved by the Company, has been executed and delivered by the Company and assuming due authorization and execution by the Mortgage Trustee, and recorded as required by law, the Mortgage will constitute a valid and legally binding instrument enforceable against the Company in accordance

with its terms except as enforceability may be limited by Creditors' Rights Limitations; will constitute a direct, valid and enforceable first mortgage lien (except as enforceability of such lien may be limited by Creditors' Rights Limitations) upon all of the properties and assets of the Company (not heretofore released as provided for in the Mortgage) specifically or generally described or referred to in the Mortgage as being subject to the lien thereof, excepting permitted liens under the Mortgage and excepting property and assets that the Mortgage expressly excludes from the lien thereof; and will create a mortgage upon all properties and assets acquired by the Company after the execution and delivery of the Forty-First Supplemental Mortgage and required to be subjected to the lien of the Mortgage pursuant thereto when so acquired, except for permitted liens under the Mortgage. The Original Indenture has been and the Forty-First Supplemental Mortgage will be duly filed, recorded or registered in each place in the Commonwealth in which such filing, recording or registration was or is required to protect and preserve the lien of the Mortgage; and all necessary approvals of regulatory authorities, commissions and other governmental bodies having jurisdiction over the Company required to subject the mortgaged properties and assets or trust estate (as defined in the Mortgage) to the lien of the Mortgage have been duly obtained;

(e) In each of the following cases with such exceptions as are not material and do not interfere with the conduct of the business of the Company, the Company has good and marketable title to all of its real property currently held in fee simple; and all of its other interests in real property (other than certain rights of way, easements, occupancy rights, riparian and flowage rights, licenses, leaseholds, and real property interests of a similar nature). In each case such title is free and clear of all liens, encumbrances and defects except such as may be described in the Official Statement, the lien of the Mortgage, permitted liens under the Mortgage or such as do not materially affect the value of such property and do not interfere with the use made and proposed to be made of such property by the Company. Any real property and buildings held under lease by the Company are held by it under valid, subsisting and enforceable leases with such exceptions as are not material and do not interfere with the use made and proposed to be made of such property and buildings by the Company;

(f) In each of the following cases except for such exceptions that are not material and do not interfere with the conduct of the business of the Company, the Company has all licenses, franchises, permits, authorizations, rights, approvals, consents and orders of all governmental authorities or agencies necessary for the ownership or lease of the properties owned or leased by it and for the operation of the business carried on by it as described in the Official Statement, and all water rights, riparian rights, easements, rights of way and other similar interests and rights described or referred to in the Mortgage necessary for the operation of the business carried on by it as described in the Official Statement. Except as otherwise set forth in the Official Statement, all such licenses, franchises, permits, orders, authorizations, rights, approvals and consents are in full force and effect and contain no unduly burdensome provisions; except as otherwise set forth in the Official Statement, there are no legal or governmental proceedings pending or, to its knowledge after due inquiry, threatened that would result in a material modification, suspension or revocation thereof. The Company has the legal power to exercise the rights of eminent domain for the purposes of conducting its water utility operations;

(g) The issue and sale of the Bonds, the issue and delivery of the First Mortgage Bonds and the compliance by the Company with all of the applicable provisions of the First Mortgage Bonds and the Mortgage and the execution, delivery and performance by the Company of the Forty-first Supplemental Mortgage, the Financing Agreement, this Bond Purchase Agreement and the Continuing Disclosure Agreement will not conflict with or result in a breach of any of the terms or provisions of, or constitute a default under, or result in the creation or imposition of any lien, charge or encumbrance (other than the lien of the Mortgage) upon any of the property or assets of the Company pursuant to the terms of any indenture, mortgage, deed of trust, loan agreement or other agreement or instrument to which the Company is a party or by which the Company is bound or to which any of the property or assets of the Company are subject, nor will such action result in a violation of the provisions of the Articles of Incorporation, as amended, or the Bylaws of the Company or any statute or any order, rule or regulation of any court or governmental agency or body having jurisdiction over the Company or any of its property. No consent, approval, authorization, order, registration or qualification of or with any court or any such regulatory authority or other governmental body (other than those already obtained) is required to be obtained by the Company for the issue and sale of the Bonds, the issue and delivery of the First Mortgage Bonds, the execution, delivery and performance by the Company of this Bond Purchase Agreement, the Financing Agreement, the Forty-first Supplemental Mortgage, the First Mortgage Bonds and the Continuing Disclosure Agreement, or the consummation by the Company of the other transactions contemplated by this Bond Purchase Agreement or the Mortgage, except for the issuance and registration by the Commonwealth Public Utility Commission of a Securities Certificate authorizing the incurring of the debt evidenced by the First Mortgage Bonds;

(h) The Company has applied to the Pennsylvania Public Utility Commission for an order to authorize the issuance and delivery of the First Mortgage Bonds on terms not inconsistent with this Bond Purchase Agreement;

(i) The Company is not a holding company, a registered holding company or an affiliate of a registered holding company within the meaning of the Public Utility Holding Company Act of 1935, as amended;

(j) There are no legal or governmental proceedings pending to which the Company is a party or to which any property of the Company is subject, other than as set forth in the Official Statement and other than litigation incident to the kind of business conducted by the Company, wherein an unfavorable ruling, decision or finding is likely that would have a material adverse effect on the financial position, stockholders' equity or results of operations of the Company; and, to the best of the Company's knowledge after due diligence, no such proceedings are threatened by governmental authorities or threatened by others;

(k) The Project consists of either land or property of a character subject to depreciation for federal income tax purposes and will be used to furnish water that is or will be made available to members of the general public (including electric utility, industrial, agricultural, or commercial users); the rates for the furnishing or sale of the water have been established or approved by a State or political subdivision thereof, by an agency or instrumentality of the United States, or by a public service or public utility commission or other similar body of any State or political subdivision thereof; and all other information supplied by the Company to the Underwriter with respect to the exclusion from gross income pursuant to Section 103 of the Code of the interest on the Bonds is correct and complete;

(l) The Company has not, within the immediately preceding ten (10) years, defaulted in the payment of principal or interest on any of its bonds, notes or other securities, or any legally authorized obligation issued by it; and

(m) The information with respect to the Company and the Project and the descriptions of the First Mortgage Bonds and the Mortgage contained in the Preliminary Official Statement and the Official Statement (including appendices A and B thereto) do not contain an untrue statement of a material fact or omit to state a material fact necessary to make such information and descriptions, in the light of the circumstances under which they were made, not misleading.

5. **Authority's Covenants.** The Authority will:

(a) furnish such information, execute such instruments and take such other action in cooperation with the Underwriter as the Underwriter may reasonably request to qualify the Bonds for offer and sale under the Blue Sky or other securities laws and regulations of such states and other jurisdictions in the United States of America as the Underwriter may designate and will assist, if necessary therefor, in the continuance of such qualifications in effect so long as required for distribution of the Bonds; provided, however, that the Authority shall in no event be required to file a general consent to suit or service of process or to qualify as a foreign corporation or as a dealer in securities in any such state or other jurisdiction;

(b) not, on its part, amend or supplement the Official Statement without prior notice to and the consent of the Underwriter and the Company and will advise the Underwriter and the Company promptly of the institution of any proceedings by any governmental agency or otherwise affecting the use of the Official Statement in connection with the offer and sale of the Bonds; and

(c) refrain from knowingly taking any action (and permitting any action with regard to which the Authority may exercise control) which would result in the loss of the exclusion from gross income for federal income tax purposes of interest on the Bonds referred to under the caption "TAX MATTERS" in the Official Statement.

6. **Company's Covenants.** The Company agrees that it will:

(a) refrain from knowingly taking any actions (and from permitting any action with regard to which the Company may exercise control) that would result in the loss of the exclusion from gross income for federal tax purposes of interest on the Bonds;

(b) indemnify and hold harmless the Authority, its members, directors, officers, agents, attorneys, and employees and the Underwriter, its officers, directors, officials, agents, attorneys, employees, and each person, if any, who controls the Underwriter within the meaning of Section 15 of the 1933 Act or Section 20 of the Securities Exchange Act of 1934, as amended (the "1934 Act"), from and against all losses, claims, damages, liabilities and expenses, joint or several, to which the Authority and the Underwriter, or either of them, or any of their respective members, directors, officers, agents, attorneys, and employees and each person, if any, who controls the Underwriter within the meaning of the 1933 Act or 1934 Act as aforesaid may become subject, under federal laws or regulations, or otherwise, insofar as such losses,

claims, damages, liabilities and expenses (or actions in respect thereof) arise out of or are based upon: (i) a breach of the Company's representations included in this Agreement; (ii) any untrue statement or alleged untrue statement of any material fact pertaining to the Project or the Company set forth in the Official Statement, the Preliminary Official Statement or any amendment to either; (iii) the willful or negligent omission of (or the alleged omission to state) a material fact in the Official Statement, in the Preliminary Official Statement, or in any amendment or supplement to either, as such fact is required to be stated therein or necessary to make the statements therein that pertain to the Company or the Project not misleading in the light of the circumstances under which they were made; (iv) or arising by virtue of the failure to register the Bonds under the 1933 Act or the failure to qualify the Indenture under the 1939 Act; (v) or arising by virtue of any audit or investigation conducted by a state or federal agency, department or entity questioning, among other things, the tax-exempt status of the Bonds;

(c) undertake, pursuant to the Continuing Disclosure Agreement dated as of January 1, 2007 to be entered into between the Company and the Trustee (the "Continuing Disclosure Agreement"), to provide annual reports and notices of certain material events in accordance with Rule 15c2-12 under the 1934 Act, as amended ("Rule 15c2-12"). A description of this undertaking and the Continuing Disclosure Agreement is set forth in the Preliminary Official Statement and will also be set forth in the Final Official Statement;

(d) not amend or supplement the Official Statement without prior notice to, and the consent of, the Underwriter, and will advise the Underwriter and the Authority promptly of the institution of any proceedings by any governmental agency or otherwise affecting the use of the Official Statement in connection with the offer and the sale of the Bonds; and

(e) take all actions reasonably necessary to obtain the issuance and registration of a Securities Certificate with respect to the debt to be evidenced by the First Mortgage Bonds from the Commonwealth Public Utility Commission by no later than January 13, 2007.

