

**CARLSBAD SEAWATER DESALINATION PROJECT  
WATER PURCHASE AGREEMENT**

**SUMMARY OF MATERIAL TERMS**

Parties: Poseidon Resources Channelside, LP ("Poseidon")  
San Diego County Water Authority ("CWA")

Project: A 50 MGD seawater desalination plant and conveyance pipelines developed and owned by Poseidon and co-located at the Encina Power Station in Carlsbad, CA. The Project includes a 10-mile, 54-inch diameter pipeline from the desalination plant to CWA's Second Aqueduct in San Marcos, CA. Poseidon will construct, but CWA will own, the pipeline.

Purpose: CWA will purchase desalinated seawater from the Project.

Term: 30 years following the Commercial Operation Date.

Parties' Obligations:	<u>Poseidon</u>	<u>CWA</u>
	Finance Project through debt (85%), equity (15%)	"Take or pay" for water
	Permit, design, build plant	Construct Twin Oaks improvements (to accommodate desalinated water) and 5.5 mile relining of Pipeline 3
	Permit, design, build pipeline	
	Permit, design, build connection to CWA Aqueduct, Pipeline 3	Receive water
	Operate and maintain plant	Operate and maintain Pipeline 3 and Twin Oaks improvements
	Supply product water	

Water CWA to purchase: 48,000 AFY, minimum, to 56,000 AFY, maximum.

Purchase price:	<u>48,000 AFY</u>	<u>56,000 AFY</u>
	Water cost: \$2,097	\$1,876
	Twin Oaks costs 179	153
	CWA adm. costs 14	12
	Total: \$2,290	\$2,041

Rate payer cost (CWA est.): \$5 to \$7 per month

Risk Allocation:	<u>Risks Transferred to Poseidon</u> Construction, operating cost overruns Intake costs over CWA limits Contract disputes Schedule delays Site conditions Insurable force majeure Permitting Technology efficiency Cap. maint., replace., repairs Labor supply and relations Electricity consumption	<u>Risks Retained by CWA</u> General changes in law Intake changes up to \$20 mil (capital), \$2.5 mil (operating) (indexed) Raw seawater changes Uninsurable force majeure Uncontrollable circs. Bond interest rates General price inflation General electricity rates Operation of Twin Oaks, improvements
Contract Security, Managed Risks	Equity holders to invest \$150 million Bondholders may cure Poseidon default Poseidon to post letters of credit for performance, financing CWA to make no payments unless water produced Price increase capped at 30% over 30 years for law changes	
Events of Default:	Poseidon: 1) fails to pass acceptance tests; (2) declares bankruptcy; 3) abandons the Project; 4) repeatedly violates primary drinking water standards; 5) receives multiple notices of regulatory violations; 6) delivers less than 75% of water in any contract year; or 7) fails to pay shortfall payments for pipeline debt.	
Default Remedies:	After default and lapse of cure periods, CWA may: 1) terminate agreement; 2) sue for damages or other remedies; or 3) purchase the Project by paying bond debt.	
Purchase Option:	1) CWA has option to purchase the Project, commencing 10 years after the commercial operation date. Option price = outstanding bond debt + equity return + unpaid contractor costs. 2) CWA has option to purchase the Project at Term end for \$1.	