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 pipeline 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:

Poseidon	CWA
Finance Project through debt (82%), Equity (18%) Permit, design, build plant Permit, design, build pipeline Permit, design, build connection to CWA Aquaduct & Pipeline 3 Operate and maintain plant Supply product water	"Take or pay" for water Construct Twin Oaks improvements (to accommodate desalinated water) and 5.5 mile relingin of Pipeline 3 Receive water Operate and maintain Pipeline 3 and Twin Oaks improvements

Water CWA to Purchase: 48,000 AFY, minimum, to 56,000 maximum

Purchase Price:

	48,000 AFY	56,000 AFY
Water cost:	$2,097	$1,876
Twin Oaks costs:	179	153
CWA admin. costs:	14	12
Total	**$2,290**	**$2,041**

Ratepayer Cost (CWA est.): $5 to $7 per month, actual trending lower

Risk Allocation:

Risks Transferred to Poseidon	Risks Retained by CWA
Construction, operating cost overruns	General changes in law
Intake costs over CWA limits	Intake changes up tp $20 million (capital) $2.5 million (operating)(indexed)
Contract disputes	Raw seawater changes
Schedule delays	Uninsurable force majeure
Site Conditions	Uncontrollable circumstances
Insurable force majeure	Bond interest rates
Permitting	General price inflation
Technology efficiency	General electricity rates
Cap. Maint., replace., repairs	Operation of Twin Oaks, improvements
Labor supply and relations	
Electricity consuption	

Contract Security, Managed Risks:
Equity holders to invest $160 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 Project
4) Repeatedly violates primary drinking water standards
5) Recieves multiple notices of regulatory violations
6) Deliveres 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 the 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 the option to purchase the Project at Term end for $1.

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