7. Underwriter's Covenant and Representations and Warranties.

(a) By acceptance hereof the Underwriter agrees to indemnify and hold harmless the Authority, its members, directors, officers, agents, attorneys, and employees and the Company, its officers, directors, agents, attorneys, and employees and each person if any, who controls the Company within the meaning of Section 15 of the 1933 Act against all or several claims, losses, damages, liabilities and expenses asserted against them, or any of them, at law or in equity, in connection with the offering and sale of the Bonds on the grounds that the information under the caption "UNDERWRITING" in the Preliminary Official Statement or the Official Statement (or any supplement or amendment to said information) contains an untrue or allegedly untrue statement of a material fact or omits or allegedly omits to state any material fact necessary to make the statements therein not misleading in the light of the circumstances under which they were made (it being understood that the Underwriter furnished only the information under such "UNDERWRITING" heading), or failure on the part of the Underwriter to deliver an Official Statement to any purchaser. The Underwriter will reimburse any legal or other expenses reasonably incurred by a party, person or entity indemnifiable under this Section 7 in connection with investigating or defending any such loss, claim, damage, liability or action. This indemnity agreement will be in addition to any liability that the Underwriter may otherwise have. The Underwriter shall not be liable for any settlement of, any such action effected without its consent.

(b) The Underwriter will be paid an underwriting discount of \$717,450.00 with respect to the Bonds.

(c) The Underwriter acknowledges that the Authority is relying upon the veracity of the certification in clause (b) above on the date hereof as a condition precedent to lending the proceeds of the Bonds to the Company.

8. **Notice of Indemnification; Settlement.** Promptly after a party, person or entity indemnifiable under Section 6 or 7 of this Bond Purchase Agreement (an "Indemnitee") receives notice of the commencement of any audit, investigation or action against such Indemnitee in respect of which indemnity is to be sought by the Indemnitee against the Company or an Underwriter, as the case may be (the "Indemnifying Party"), the Indemnitee will notify the Indemnifying Party in writing of such action, and the Indemnifying Party may assume the defense thereof, including the employment of counsel and the payment of all expenses; but the omission so to notify the Indemnifying Party will not relieve the Indemnifying Party from any liability that it may have to the Indemnitee otherwise than hereunder. The Indemnifying Party shall not be liable for any settlement of any such action effected without its consent, but if settled with the consent of the Indemnifying Party or if there is a final judgment for the plaintiff in any such action, the Indemnifying Party will indemnify and hold harmless the Indemnitee from and against any loss or liability by reason of such settlement or judgment. The indemnity agreements contained in this Bond Purchase Agreement shall include reimbursement for expenses reasonably incurred by an Indemnitee in investigating the claim and in defending it if the Indemnifying Party declines to assume the defense and shall survive delivery of the Bonds. Notwithstanding the foregoing, in the event of an investigation or audit by the Internal Revenue Service or the Securities and Exchange Commission or any other state or federal agency, department, or entity with respect to the Bonds, the Authority shall have the right and duty to undertake its own defense, including the employment of counsel, with full power to litigate, compromise or settle the same on its own behalf, and the Company agrees that it will indemnify and hold the Authority harmless for all costs and expenses, including, but not limited to, attorney fees and expenses and costs, of any such settlement.

9. **Equitable Contribution.** If the indemnification provided for in Section 6(b) of this Bond Purchase Agreement is unavailable to the Underwriter (or any controlling person thereof) in respect of any losses, claims, damages or liabilities referred to therein, then the Company shall, in lieu of indemnifying the Underwriter, contribute to the amount paid or payable by the Underwriter as a result of such losses, claims, damages or liabilities in such proportion as is appropriate to reflect the relative benefits received by the Company and the Underwriter, respectively, from the offering of the Bonds. If, however, the allocation provided by the immediately preceding sentence is not permitted by applicable law, then the Company shall contribute to such amount paid or payable by the Underwriter in such proportion as is appropriate to reflect not only such relative benefits but also the relative fault of the Company and the Underwriter, respectively, in connection with the statements or omission which resulted in such losses, claims, damages or liabilities, as well as any other relevant equitable

considerations. The relative benefit received by the Company or the Underwriter shall be deemed to be in the same proportion as the total proceeds from the offering (before deducting issuance costs and expenses other than underwriting fees and commissions) received by the Company, on the one hand, bear to the total underwriting fees and commissions received by the Underwriter, on the other hand. The relative fault shall be determined by reference to, among other things, whether the untrue or alleged untrue statement of a material fact or the omission or alleged omission to state a material fact related to information supplied by the Company or the Underwriter and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such statement or omission. The Company and the Underwriter agree that it would not be just and equitable if contribution pursuant to this Section 9 were determined by pro rata allocation or by any other method of allocation that does not take account of the equitable considerations referred to above in this Section 9. The amount paid or payable by the Underwriter as a result of the losses, claims, damages or liabilities referred to above in this Section 9 shall be deemed to include any reasonable legal or other expenses reasonably incurred by the Underwriter in connection with investigating or defending any such action or claim. Notwithstanding the provisions of this Section 9, the Underwriter shall not be required to contribute any amount in excess of the amount by which the total price at which the Bonds underwritten by it and distributed to the public were offered to the public exceeds the amount of any damages that the Underwriter has otherwise been required to pay by reason of such untrue or allegedly untrue statement or omission or alleged omission.

10. Official Statement; Public Offering.

(a) In order to enable the Underwriter to comply with Rule 15c2-12: the Company has prepared (or caused to be prepared) the Preliminary Official Statement, which the Company and the Authority (but, in the case of the Authority, only with respect to the information therein under the headings "THE AUTHORITY" and, insofar as they relate to the Authority, "INTRODUCTORY STATEMENT" and "ABSENCE OF MATERIAL LITIGATION") deem final and complete as of its date except for certain "Permitted Omissions" as described in Rule 15c2-12; the Company shall provide to the Underwriter sufficient copies of the Official Statement in sufficient time to accompany any confirmation that requires payment from any customer and in any event within seven business days after the date of this Bond Purchase Agreement; and of which the Company has or gains knowledge would render the Official Statement misleading in any material respect in the period from the date of its delivery to the Underwriter by the Company (as that phrase is defined in Rule 15c2-12) then the Company shall promptly give the Underwriter notice thereof. The Authority and the Company hereby authorize the use of the Preliminary Official Statement and the Official Statement by the Underwriter in connection with the offering of the Bonds.

(b) After the Closing, and until the Underwriter has informed the Authority and the Company that the Underwriter has sold all the Bonds, the Authority and the Company will not adopt or distribute any amendment of or supplement to the Official Statement, except with the prior written consent of the Underwriter; and if any event relating to or affecting the Authority, the Company or the Bonds shall occur, the result of which shall make it necessary, in the opinion of the Underwriter, to amend or supplement the Official Statement in order to make it not misleading in the light of the circumstances existing at that time, the Company shall forthwith prepare, and the Company and the Authority shall approve for distribution, a

reasonable number of copies of an amendment of or supplement to the Official Statement, in form and substance reasonably satisfactory to the Underwriter, so that the Official Statement then will not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements therein, in the light of the circumstances existing at that time, not misleading. The Authority shall cooperate with the Company in the issuance and distribution of any such amendment or supplement.

(c) Upon Closing, the Underwriter shall promptly provide a Nationally Recognized Municipal Securities Information Repository and the Municipal Securities Rulemaking Board with a copy of the Official Statement for filing in accordance with Rule 15c2-12, and inform the Authority and the Company in writing as to the date and place of such filing and the date of the end of the underwriting period.

