

Cascadas Water Issues Questions:

1. Was the desal plant originally designed to cover 100% of the water needs of Cascadas?

The desal plant was not designed to cover the Club's water needs 100%. Fifteen years ago, the desal plant was one of the first ever to be installed in Los Cabos and therefore was somewhat new. The amount of water was adequate enough for distribution to the villas, but not enough to cover the entire resort, i.e. the laundry, watering the landscaping, kitchen and other common areas of the Club.

2. Approximately what percentage of the water needs does the desal plant provide?

Approximately 50% at this time.

3. What is wrong with the plant?

The life of a desal plant from that era is about 10 years. The main problems are the membranes. This desal plant was designed to use Dupont membranes - the only manufacturer of membranes back then. Over time, new membrane systems appeared and Dupont stopped making theirs. In order to install another membrane system, we would have to renovate our desal system and it would cost as much as a new one would.

4. What will it cost to fix it?

The cost to fix it would be the same as replacing it with a new one. Nearly 90% of the parts would have to be replaced. The only thing that could be repaired would be the main water tank, but it's already been in use for 15 years. The board of directors and Trading Places are currently reviewing proposals for a new system.

5. Why has it not been fixed or the subject of fixing it even been broached to the members?

The desal plant has been repaired every time it needed to be in order to keep it functioning. It is quite old now and the cost of repairing it is just like having an old vehicle for which one would have to buy several parts. In the end, we would have to spend more on parts than what the car itself cost. The topic of the desal plant was discussed at the 2009 annual meeting of members.

6. From whom is water being bought?

We currently buy our water from OMSAPAS, the municipal water company.

7. What are we paying each year for purchased water?

In 2009, we spent approximately US \$142,000 (we have not yet received the December bill). 2009 was a very complicated year due to the construction of Avenida Lazaro Cardenas which left us without city water for 3 months forcing us to supply the resort with water brought in by truck - a very costly alternative.

8. What are the neighboring properties doing for their water needs?

The exact same thing that happened to us, happened to our neighbors. The Villas Group recently purchased a new desal plant. They also had to stock up with trucks of water. The Pueblo Bonito Group has more modern desal plants which were purchased not long ago. When their occupancy levels were very high, they too had to bring in water trucks because they didn't have enough to go around.

9. Was our current system to have handled 100% of our water needs or was it a backup system?

Our desal plant produces 42,200 gallons of water per day. The entire Club requires 80,000 gallons per day. When new, the system provided approximately 70% of the required water needs.

10. How long has it been that the system has not been operating at 100% capacity?

With the passage of time, the desal plant started producing less due to break down of parts and lack of Dupont brand membranes. The past couple of years the desal plant covered approximately 50% of the water needs of Cascadas.

11. Why was our system not maintained?

The desal plant was maintained as well as possible over the years. The actual life span of the plant was 10 years and it has served our needs for 15 years.

12. How long has it been since replacement parts for our system have not been available?

The membranes should be changed every 1 to 3 years (according to the water type). Dupont stopped making the membranes in 2004. Since then the conductivity of the water went down with chemical treatments. Over time, this caused it to turn out a lesser quality of potable water and generated much more waste water.

13. What do you mean when you say that our system is handling only 50% of the property's water needs? Does this mean that the water that comes through the taps in the villas is 50% from our plant and is mixed 50% with water from another source outside the property?

The Club has two cisterns. The main cistern is beneath the lobby and a smaller one is to the side of Casa Giddings. Those two cisterns bring water to the entire Club. All of it is stored in those two cisterns which have the capability of supplying water for 24 hours. Both the water from the desal plant as well as that from the city is stored in those two cisterns.

14. Who is testing the water that is purchased?

Laboratorio Ruiz is a very old lab and is well-known in Cabo. We also use Laboratorio Alquimia who services businesses such as Coca-Cola, the One and Only Palmilla, Sheraton, Hilton and many others.

15. What are the test results on average for our purchased water?

All of the tests are performed by professionals and within their stipulated norms. The tests are conducted periodically and the results have always been "pure water, suitable for human consumption" and are signed off by professionals including their license number.

16. If we are using the municipal system, is the water coming from the new Los Cabos desalination plant or from another plant?

Yes, it comes from the new Los Cabos desalination plant

17. If we are using the municipal system how often do they have main breaks and what do they do when they have a main break in the way of ensuring the quality and safety of the water that is delivered within the first thirty-six hours after the main has been repaired?

At the end of 2009 there were a lot of main pipes that broke down. When this happens, we rely on what the water supplier tells us. We conduct our own analyses as well, using the above-mentioned labs whenever necessary.

18. Why was our system not replaced sooner?

The system produced very good quality water, in line with its capacity. As anticipated, it worsened over time but we wanted to get the maximum usage out of it. The replacement cost is several hundreds of thousands of dollars and sufficient research is required for such a large investment.

19. Is our current system reverse osmosis?

Yes, it is a reverse osmosis system.

20. With our **current** system do we have saltwater well(s) or a sea intake?

We have a saltwater well in accordance with the CNA regulations.

21. The 2009 Budget that was sent to the owners last month shows a total of \$188,120 under Utilities - Water. Is that what we are spending annually for purchased water?

That is the budgeted amount for water usage for 2010.

22. For what purpose do we have an emergency plan? Is it to cover main breaks for the municipal system or is it in place for service interruption for the municipal water system?

In the event of a loss of water for whatever reason, everyone on staff knows how to deal with this kind of emergency.

23. When did the board begin obtaining estimates for a new system?

The board has been in "exploratory mode" and has been obtaining estimates since the third quarter of 2009. It is anticipated the board will make its decision on the desal system in March of 2010.

24. Will the new system provide for 100% of Cascadas' water needs?

The new system is based on producing 80,000 gallons per day, which is what is needed to take care of the needs of the entire Club. This will include domestic use as well as the irrigation needs for landscaping.

25. How many gallons per day does Cascadas require?

The Club requires 80,000 gallons per day, based upon a 100% occupancy.

26. Is the Mexican government still strongly pushing the hotel industry in the Baja and other parts of the country to put in their own individual desalination plants?

All of the new resort projects SHOULD have their own desal plant at this time.

27. Has an RFP actually been written for our new system?

Yes, and bids are being evaluated at this time.

28. What is the timetable for having the new system installed?

Once the purchase has been confirmed, it will take approximately 22 weeks to install the new desal plant. It is anticipated the new desal plant will be operating by the fourth quarter of 2010.

29. Do we have any permitting problems that will hamper the installation of our new system?

As of right now, we have no problems with the permits. We will work closely with our legal counsel in Mexico to ensure all legal requirements are met.

30. Do we have any political problems that will hamper the installation of our new system?

Right now, we have no political problems with the desal plant.

31. Will the board be looking at purchasing or leasing the new system?

At this time it appears the best business decision will be to have the Club purchase the desal plant. The final decision should be made in March of 2010 by the board of directors.