

CLUB CASCADAS DE BAJA
DESAL WATER TREATMENT PLANT
HISTORICAL SUMMARY
AND
QUESTIONS & ANSWERS

JANUARY 21, 2010

The following information is intended to explain the history of the existing desal water treatment plant as well as the current status of the plant. There has apparently been discussion among some members at the Club regarding the status of the water treatment plant and it is our intent to shed light on the subject and provide accurate responses to these questions.

Timeline: 1995

In 1995, the board of directors requested approval from the membership for a special assessment, which subsequently occurred in May of 1995. Of the 3,000 members voting on the special assessment issue, 95% voted “Yes” to approve the \$650,000.00 figure. Of the total amount assessed, \$230,000.00 was designated for the construction of the desal water treatment plant and the remaining \$420,000.00 was for other operational and capital reserve requirements.

The engineers who reviewed the specifications for the system indicated the recommended desal water treatment plant would produce approximately 70% of the domestic and irrigation requirements for the Club. It was determined the system should be supplemented by city water, depending upon the occupancy of the Club at any particular time. Prior to the Club installing the desal water treatment plant, there had been periodic water shortages experienced in Cabo. Club Cascadas, and the Club’s new system ensured emergency supplies of water would be available if city water were to become unavailable.

Timeline: 2010

The Club’s desal water treatment plant installed in 1995 was one of the first ever installed in Cabo, and at the time of installation it was state-of-the-art equipment. As the demand for desal systems increased in Cabo, there were more companies installing equipment and the quality of the systems improved consistently over time. Our assumption at its inception was that the life expectancy of the Club’s system was approximately 10 years, with preventative maintenance programs being utilized.

We got great results for over 10 years and the on-site management and maintenance team worked hard to maintain the system. In recent years, the antiquated and worn membranes

became less than fully effective and as of 2004, the replacement parts were more difficult to obtain from DuPont.

Over the past 12 months we have been gathering information on replacement systems and in doing so we discovered that (unsurprisingly) the pricing is now a bit higher. The equipment has been greatly improved in recent years and replacement parts are more readily available at reasonable prices.

The city water and desal-treated water is regularly tested by qualified, licensed health officials and laboratories, and the water is suitable for human consumption. If at any time the water does not test satisfactorily, the Club's system and city water would not have been utilized. The testing procedure has proven to be effective and it is a priority for the on-site management team.

Future

In March of this year, the board of directors will receive proposals from at least three companies vying to provide us with the Club's desal water treatment system. Following the review of the proposals and the summary of recommendations by management, the board of directors will make the final decision on the system to be purchased. It is anticipated the replacement system will be constructed and operational by the fourth quarter of 2010. The focus is on systems capable of providing 100% of the domestic and irrigation needs of the resort, assuming 100% occupancy.

The work will take approximately 22 weeks from the time of contract acceptance to completion of the project. At this time, it appears the most cost-effective means of getting the replacement will be to utilize reserve funds. There have been proposals offering a leased system or payments with interest, and the intent will be to not lease the system or pay interest on a loan. The Club has sufficient reserve funds to pay for the system outright, and at the end of the day, this is the best business approach.

Communication

As you can imagine, the board of directors has much to consider and will receive a tremendous amount of information to facilitate making their ultimate decision. This communication, accompanied by the "Questions & Answers" section will be placed on the Club's official web site for the members' convenience and review. The "Questions & Answers" section represents a summary of the questions we have received from members in recent months. The web site address is: www.clubcascadasdebaja.com

The web site section regarding the desal water treatment will be updated monthly in order to provide the members with current, and most importantly, accurate information. There will be other items on the Club's official web site and those pages will contain more general information for the members' review.

We respectfully request that members do not spread rumors or misinformation, as this only fuels unnecessary concerns within the membership. The intent of the Club's web site information is to uniformly present accurate answers to the questions presented to the board and/or management.

Thank you in advance for your cooperation in this effort of responsible answers to good questions. Kindly direct all questions to Trading Places International to the attention of Tricia Ciaccio (triciac@tradingplaces.com).