11. **Conditions of Underwriter's and Authority's Obligations.** The Underwriter's obligations to purchase and pay for the Bonds and the Authority's obligation to issue and deliver the Bonds are subject to fulfillment of the following conditions at or before Closing:

(a) The representations of the Authority and the Company herein shall be true in all material respects on and as of the date of the Closing and shall be confirmed by appropriate certificates at Closing;

(b) Neither the Authority nor the Company shall be in default in the performance of any of their respective covenants herein;

(c) The Underwriter shall have received:

(i) An opinion of Ballard Spahr Andrews & Ingersoll, LLP, Bond Counsel, dated the date of Closing, substantially in the form attached as Exhibit A hereto, addressed to (or with reliance letters delivered in respect of) the Authority, the Trustee and the Underwriter;

(ii) An opinion of Ballard Spahr Andrews & Ingersoll, LLP, Bond Counsel, dated the date of Closing, substantially in the form attached as Exhibit B hereto, addressed to the Underwriter;

(iii) An opinion of Conrad O'Brien Gellman & Rohn, P.C., counsel for the Authority, dated the date of Closing, substantially in the form attached as Exhibit C hereto, addressed to the Underwriter and in form and substance reasonably satisfactory to the Underwriter and Bond Counsel;

(iv) Opinions of Dilworth Paxson LLP, counsel to the Company, and the Company's Senior Vice President — Law and Administration, dated the date of Closing, substantially in the forms attached as Exhibit D hereto, addressed to the Underwriter, the Authority and Bond Counsel, in form and substance reasonably satisfactory to the Underwriter and to Bond Counsel;

(v) An opinion of Stradley, Ronon, Stevens & Young, LLP, counsel for the Underwriter, in form and substance reasonably satisfactory to the Underwriter;

(vi) An opinion of legal counsel to the Bond Insurer in form and substance reasonably satisfactory to Bond Counsel and the Underwriter, relating to the enforceability of the Bond Insurance Policy and the information concerning the Bond Insurer in the Official Statement;

(vii) An agreed upon procedures letter dated the date of the Official Statement and addressed to the Company from the Company's auditor with respect to financial information set forth in Appendix A to the Official Statement, in form and substance reasonably satisfactory to the Company's auditor and the Underwriter;

(viii) A certificate dated the date of Closing executed by the Chairman of the Authority to the effect that:

(A) the representations and warranties of the Authority contained herein, to the best of the knowledge of such Chairman, are true and correct in all material respects as of the date of Closing; and

(B) to the best of the knowledge of such Chairman, the Authority has complied in all material respects with all agreements executed by the Authority in connection with issuance of the Bonds and satisfied in all material respects the Authority's covenants contained in Section 5 herein and all of the conditions on its part to be performed or satisfied at or prior to the Closing;

(ix) A certificate dated the date of Closing executed by the chief financial officer of the Company to the effect that:

(A) the representations and warranties of the Company in this Bond Purchase Agreement are true and correct in all material respects as of the date of Closing;

(B) the Preliminary Official Statement and the Official Statement, as of their respective dates, insofar as they relate to the Company, do not contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein, under the circumstances in which they were made, not misleading in any respect; and

(C) no event affecting the Company has occurred since the date of the Bond Purchase Agreement that is required to be disclosed in the Official Statement in order to make the statements and information therein not misleading in any material respect;

(x) Two executed copies of the Trust Indenture, the Financing Agreement, the Bond Purchase Agreement, the Forty-first Supplemental Mortgage and the Continuing Disclosure Agreement and specimen copies of the First Mortgage Bonds;

(xi) Two copies of the Articles of Incorporation and By-laws of the Company, as amended to the date of Closing, and of the resolutions of the Board of Directors of the Company authorizing and approving the execution and delivery of this Bond Purchase Agreement, the Financing Agreement, the First Mortgage Bonds, the Forty-first Supplemental Mortgage, the Continuing Disclosure Agreement and the incurrence of indebtedness with respect thereto and all transactions described in the Official Statement and contemplated by this Bond Purchase Agreement, all certified by its Secretary or Assistant Secretary;

(xii) Two copies of the Authority Resolution;

(xiii) One or more letters from the Company's auditor, dated the date of the Preliminary Official Statement and the Official Statement and addressed to the Company, consenting to the use of the financial statements prepared by such firm and all references to such firm contained in the Preliminary Official Statement and the Official Statement;

(xiv) Evidence of the issuance of the Bond Insurance Policy by the Bond Insurer, which policy shall unconditionally and irrevocably guarantee the payment when due of the principal of and interest on the Bonds;

(xv) Evidence satisfactory to the Underwriter of a rating of "AAA" assigned by Standard & Poor's Ratings Services, a Division of The McGraw-Hill Companies, and that such rating is in full force and effect as of the date of Closing;

(xvi) Evidence satisfactory to Bond Counsel and the Underwriter of the receipt by the Authority of a Preliminary Allocation relating to the Bonds and approval of the Project from the Pennsylvania Department of Community and Economic Development and of the registration of a Securities Certificate relating to the First Mortgage Bonds and the Bonds with the Pennsylvania Public Utility Commission; and

(xvii) Such additional documentation as the Underwriter or its counsel or Bond Counsel may reasonably request to evidence compliance with applicable law and the validity of the Bonds, the Financing Agreement, the Trust Indenture, this Bond Purchase Agreement, the Forty-first Supplemental Mortgage, the First Mortgage Bonds and the Continuing Disclosure Agreement, and to evidence that the interest on the Bonds is not includable in gross income under the Code and the status of the offering under the 1933 Act and the 1939 Act;

(d) At Closing there shall not have been any material adverse change in the financial condition of the Company or any adverse development concerning the business or assets of the Company that would result in a material adverse change in the prospective financial condition or results of operations of the Company from that described in the Official Statement, which, in the judgment of the Underwriter, makes it inadvisable to proceed with the sale of the Bonds; and the Underwriter shall have received certificates of the Company certifying that no such material adverse change has occurred or, if such a change has occurred, full information with respect thereto; and

(e) The Underwriter shall deliver at Closing a certificate in form acceptable to Bond Counsel to the effect that the Underwriter has sold to the public (excluding bond houses and brokers) a substantial amount of the Bonds at initial offering prices no higher than, or yields no lower than, those shown on the cover page of the Official Statement and that such certificate may be relied upon for purposes of determining compliance with Section 148 of the Code.

12. **Events Permitting the Underwriter to Terminate.** The Underwriter may terminate its obligation to purchase the Bonds at any time before Closing if any of the following occurs:

(a) A legislative, executive or regulatory action or proposed action, or a court decision, which in the reasonable judgment of the Underwriter casts sufficient doubt on the legality of, or the exclusion from gross income for federal income tax purposes of interest on, obligations such as the Bonds so as to materially impair the marketability or materially lower the market price of the Bonds; or

(b) Any action by the Securities and Exchange Commission or a court that would require registration of the Bonds or the First Mortgage Bonds under the 1933 Act or qualification of the Indenture under the 1939 Act; or

(c) Any general suspension of trading in securities on the New York Stock Exchange or the establishment, by the New York Stock Exchange, by the Securities and Exchange Commission, by any federal or state agency, or by the decision of any court, of any limitation on prices for such trading, or any outbreak of hostilities or other national or international calamity or crisis, or any material escalation in any such hostilities, calamity or crisis, the effect of which on the financial markets of the United States of America shall be such as to materially impair the marketability or materially lower the market price of the Bonds; or

(d) Any event or condition occurring or arising after the date hereof, which in the reasonable judgment of the Underwriter renders untrue or incorrect, in any material respect as of the time to which the same purports to relate, the information contained in the Official Statement, or which requires that information not reflected in the Official Statement or Appendices thereto should be reflected therein in order to make the statements and information contained therein not misleading in any material respect as of such time; provided that the Authority, the Company and the Underwriter will use their best efforts to amend or supplement the Official Statement to reflect, to the reasonable satisfaction of the Underwriter, such changes in or additions to the information contained in the Official Statement; or

(e) Pending or threatened litigation affecting or arising out of the ownership of the Facilities or any other facilities of the Company or the issuance of the Bonds, which, in the reasonable judgment of the Underwriter, would materially impair the marketability or materially lower the market price of the Bonds; or

(f) Quantities of the Official Statement are not delivered to the Underwriter in a timely manner as required by Section 10 hereof. If the Underwriter terminates its obligation to purchase the Bonds because any of the conditions specified in Section 11 hereof or this Section 12 shall not have been fulfilled at or before the Closing, such termination shall not result in any liability on the part of the Authority, the Underwriter, or, except for the payment of such costs of issuance described in Section 13 hereof which are due and payable, the Company; or

(g) The Pennsylvania Public Utility Commission fails to issue and register a Securities Certificate with respect to the First Mortgage Bonds and the Bonds. Notwithstanding termination under this section 12(g), the obligations of the Company under sections 8, 9 and 13 shall remain in full force and effect.

12A. **Event Permitting the Company to Terminate.** The Company may terminate its obligations hereunder (except for the obligations under sections 8, 9 and 13) in the event prior to Closing, notwithstanding its exercise of diligent efforts it is unable to obtain from the Commonwealth Public Utility Commission the issuance and registration of a Securities Certificate with respect to the First Mortgage Bonds and the Bonds.

13. **Expenses.** All expenses and costs of the authorization, issuance, sale and delivery of the Bonds including, without limitation, accrued interest, the preparation of and furnishing to the Underwriter of the Preliminary Official Statement and the Official Statement, the preparation and execution of the Bonds, the Financing Agreement, the Trust Indenture, the First Mortgage Bonds, the Forty-first Supplemental Mortgage, the Continuing Disclosure Agreement and this Bond Purchase Agreement, the Insurance Policy premium, rating agency fees, the issuance and closing fees of the Authority, the fees and disbursements of counsel to the Authority, the fees and disbursements of Bond Counsel, the fees and disbursements of counsel to the Underwriter and the expenses incurred in connection with qualifying the Bonds for sale under the securities laws of various jurisdictions and preparing Blue Sky and legal investment memoranda, shall be paid by the Company from funds contributed by the Company and from proceeds of the Bonds. The Authority shall, bear no out-of-pocket expense in connection with the transactions contemplated by this Bond Purchase Agreement. The Underwriter will pay all other expenses of the Underwriter in connection with the public offering of the Bonds.

14. **Execution in Counterparts.** This Bond Purchase Agreement may be executed in any number of counterparts, all of which taken together shall constitute one and the same instrument, and any of the parties hereto may execute this Bond Purchase Agreement by signing any such counterpart.

15. **Notices and Other Actions.** All notices, requests, demands and formal actions hereunder will be in writing mailed, faxed (with confirmation of receipt) or delivered by nationally recognized, next-day delivery service to:

The Underwriter:

Sovereign Securities Corporation, LLC
Mail Code: 20-210-CPC LLC
1500 Market Street
Centre Square-Concourse
Philadelphia, Pennsylvania 19102
Attention: George C. Werner, III
Managing Director
Fax #: (267) 675-0643
Email: gwerner@sovereignbank.com

The Company:

Aqua Pennsylvania, Inc.
762 Lancaster Avenue
Bryn Mawr, Pennsylvania 19010
Attention: Kathy Lee Pape, Vice President, Treasurer & Rate Counsel
Fax #: (610) 519-0989
Email: klpape@aquaaamerica.com

The Authority:

Chester County Industrial Development Authority
737 Constitution Drive
Exton, Pennsylvania 19341
Attention: Gary W. Smith, Executive Director
Fax #: (610) 458-5700
Email: gsmith@cceconomicdevelopment.com

16. **Governing Law.** This Bond Purchase Agreement shall be governed by and construed in accordance with the laws of the Commonwealth of Pennsylvania, excluding those relating to choice of laws or conflict of laws, and may not be assigned by the Authority, the Company or the Underwriter.

17. **Successors.** This Bond Purchase Agreement will inure to the benefit of and be binding upon the parties and their respective successors and, as to Sections 6, 7 and 8 hereof, the Indemnitees, and will not confer any rights upon any other person. The term "successor" shall not include any holder of any Bonds merely by virtue of such holding.

18. **Limitations on Liability.** No personal recourse shall be had for any claim based on this Bond Purchase Agreement or the Bonds against any board member, officer, agent, employee, or attorney past, present or future, of the Authority or any successor body as such, either directly or through the Authority or any successor body, under any constitutional provision, statute, or rule of law or by enforcement of any assessment or penalty or otherwise. Notwithstanding any provision or obligation to the contrary in this Bond Purchase Agreement, the liability of the Authority for payments of any kind, nature or description provided for herein or in any other document executed pursuant hereto shall be limited to the revenues derived by the Authority from the Financing Agreement.

IN WITNESS WHEREOF, the Authority, the Company and the Underwriter have caused their duly authorized Underwriters to execute and deliver this Bond Purchase Agreement as of the date first written above.

**CHESTER COUNTY INDUSTRIAL
DEVELOPMENT AUTHORITY**

By: William S. Latoff
William S. Latoff, Chairman

AQUA PENNSYLVANIA , INC.

By: Kathy L. Pape
Kathy L. Pape, Vice President,
Treasurer and Rate Counsel

SOVEREIGN SECURITIES CORPORATION, LLC

By: George C. Werner, III
George C. Werner, III
Managing Director

SCHEDULE I

Terms of Bonds

Dated Date: January 16, 2007

<u>Series</u>	<u>Maturity Date</u>	<u>Principal Amount</u>	<u>Rate of Interest</u>	<u>Price</u>	<u>Yield</u>
A	February 1, 2040	\$ 23,915,000	5.00%	104.577	4.430%
A	February 1, 2041	\$ 23,915,000	5.00%	104.495	4.440%

Interest Payment Dates: February 1 and August 1, commencing February 1, 2007

Redemption Provisions: The Bonds are subject to redemption as follows:

Optional Redemption. The Bonds are subject to optional redemption prior to maturity by the Authority, at the direction of the Company, on or after February 1, 2017, as a whole or in part at any time, at a redemption price equal to one hundred percent (100%) of the principal amount thereof, plus interest accrued to the date fixed for redemption.

Extraordinary Optional Redemption. The Bonds are subject to redemption, at any time prior to maturity, at the option of the Authority, upon the direction of the Company, in whole, at a Redemption Price of 100% of the principal amount of the Bonds to be redeemed, plus interest accrued thereon to the date fixed for redemption, if any of the following events shall have occurred:

(a) The damage or destruction of all or substantially all of the Facilities to such extent, that, in the reasonable opinion of the Company, the repair and restoration thereof would not be economical; or

(b) the taking by condemnation, or the threat thereof, of all or substantially all of the Facilities or the taking by condemnation of any part, use or control of the Facilities so as to render them unsatisfactory to the Company for their intended use; or

(c) in the Company's reasonable opinion, (1) unreasonable burdens or excessive liabilities shall have been imposed upon the Company with respect to the Facilities or the operation thereof, including, but not limited to, federal, state or other ad valorem, property, income or other taxes not being imposed on the date of the Agreement other than ad valorem property taxes presently levied upon privately owned property used for the same general purposes as the Facilities, or (2) the continued operation of the Facilities is impractical, uneconomical or undesirable for any reason.

Any such redemption shall be on any date within 180 days following the occurrence of one of the events listed above permitting the exercise of the option.

Special Mandatory Redemption. The Bonds are subject to mandatory redemption, in part, on the first interest payment date for which notice can be given in accordance with the Trust Indenture after the Project has been completed and the certificate of the Company with respect thereto required by the Financing Agreement has been filed with the Authority and the Trustee, to the extent of any amounts transferred from the Project Fund to the Debt Service Fund pursuant to the Trust Indenture, at a Redemption Price of 100% of the principal amount of the Bonds to be redeemed, plus accrued interest thereon to the date fixed for redemption.

EXHIBIT A

**FORM OF APPROVING OPINION OF
BALLARD SPAHR ANDREWS & INGERSOLL, LLP**

Upon delivery of the Bonds, Ballard Spahr Andrews & Ingersoll, LLP, Philadelphia, Pennsylvania, Bond Counsel, will issue its approving opinion in substantially the following form:

January 16, 2007

Chester County Industrial Development Authority
737 Constitution Drive
Exton, Pennsylvania 19341

U.S. Bank National Association, as Trustee
2 Liberty Place, Suite 2000
50 S. 16th Street
Philadelphia, Pennsylvania 19102

Sovereign Securities Corporation, LLC
1500 Market Street
Centre Square — Concourse
Philadelphia, Pennsylvania 19102

Aqua Pennsylvania, Inc.
762 Lancaster Avenue
Bryn Mawr, Pennsylvania 19010

Re: \$47,830,000 aggregate principal amount of Chester County Industrial Development Authority Water Facilities Revenue Bonds (Aqua Pennsylvania, Inc. Project) Series A of 2007

Ladies and Gentlemen:

We have acted as Bond Counsel to the Chester County Industrial Development Authority (the "Authority") in connection with the issuance and sale of its \$47,830,000 aggregate principal amount of Chester County Industrial Development Authority Water Facilities Revenue Bonds (Aqua Pennsylvania, Inc. Project) Series A of 2007 (the "Bonds"). The Bonds are being issued by the Authority at the request of Aqua Pennsylvania, Inc., as successor to Philadelphia Suburban Water Company (the "Company"), to finance facilities located in the Pennsylvania Counties of Chester, Bucks, Delaware and Montgomery (the "Project Facilities") for the furnishing of water which is made available on reasonable demand to members of the general public in portions of the Pennsylvania Counties of Chester, Bucks, Delaware and Montgomery.

The Bonds are issuable in fully registered form, and are being issued under the Trust Indenture dated as of January 1, 2007 (the "Indenture") between the Authority and U.S. Bank National Association, as trustee (the "Trustee"). The Authority and the Company are entering into a Financing Agreement dated as of January 1, 2007 (the "Financing Agreement"), pursuant to which the Authority will lend the proceeds of the Bonds to the Company to finance the Project Facilities.

In satisfaction of its obligation under the Financing Agreement with respect to the Bonds, the Company, concurrently with the issuance of the Bonds, is delivering to the Trustee its First Mortgage Bond 5.00% Due 2040 (the "2040 First Mortgage Bond") and its First Mortgage Bond 5.00% Due 2041 (the "2041 First Mortgage Bond" and, together with the 2040 First Mortgage Bond, the "First Mortgage Bonds") in the aggregate principal amount equal to the principal amount of the Bonds. The Authority has assigned its interests under the Financing Agreement with respect to the Bonds, including its right to receive the First Mortgage Bonds and the payments thereunder, to the Trustee for the benefit of the holders of the Bonds.

Sections 103 and 141-150 of the Internal Revenue Code of 1986, as amended (the "Code"), provide generally that interest on certain issues of bonds, the proceeds of which are to be used to provide facilities for the furnishing of water within the meaning of Section 142(a) of the Code, will be excludable from the gross income of the holder thereof. The Code imposes various requirements pertaining to the use and investment of the proceeds of such bonds, the maturity of and security for such bonds, the procedure for issuance of such bonds, the rebate of arbitrage profits to the Internal Revenue Service and filings with the Internal Revenue Service. We have concluded that the Bonds meet the requirements of the Code in reliance on representations of the Authority and the Company with respect to the application of the proceeds of the Bonds, the nature of the Project Facilities and other matters solely within the knowledge of the Authority and the Company which we have not independently verified, and have assumed continuing compliance with the covenants in the Indenture, the Financing Agreement and the certificates of the Company with respect to the Project Facilities delivered at closing pertaining to the requirements of those sections of the Code which affect the exclusion from gross income of interest on the Bonds for federal income tax purposes. In the event that such representations are determined to be inaccurate or incomplete or the Authority or the Company fails to comply with the aforementioned covenants, interest on the Bonds could become includable in gross income from the date of issuance, regardless of the date on which the event causing such inclusion occurs.

In our capacity as Bond Counsel, we have examined such documents, records of the Authority and other instruments as we deemed necessary to enable us to express the opinions set forth below, including original counterparts or certified copies of the Indenture, the Financing Agreement, the First Mortgage Bonds, the other documents listed in the closing memorandum filed with the Trustee and an executed Water Facilities Revenue Bond (Aqua Pennsylvania, Inc. Project) Series A of 2007 as authenticated by the Trustee.

Based on the foregoing, it is our opinion that:

1. The Authority is a public instrumentality of the Commonwealth of Pennsylvania and a body corporate and politic, organized and existing under Pennsylvania law, with full power and authority to execute and deliver the Financing Agreement and the Indenture, and to issue and sell the Bonds.

2. The Financing Agreement and the Indenture have been duly authorized, executed and delivered by the Authority and constitute legal, valid and binding obligations of the Authority enforceable against the Authority in accordance with their respective terms, subject to state and federal laws and equitable principles affecting the enforcement of creditors' rights.

3. All right, title and interest of the Authority under the Financing Agreement as they relate to the Bonds, including the right to receive the First Mortgage Bonds and the payments thereunder (except for certain rights to indemnification and to payments in respect of administrative expenses of the Authority), have been effectively assigned to the Trustee by the Indenture.

4. The issuance and sale of the Bonds have been duly authorized by the Authority; the Bonds have been duly executed and delivered by the Authority; and, on the assumption that all Bonds have been authenticated by the Trustee, the Bonds are legal, valid and binding obligations of the Authority enforceable against the Authority in accordance with their terms, subject to state and federal laws and equitable principles affecting the enforcement of creditors' rights, and are entitled to the benefit and security of the Indenture.

5. Under existing laws as enacted and construed on the date of initial delivery of the Bonds, interest on the Bonds is excludable from gross income for purposes of federal income tax, assuming the accuracy of the certifications of the Authority and the Company and continuing compliance by the Authority and the Company with the requirements of the Code, except that interest on a Bond is not excludable while the Bond is held by a substantial user of the Project Facilities or a related person as provided in the Code. Interest on the Bonds is a tax preference item that is subject to individual and corporate federal alternative minimum tax. Interest on Bonds held by foreign corporations may be subject to the branch profits tax imposed by the Code.

The Bonds are offered at a premium ("original issue premium") over their respective principal amounts. For federal income tax purposes, original issue premium is amortizable periodically over the term of the Bond through reductions in the holder's tax basis for the Bond for determining taxable gain or loss from sale or from redemption prior to maturity. Amortizable premium is accounted for as reducing the tax-exempt interest on the Bond rather than creating a deductible expense or loss.

Ownership of the Bonds may result in other federal income tax consequences to certain taxpayers, including, without limitation, financial institutions, property and casualty insurance companies, individual recipients of social security or railroad retirement benefits, certain S corporations and taxpayers who may be deemed to have incurred or continued debt to purchase or carry the Bonds. We express no opinion as to these matters.

6. Under the existing laws of the Commonwealth of Pennsylvania as enacted and construed on the date of initial delivery of the Bonds, interest on the Bonds is exempt from Pennsylvania personal income tax and Pennsylvania corporate net income tax, and the Bonds are exempt from personal property taxes in Pennsylvania.

We do not express any opinion herein as to the adequacy or accuracy of the Official Statement of the Authority pertaining to the offering of the Bonds.

We call your attention to the fact that the Authority's obligation to make payments in respect of the Bonds is limited to moneys received from payments to be made by the Company pursuant to the First Mortgage Bonds and as provided in the Indenture and that the Bonds do not pledge the credit or taxing power of the County of Chester or the Commonwealth of Pennsylvania or any political subdivision thereof. The Authority has no taxing power.

Very truly yours,

EXHIBIT B

**FORM OF SUPPLEMENTAL OPINION OF
BALLARD SPAHR ANDREWS & INGERSOLL, LLP**

January 16, 2007

Sovereign Securities Corporation, LLC
1500 Market Street
Centre Square — Concourse
Philadelphia, Pennsylvania 19102

Re: \$47,830,000 aggregate principal amount of Chester County Industrial Development Authority Water Facilities Revenue Bonds, (Aqua Pennsylvania, Inc. Project), Series A of 2007

Ladies and Gentlemen:

Reference is made to our opinion as bond counsel identified as Closing Item No. [E-3(a)] delivered to you concurrently herewith and relating to the above-referenced Bonds (the "Bonds"). At your request we have undertaken a review of certain other matters pertaining to the Bonds. All terms are used but not defined herein shall have the same meanings ascribed to them in the Official Statement dated December 21, 2006 (the "Official Statement") prepared in connection with the public offering of the Bonds.

Based on the review described in our bond opinion, it is our opinion that:

1. The Bond Purchase Agreement dated December 21, 2006 (the "Bond Purchase Agreement"), among you, the Company and the Authority relating to the Bonds has been duly authorized, executed and delivered by the Authority and constitutes the legal, valid and binding obligation of the Authority enforceable against the Authority in accordance with its terms, except as enforceability thereof may be limited by bankruptcy, insolvency or similar laws affecting the enforcement of creditors' rights generally and general principles of equity.

2. It is not necessary in connection with the offering and sale of the Bonds to register the Bonds under the Securities Act of 1933, as amended, or to qualify the Indenture under the Trust Indenture Act of 1939, as amended.

3. The information in the Official Statement under the captions “INTRODUCTORY STATEMENT — Description of the Bonds” and “— Security for the Bonds,” “THE BONDS” (other than the information under the sub-caption “Book-Entry Only System”) and “SECURITY FOR THE BONDS” (other than the information under the sub-captions “The Mortgage” and “Additional Parity Indebtedness” as to which we express no view) and the information set forth in Appendix C to the Official Statement (other than information under the headings “THE FIRST MORTGAGE BONDS AND THE MORTGAGE” as to which we express no view), insofar as such information purports to summarize provisions of the Bonds, the Indenture and the Agreement, fairly and accurately summarize such information in all material respects. The information in the Official Statement under the caption “TAX MATTERS” and the related information set forth on the outside front cover of the Official Statement accurately reflect our firm’s opinion with respect to the matters discussed therein in all material respects.

This letter is furnished by us solely for your benefit in connection with the provisions of the Bond Purchase Agreement and may not be relied upon by any other persons for any purpose without our express written permission.

Very truly yours,

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EXHIBIT C

FORM OF OPINION OF COUNSEL FOR THE AUTHORITY

January 16, 2007

Chester County Industrial Development Authority
737 Constitution Drive
Exton, PA 19341

Ballard Spahr Andrews & Ingersoll, LLP
Mellon Bank Center
1735 Market Street, 51st Floor
Philadelphia, PA 19103

Sovereign Securities Corporation, LLC
1500 Market Street
Centre Square — Concourse
Philadelphia, PA 19102

U.S. Bank National Association, as Trustee
2 Liberty Place, Suite 2000
50 S. 16th Street
Philadelphia, PA 19102

Re: \$47,830,000 aggregate principal amount of Chester County Industrial Development Authority Water Facilities
Revenue Bonds (Aqua Pennsylvania, Inc. Project) Series A of 2007

Ladies and Gentlemen:

We have acted as counsel to the Chester County Industrial Development Authority (“Authority”) in connection with the authorization, execution and issuance by the Authority of the captioned Bonds (“Bonds”). This opinion is being rendered pursuant to Section 11(c)(iii) of the Bond Purchase Agreement, dated December 21, 2006 (the “Bond Purchase Agreement”) by and among Sovereign Securities Corporation, LLC (“Underwriter”), Aqua Pennsylvania, Inc. (“Borrower”) and the Authority. Capitalized terms used herein and not otherwise defined shall have the meanings ascribed to them in the Bond Purchase Agreement.

As the basis for this opinion, we have examined the Pennsylvania Economic Development Financing Law, 73 P.S. §§ 371 et seq., as amended (“Act”); the Resolutions of the Authority relating to the Bonds adopted on November 15, 2006 and December 18, 2006 (collectively, “Resolution”), and such other documents, certificates and records of the Authority and other instruments and matters of law as we have deemed necessary to enable us to express the opinion set forth below, including, without limitation, original counterparts or certified copies of the Trust Indenture, dated as of January 1, 2007 (“Indenture”), between the Authority and U.S. Bank National Association, as trustee (“Trustee”), the Financing Agreement, dated as of January 1, 2007 (“Financing Agreement”), between the Authority and the Borrower and the Bond Purchase Agreement. The Indenture, the Loan Agreement and the Bond Purchase Agreement are collectively referred to herein as the “Authority Documents”.

We have assumed and relied upon the truth, completeness, authority and accuracy of all documents, certificates and instruments examined and the authenticity of all signatures thereon.

We have also assumed that each of the documents referred to herein are, where appropriate, duly authorized and executed by and valid and legally binding obligations of, and enforceable in accordance with their terms against all parties thereto other than the Authority and that the actions required to be taken or consents required to be obtained by such parties have been taken and obtained. In rendering this opinion, we have also assumed that such parties have acted in full compliance with the terms of all applicable laws, regulations and orders.

As to questions of fact material to this opinion, we have relied upon certificates and representations of officers and representatives of the Authority or of other public officials, without independent investigation.

We have not made any independent investigation in rendering this opinion other than the examination described above. Our opinion is therefore qualified in all respects by the scope of that examination.

Our opinions are specifically limited to the present internal laws of the Commonwealth of Pennsylvania ("Commonwealth") and present federal law and no opinion is expressed as to the effect the laws of any other jurisdiction might have upon the subject matter of the opinions expressed herein under conflict of laws principles or otherwise.

Based upon the foregoing, and subject to the limitations, assumptions, qualifications and exceptions set forth herein, we are of the opinion that:

1. The Authority is a body corporate and politic constituting an instrumentality of the Commonwealth and is duly created and presently existing pursuant to the Act.

2. The Authority has duly authorized the execution and issuance of the Bonds and the execution and delivery of the Authority Documents. The Bonds have been duly and validly executed and delivered by the Authority and the Authority Documents have each been duly and validly executed and delivered by the Authority and the Bonds and each of the Authority Documents are valid and binding agreements of the Authority, enforceable against the Authority in accordance with their respective terms.

3. The execution and the issuance by the Authority of the Bonds, the execution and delivery by the Authority of the Authority Documents and performance by the Authority of the Authority's obligations under the Bonds and the Authority Documents, do not conflict with or constitute on the part of the Authority a violation of, breach of or default under any existing constitutional provision or statute of the Commonwealth applicable to the Authority, or, to our knowledge without having undertaken any independent investigation, any indenture, mortgage, deed of trust, resolution, note agreement or other agreement or instrument to which the Authority is a party or by which the Authority is bound and which is known to us, or, to our knowledge, without having undertaken any independent investigation, any order, rule or regulation of any court, governmental agency or body of the Commonwealth having jurisdiction over the Authority or any of its activities or property.

4. To our knowledge, without having undertaken any independent investigation, there is no action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any court, public board or body, pending or threatened against the Authority, wherein an unfavorable decision, ruling or finding would materially and adversely affect the obligations of the Authority under the Bonds.

5. The Resolution has been duly adopted by the Authority in compliance with the Pennsylvania Sunshine Act of October 15, 1998, P.L. 729, No. 93 (65 P.S. § 701 et seq.). The Authority has obtained the approval of the Commonwealth Department of Community and Economic Development for the issuance of the Bonds, and to our actual knowledge, such approval is in full force and effect.

6. The Authority has approved the distribution of the Preliminary Official Statement dated December 15, 2006 and the Official Statement dated December 21, 2006 ("Official Statement") by the Underwriter in connection with the offering of the Bonds.

7. The information contained in the Official Statement under the headings "INTRODUCTORY STATEMENT — The Authority," "THE AUTHORITY" and "ABSENCE OF MATERIAL LITIGATION" (solely insofar as the information set forth therein relates to the Authority) has been reviewed by us and nothing has come to our attention which would lead us to believe that such information contains any untrue statement of a material fact or omits to state a material fact which is required to be stated therein or which is necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading in any material respect.

The opinions expressed herein are subject in all respects to the following qualifications: (a) no opinion is rendered as to the availability of equitable remedies including, but not limited to, specific performance and injunctive relief, whether enforceability is considered in a proceeding in equity or at law; (b) no opinion is rendered as to the effect of bankruptcy, reorganization, insolvency, fraudulent conveyance, moratorium and other similar laws or legal principles affecting creditors' rights or remedies; (c) no opinion is rendered as to the creation, perfection or priority of any lien or security interest; (d) no opinion is rendered with respect to any "blue sky" or other securities laws of the Commonwealth or of other jurisdictions; and (e) no opinion is rendered with regard to any federal income tax law or regulation or any state tax law or regulation of the Commonwealth or of other jurisdictions.

No opinion is expressed as to the validity or enforceability of any provisions of the Authority Documents: (a) allowing any person or entity to institute judicial or non-judicial proceedings or to exercise any other rights, without notice to the person or entity against whom enforcement is sought; (b) waiving any right or defense of any person or entity; (c) providing or implying the availability of self-help in any particular event or circumstances; (d) relating to court costs or legal fees which may be properly chargeable or recoverable in any judicial proceedings; (e) relating to indemnification; and (f) relating to confession of judgment.

We call your attention to the fact that the Bonds are special and limited obligations of the Authority, payable solely from the payments derived by the Authority under the Financing Agreement. The Bonds are not obligations or liabilities of the Commonwealth or the County of Chester, Pennsylvania or any other political subdivision thereof nor do the Bonds pledge the credit of the Commonwealth or the County of Chester, Pennsylvania or any other political subdivision thereof nor do the Bonds pledge the credit of the Authority (other than to the limited extent described above). The Authority has no taxing power.

This opinion is given as of the date hereof. No opinion is expressed as to any matter not set forth in the numbered paragraphs herein. We make no undertaking to supplement this opinion if facts or circumstances hereafter come to our attention or changes in law occur after the date hereof. This opinion is rendered solely in connection with the original delivery and payment for the Bonds on the date hereof, and may not be relied upon for any other purpose. This opinion may not be relied upon by any other person, including any purchaser of the Bonds from the Underwriter or otherwise or for any other purpose, nor may this opinion be distributed, quoted or disclosed to any person, firm or entity without the prior written consent in each instance of a partner of the undersigned firm.

Very truly yours,

CONRAD O'BRIEN GELLMAN & ROHN, P.C.

EXHIBIT D

**FORM OF OPINIONS OF THE COMPANY'S LEGAL COUNSEL AND THE
COMPANY'S SENIOR VICE PRESIDENT — LAW AND ADMINISTRATION**

January 16, 2007

Chester County Industrial Development Authority
737 Constitution Drive
Exton, PA 19341

Sovereign Securities Corporation, LLC
1500 Market Street
Philadelphia, PA 19102

Re: \$47,830,000 aggregate principal amount of Chester County Industrial Development Authority Water Facilities
Revenue Bonds (Aqua Pennsylvania, Inc. Project) Series A of 2007

Ladies and Gentlemen:

We have acted as counsel to Aqua Pennsylvania, Inc. (the "Company") in connection with (i) the issuance by Chester County Industrial Development Authority (the "Authority"), and the sale to Sovereign Securities Corporation, LLC pursuant to that certain Bond Purchase Agreement dated December 21, 2006 (the "Purchase Agreement"), of \$47,830,000 aggregate principal amount of Chester County Industrial Development Authority Water Facilities Revenue Bonds (Aqua Pennsylvania, Inc.), Series A of 2007 (the "Authority Bonds"), and (ii) the issuance and delivery of the Company's First Mortgage Bond, 5.00% Series due 2040 in the principal amount of \$23,915,000 (the "2040 First Mortgage Bond"); and its First Mortgage Bond, 5.00% Series due 2041 in the principal amount of \$23,915,000 (the "2041 First Mortgage Bond" and along with the 2040 First Mortgage Bond collectively, the "First Mortgage Bonds"), issued under an Indenture of Mortgage (the "Original Mortgage") dated as of January 1, 1941, as amended and supplemented by supplemental indentures thereto, including the Forty-first Supplemental Indenture dated as of January 1, 2007 (the "Forty-first Supplemental Indenture") under which The Bank of New York Trust Company, N.A. is successor trustee (the "Mortgage Trustee"). The Original Mortgage as amended and supplemented is hereinafter called the "Mortgage". Capitalized terms used herein and not otherwise defined shall have the meanings ascribed to such terms in the Purchase Agreement.

We have examined and reviewed, among other things:

- (a) a copy of the Articles of Incorporation of the Company, as amended and restated and now in effect;

- (b) a copy of the bylaws of the Company as now in effect;
- (c) resolutions of the Board of Directors of the Company authorizing the execution and delivery of the Purchase Agreement, the Financing Agreement, the Forty-first Supplemental Indenture, the First Mortgage Bonds, the Continuing Disclosure Agreement and the Official Statement;
- (d) the Purchase Agreement;
- (e) the Financing Agreement dated as of January 1, 2006 (the "Financing Agreement") between the Authority and the Company;
- (f) the Continuing Disclosure Agreement dated as of January 1, 2006 (the "Continuing Disclosure Agreement") between the Company and U.S. Bank National Association, as trustee for the Authority Bonds (the "Trustee");
- (g) the Official Statement relating to the Authority Bonds dated December 21, 2006 (the "Official Statement");
- (h) the Securities Certificate relating to the issue and sale of the First Mortgage Bonds, filed by the Company with the Pennsylvania Public Utility Commission pursuant to the provisions of Chapter 19 of the Pennsylvania Public Utility Code, and a copy of the Order of the Public Utility Commission registering such Securities Certificate, certified by the Secretary of the Pennsylvania Public Utility Commission;
- (i) a Subsistence Certificate from the Secretary of the Commonwealth with respect to the Company;
- (j) executed counterparts of the Original Mortgage and of the Forty-first Supplemental Indenture supplemental thereto and evidence satisfactory to us of the due recordation thereof in the Counties of Adams, Berks, Bradford, Bucks, Carbon, Chester, Columbia, Cumberland, Delaware, Forest, Juniata, Lackawanna, Lawrence, Luzerne, Mercer, Monroe, Montgomery, Northampton, Northumberland, Pike, Schuylkill, Snyder, Susquehanna, Wayne and Wyoming, Pennsylvania;
- (k) the documents delivered to the Mortgage Trustee in connection with the authentication of the First Mortgage Bonds pursuant to the provisions of Sections 2(B) and 3 of Article IV of the Original Mortgage;
- (l) the First Mortgage Bonds delivered to the Trustee at the Closing held today;
- (m) the certificates of the Company and other documents delivered to the Mortgage Trustee at the Closing;
- (n) a certificate of the Company and various bringdown title searches of various title companies in the Counties of Adams, Berks, Bradford, Bucks, Carbon, Chester, Columbia, Cumberland, Delaware, Forest, Juniata, Lackawanna, Lawrence, Luzerne, Mercer, Monroe, Montgomery, Northampton, Northumberland, Pike, Schuylkill, Snyder, Susquehanna, Wayne and Wyoming, Pennsylvania, each dated as of a recent date (collectively, "Title Searches"), as to matters relating to title to real estate and the lien of the Mortgage thereon, on which certificate and searches we are relying for the purposes of this opinion; and

(o) various certificates of officers of the Company relating to title to real property and the priority of any lien thereon.

In rendering this opinion, we have assumed that all signatures on documents and instruments examined by us are genuine (except signatures of the Company on the Purchase Agreement, the Fortieth Supplemental Indenture, the Financing Agreement, the First Mortgage Bonds and the Continuing Disclosure Agreement (collectively, the "Company Documents") and the Official Statement), the authenticity of all documents submitted to us as originals and the conformity with the original documents of all documents submitted to us as copies. We have also assumed, with your permission, that none of the signatories of the documents and instruments referred to above is an affiliate of the Company within the meaning of 66 Pa.C.S. §2101 (1989).

As to questions of fact material to the opinions hereinafter expressed, we have relied solely and without investigation upon certificates of public officials, certificates of officers of the Company and the representations of the Company contained in the Company Documents (including the exhibits and schedules to such documents) and the certificates and other documents delivered pursuant thereto. To the extent that the opinions contained herein are given to the best of our knowledge, such knowledge means the actual knowledge of those attorneys within our firm who have provided substantive representation to the Company in connection with this financing, without investigation and inquiry, and does not include matters of which such attorneys could be deemed to have constructive knowledge.

In rendering this opinion, we have also assumed that each of the Company Documents has been duly authorized, executed and delivered by each party thereto (other than the Company) and that each of the Company Documents is binding and enforceable against each such party in accordance with its respective terms.

Further, as to matters relating to title to real estate and the lien of the Mortgage, we have relied exclusively upon various certificates of officers of the Company and the Title Searches and we have not made, nor undertaken to make, any investigation or inquiry with respect to title to real property or the priority of any lien thereon.

We are generally familiar with the Company's operations as a public utility within the Commonwealth of Pennsylvania (the "Commonwealth").

Based upon the foregoing and such other examination of fact and law as we have deemed necessary for purposes of this opinion, we are of the opinion that:

1. The Company was organized and subsists under the laws of the Commonwealth, with power (corporate and other) to own its properties and conduct its business as described in the Official Statement.

2. The Company has the corporate power and authority to enter into and perform the Purchase Agreement, the Financing Agreement, the First Mortgage Bonds, the Forty-first Supplemental Indenture and the Continuing Disclosure Agreement. The execution, delivery and performance by the Company of the Financing Agreement, the Bond Purchase Agreement, the First Mortgage Bonds, the Fortieth Supplemental Indenture and the Continuing Disclosure Agreement have been duly authorized by all requisite corporate action.

3. The Purchase Agreement, the Financing Agreement and the Continuing Disclosure Agreement constitute legal, valid and binding obligations of the Company, enforceable against the Company in accordance with their respective terms.

4. The First Mortgage Bonds have been duly authorized, executed, authenticated, issued and delivered and each constitutes a valid and legally binding obligation of the Company entitled to the benefits provided by the Mortgage.

5. The First Mortgage Bonds are not subject to the registration requirements of the 1933 Act.

6. The Mortgage constitutes a direct, valid and enforceable mortgage lien (except as enforceability of such lien may be limited by bankruptcy, insolvency, reorganization or other laws affecting the enforcement of creditors' rights) upon all of the properties and assets of the Company (not heretofore released as provided for in the Mortgage) specifically or generally described or referred to in the Mortgage as being subject to the lien thereof, except for permitted liens under the Mortgage; the Original Mortgage, either separately or as an exhibit to the Thirty-Fifth Supplemental Indenture dated as of January 1, 2002 or the Thirty-Eighth Supplemental Indenture dated as of November 15, 2004, and the Fortieth Supplemental Indenture dated as of December 15, 2005 has been properly recorded in the Counties of Adams, Berks, Bradford, Bucks, Carbon, Chester, Columbia, Cumberland, Delaware, Forest, Juniata, Lackawanna, Lawrence, Luzerne, Mercer, Monroe, Montgomery, Northampton, Northumberland, Pike, Schuylkill, Snyder, Susquehanna, Wayne and Wyoming in the Commonwealth and such recordations are the only recordations necessary in order to establish, preserve, protect and perfect the lien of the Mortgage on all real estate and fixed property of the Company (excluding easement and other similar rights) described in the Mortgage as subject to the lien thereof.

7. In each of the following cases with such exceptions as are not material and do not interfere with the conduct of the business of the Company, the Company has good and marketable title to all of its real property currently held in fee simple; good and marketable title to all of its other interests in real property (other than to certain rights of way, easements, occupancy rights, riparian and flowage rights, licenses, leaseholds, and real property interests of a similar nature); and good and marketable title to all personal property owned by it; in each case free and clear of all liens, encumbrances and defects except such as may be described in the Official Statement, the lien of the Mortgage, permitted liens under the Mortgage or such as do not materially affect the value of such property and do not interfere with the use made and proposed to be made of such property by the Company; and any real property and buildings held under lease by the Company are held by it under valid, subsisting and enforceable leases with such exceptions as are not material and do not interfere with the use made and proposed to be made of such property and buildings by the Company.

8. The Company is not a holding company, a registered holding company or an affiliate of a registered holding company within the meaning of the Public Utility Company Holding Act of 1935, as amended.

9. The Mortgage and the First Mortgage Bonds conform in all material respects as to legal matters to the descriptions thereof in the Official Statement.

Without having undertaken to determine independently the accuracy, completeness and fairness of the statements contained in the Official Statement, nothing has come to our attention in connection with our representation of the Company in respect of the issuance of the First Mortgage Bonds which leads us to believe that the information with respect to the Company contained in the Official Statement (including Appendix A and the information incorporated therein by reference) contains any untrue statement of a material fact or omits to state a material fact which is required to be stated therein or which is necessary to make such information and descriptions, in the light of the circumstances under which they were made, not misleading in any material respect.

The foregoing opinions are subject to the following qualifications:

(i) The opinions expressed in paragraphs 3 and 4 are subject to the qualifications that the enforceability of the First Mortgage Bonds are subject to (i) applicable bankruptcy, insolvency, reorganization, moratorium, and other similar laws of general application relating to or affecting creditors' rights, (ii) certain provisions of Pennsylvania law affecting the availability of certain remedies, and (iii) the further qualification that the availability of specific performance, injunctive relief or other equitable remedies is subject to the discretion of the court before which any proceeding therefor may be brought.

(ii) Our opinions are subject to limitations imposed by general principles of equity, including principles of commercial reasonableness, good faith and fair dealing (regardless of whether enforcement is considered in proceedings at law or in equity).

(iii) We express no opinion as to the enforceability with respect to any provisions purporting to waive the effect of applicable laws and remedies and any provisions releasing any party from, or requiring indemnification for, liability for gross negligence, recklessness or willful misconduct.

(iv) Any requirements in any of the documents specifying that provisions of a document may only be waived in writing may not be enforced to the extent that an oral agreement or an implied agreement by trade practice or course of conduct has been created modifying any provision of such document.

(v) We express no opinion as to the applicability to the transactions contemplated by the Company Documents of Section 548 of the Bankruptcy Code or any applicable state law relating to fraudulent transfers and obligations.

(vi) Other applicable local, state and federal laws, regulations and ordinances, court decisions and constitutional requirements may limit or render unenforceable certain of the rights or remedies contained in the Company Documents, but in our opinion, none of the same would materially impair the practical realization of the benefits intended to be provided by the Company pursuant to the Company Documents.

(vii) Our opinion is limited in all respects to the laws of the Commonwealth in effect as of the date hereof and we express no opinion as to the laws of any other jurisdiction.

(viii) This opinion is limited to the matters set forth herein, no opinion may be inferred or implied beyond the matters expressly stated herein, and our statements contained in the opinion portion of this letter must be read in conjunction with the assumptions, limitations, exceptions and qualifications set forth in this letter.

(ix) The opinions herein are expressed as of the date hereof only and not as of some future date. We undertake no responsibility to advise you of any change in law or new laws, regulations or judicial decisions in the future. Nor do we assume any obligation to update or supplement this opinion to reflect any facts or circumstances which may hereafter come to our attention. References to "laws," "regulations" and "judicial decisions" herein shall include only officially published laws and regulations of the Commonwealth of Pennsylvania.

This opinion is solely for the benefit of each of you and the benefit of any subsequent holder of the First Mortgage Bonds or the Authority Bonds and may not be relied upon by any other person or for any other purpose.

Very truly yours,

January ____, 2007

Sovereign Securities Corporation, LLC
1500 Market Street
Philadelphia, PA 19102

Re: \$47,830,000 aggregate principal amount of Chester County Industrial Development Authority Water Facilities
Revenue Bonds (Aqua Pennsylvania, Inc. Project) Series A of 2007

Ladies and Gentlemen:

I am Senior Vice President-Law and Administration for Aqua Pennsylvania, Inc. (the "Company").

Pursuant to Section 11(c)(iv) of the Bond Purchase Agreement dated December 21, 2006 (the "Purchase Agreement") among the Authority, the Underwriter and the Company (f/k/a Pennsylvania Suburban Water Company, as successor by merger to Philadelphia Suburban Water Company) relating to the Authority Bonds, I have been asked to render an opinion to you regarding certain matters involving the Company. Capitalized terms used herein and not otherwise defined shall have the definitions ascribed to such terms in the Purchase Agreement.

In rendering this opinion, I have assumed the following:

- i. the genuineness of all signatures (other than the signatures of the Company on the Fortieth Supplemental Mortgage, as hereinafter defined);
- ii. the authenticity and completeness of all documents submitted to me as originals;
- iii. the conformity to original documents of all documents submitted to me as copies, and the authenticity of the originals of such copies;
- iv. the entity executing the Mortgage as trustee is duly organized and validly existing, in good standing under the laws of the jurisdiction of its organization, is properly qualified to do business in all jurisdictions in which the business conducted by it makes such qualification necessary and has all necessary legal and corporate power and authority to enter into and perform its obligations under the Mortgage;
- v. the due authorization, execution and delivery of the Mortgage by or on behalf of the party thereto other than the Company;

vi. the enforceability against each party thereto (other than the Company) of the Mortgage in accordance with its respective terms; and

vii. that the execution, delivery and performance of the Mortgage by the entity other than the Company which is party thereto does not and will not conflict with, result in any breach of, or constitute a default under any order, writ, injunction or decree of any court or governmental authority, or any agreement, indenture or other instrument, to which any such party is a party or by which it or its properties are bound, and that all necessary approvals, consents, permits, registrations, filings or other notices to or grants of authority from any federal or local governmental body necessary for the execution, delivery and performance of the Mortgage by each party thereto (other than the Company) have been duly received or made, with all appeal periods expired and no appeals taken.

I am making each of the foregoing assumptions with your permission and with the disclaimer that we make no representation as to the accuracy of such assumptions, although I have no knowledge that any such assumption is untrue.

In my opinion:

1. In each of the following cases with such exceptions as are not material and do not materially interfere with the conduct of the business of the Company: (a) the Company has all licenses, franchises, permits, authorizations, rights, approvals, consents and order of all governmental authorities or agencies necessary for the ownership or lease of the properties owned or leased by it and for the operation of the business carried on by it as described in the Official Statement, and all water rights, riparian rights, easements, rights of way and other similar interests and rights described or referred to in the Mortgage necessary for the operation of the business carried on by it as described in the Official Statement; (b) except as otherwise set forth in the Official Statement, all such licenses, franchises, permits, orders, authorizations, rights, approvals and consents are in full force and effect and contain no unduly burdensome provisions; (c) to the best of my knowledge, except as otherwise set forth in the Official Statement, there are no legal or governmental proceedings pending or, to my knowledge, threatened that would result in a material modification, suspension or revocation thereof; and (d) the Company has the legal power to exercise the rights of eminent domain for the purposes of conducting its water utility operations.

2. The issue and sale of the Bonds; the issue and delivery of the First Mortgage Bonds and the compliance by the Company with all of the applicable provisions of the First Mortgage Bonds and the Mortgage; and the execution, delivery and performance by the Company of the Forty-first Supplemental Mortgage, the Financing Agreement, the Purchase Agreement and the Continuing Disclosure Agreement will not materially conflict with or result in a material breach of any of the terms or provisions of, or constitute a material default under, or result in the creation or imposition of any material lien, charge or encumbrance (other than the lien of the Mortgage) upon any of the property or assets of the Company pursuant to the terms of, any indenture, mortgage, deed of trust, loan agreement or other agreement or instrument to which the Company is a party or by which the Company is bound or to which any of the property or assets of the Company is subject, nor will such action result in a violation of the provisions of the Articles of Incorporation, as amended, or the Bylaws of the Company or any statute or any

order, rule or regulation of any court or governmental agency or body having jurisdiction over the Company or any of its property. No consent, approval, authorization, order, registration or qualification of or with any court or any such regulatory authority or other governmental body not already obtained is required for the issue and delivery of the First Mortgage Bonds, the execution, delivery and performance of the Purchase Agreement, the Financing Agreement, the Forty-first Supplemental Mortgage, the First Mortgage Bonds, and the Continuing Disclosure Agreement, or the consummation of the other transactions contemplated by the Purchase Agreement or the Mortgage.

3. There are no legal or governmental proceedings pending to which the Company is a party or of which any property of the Company is the subject, other than as set forth in the Official Statement and other than litigation incident to the kind of business conducted by the Company, wherein an unfavorable ruling, decision or finding is likely that would have a material adverse effect on the financial position, stockholders' equity or results of operations of the Company.

4. Each of the Indenture of Mortgage dated as of January 1, 1941 (the "Original Mortgage"), between the Company and The Philadelphia Company for Insurance on Lives and Exacting Annuities (now The Bank of New York Trust Company, N.A., as successor in interest), as trustee (the "Trustee") and the forty-one indentures supplemental thereto, including the Forty-first Supplemental Indenture dated as of January 1, 2006 between the Company and the Trustee (the Original Mortgage as so supplemented and amended, the "Mortgage") was duly authorized, executed and delivered by the Company and the Mortgage constitutes a legal, valid and binding obligation of the Company, enforceable against the Company in accordance with its terms (subject to applicable bankruptcy, insolvency, fraudulent transfer, reorganization, moratorium or other similar laws relating to creditors' rights generally from time to time in effect, and subject, as to enforceability, to general principles of equity, regardless of whether such enforceability is considered in a proceeding in equity or at law).

The foregoing opinions are subject to the following qualifications:

i. The enforceability of the Mortgage, including, without limitation, any non-judicial and self-help remedies and waivers contained therein, may be limited by bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance or other similar laws affecting the rights of creditors generally and are subject to limitations imposed by general principles of equity, including principles of commercial reasonableness, good faith and fair dealing (regardless of whether enforcement is considered in proceedings at law or in equity), public policy and applicable law which may limit the availability of the remedies provided for therein,

ii. I express no opinion as to the adequacy of any notice with respect to the disposition of any collateral. I also express no opinion as to the effectiveness or enforceability of provisions relating to waivers of notice or waivers of other rights, severability, prepayment fees or penalties, choice of law, or any provisions which release or limit the Company's liability or relate to cumulative remedies or, to the extent they purport to or would have the effect of compensating the Company in amounts in excess of any actual loss suffered by the Company, provisions relating to the payment of a default rate of interest.

iii. I express no opinion as to enforceability with respect to any provisions in the Mortgage executed by the Company purporting to waive the effect of applicable laws and remedies and any provisions releasing any party from, or requiring indemnification for, liability for gross negligence, recklessness or willful misconduct.

iv. Requirements in the Mortgage specifying that provisions of the Mortgage may only be waived in writing may not be enforced to the extent that an oral agreement or an implied agreement by trade practice or course of conduct has been created modifying any provision of such Mortgage.

v. My opinion is limited in all respects to laws of the Commonwealth of Pennsylvania in effect as of the date hereof and we express no opinion as to the laws of any other jurisdiction.

vi. This opinion is limited to the matters set forth herein, no opinion may be inferred or implied beyond the matters expressly stated herein, and our statements contained in the opinion portion of this letter must be read in conjunction with the assumptions, limitations, exceptions and qualifications set forth in this letter.

vii. The opinions herein are expressed as of the date hereof only and not as of some future date. I undertake no responsibility to advise you of any change in law or new laws, regulations or judicial decisions in the future nor do I assume any obligation to update or supplement this opinion to reflect any facts or circumstances which may hereafter come to our attention. References to "laws," "regulations" and "judicial decisions" herein shall include only officially published laws and regulations of the Commonwealth of Pennsylvania.

This opinion is solely for your benefit and may not be relied upon by any other person or for any other purpose.

Very truly yours,

Roy H. Stahl

Certification

I, Nicholas DeBenedictis, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Aqua America, Inc.;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and we have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting, and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 7, 2007

NICHOLAS DEBENEDICTIS

Nicholas DeBenedictis
Chairman, President and Chief Executive Officer

Certification

I, David P. Smeltzer, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Aqua America, Inc.;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and we have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting, and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 7, 2007

DAVID P. SMELTZER

David P. Smeltzer
Chief Financial Officer

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350

In connection with the Quarterly Report on Form 10-Q for the period ended March 31, 2007 of Aqua America, Inc. (the "Company") as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Nicholas DeBenedictis, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. Section 78m(a) or Section 78o(d)); and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

NICHOLAS DEBENEDICTIS

Nicholas DeBenedictis
Chairman, President and Chief Executive Officer
May 7, 2007

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350

In connection with the Quarterly Report on Form 10-Q for the period ended March 31, 2007 of Aqua America, Inc. (the "Company") as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, David P. Smeltzer, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. Section 78m(a) or Section 78o(d)); and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

DAVID P. SMELTZER

David P. Smeltzer
Chief Financial Officer
May 7, 2007