

## PROMISSORY NOTE SECURED BY DEED OF TRUST

DO NOT DESTROY THIS NOTE: WHEN PAID, THIS NOTE, WITH THE DEED OF TRUST SECURING THE SAME, MUST BE SURRENDERED TO TRUSTEE FOR CANCELLATION, BEFORE RECONVEYANCE WILL BE MADE.

\$7,351,786.00

Marina, California

June 25, 2010 ("Note Date")

FOR VALUABLE CONSIDERATION, the receipt and sufficiency of which is hereby acknowledged, MARINA COAST WATER DISTRICT, a county water district and political subdivision of the State of California ("Maker") promises to pay to the parties set forth in Exhibit 1, attached hereto (each a "Holder" and collectively, the "Holders"), the sum of Seven Million Three Hundred Fifty-One Thousand Seven Hundred Eighty-Six Dollars (\$7,351,786.00). Maker shall remit payment to "Sandhills as Nominee" on behalf of Holders (Federal tax ID # 77-0322111) c/o Bianchi, Kasavan & Pope, LLP CPAs, attention Gordon Rubbo, or to such other place as Holders may direct from time to time.

1. Initial Interest Rate. The principal amount due under this Note shall bear interest from the Note Date until paid at an initial rate of interest ("Initial Interest Rate") of Three and 25/100 percent (3.25%) per annum, or the Adjusted Interest Rate as prescribed in Paragraph 2, below if the Note Date is after June 30, 2010, payable in twenty (20) equal semi-annual installments of principal plus accrued interest as provided herein on the unpaid principal balance with the outstanding balance of principal and interest all due and payable ten (10) years from the date of this Note ("Maturity Date"). Each semi-annual payment shall be made in a single lump sum payment of principal and interest. The first semi-annual payment shall be due and payable six (6) months from the Note Date. Thereafter, the semi-annual payments shall be due and payable on the first day of every sixth (6<sup>th</sup>) month after the due date of the first semi-annual payment until paid in full.

2. Adjustments to Interest Rate. The Initial Interest Rate shall be adjusted on July 1 of each year ("Adjustment Date"). On each Adjustment Date, the interest rate shall be adjusted to be equal to the prime rate of interest of Bank of America in San Francisco, California, or its successor by merger, acquisition or assignment, as of the Adjustment Date ("Adjusted Interest Rate"). Notwithstanding the foregoing, the Adjusted Interest Rate shall not exceed the maximum rate of interest permitted by law to be charged by the initial Holders of this Note. In the event Bank of America, or its successor, is not in existence on any Adjustment Date, Holder shall designate the use of a prime rate of interest published by a comparable commercial bank headquartered in Northern California.

3. Payment. Maker may prepay this Note, in whole or in part, at any time. Payments under this Note shall be credited first against costs of collection and late charges due, then against interest due, and the remainder against principal due. Interest will cease upon the principal so credited. Principal, interest and other amounts due under this Note shall be payable in lawful money of the United States. Interest for any partial month shall be calculated on the basis of a thirty (30) day month.

4. Annexation Agreement. Maker and Holder acknowledge that: a) all payments made by Maker to Holder as consideration for the extended option pursuant to Section 5.2.2 of the Amendment to the Annexation Agreement last dated June 30, 2003, totaling \$585,000.00, without interest; and b) all payments made or to be made by Maker to Holder between the close of escrow and through December 31, 2010 for acquisition of the "MCWD Reserved Area" (together with interest from the date of payment through December 31, 2010 using the prime rate of interest of the Bank of America in San Francisco, California in effect on the date of such payment) (collectively, the "Qualifying Payments") shall be included in computing annexation fees, capacity charges and/or service charges charged by Maker for the Armstrong Ranch as provided in the Annexation Agreement and Groundwater Mitigation Framework for Marina Area Lands between Maker, Holder and others, as amended, recorded August 7, 1996, at Reel 3404 Page 749, in the Office of the Monterey County Recorder ("Annexation Agreement"). Maker and Holder agree that pursuant to the Annexation Agreement, Maker will recover the Qualifying Payments only through annexation fees, capacity charges and/or service charges on a per acre foot per year basis. The amount to be recovered on a per acre foot per year basis shall be expressed as a fraction, the numerator of which is the total amount of Qualifying Payments and the denominator of which is 920 acre feet per year. For illustration purposes only, if the Qualifying Payments were \$1,000,000, the total amount of Qualifying Payments included as a portion of the annexation fees, capacity charges and/or service charges would be as follows:  $\$1,000,000 \div 920\text{AFY}$  or \$1,086.96 for every acre foot per year of anticipated potable water demand from the portion(s) of the Armstrong Ranch annexed as provided in the Annexation Agreement, until the total amount of Qualifying Payments has been reimbursed to Maker. The parties agree that reimbursement of the Qualifying Payments is fair and reasonable in consideration of the benefits received by Maker under the Annexation Agreement.

5. Power of Termination. Maker's obligations under this Note shall be deemed fully satisfied in the event the original Holder, or any permitted assign, exercises its power of termination under the Grant Deed for the MCWD Reserved Area recorded concurrently with the Deed of Trust securing this Note.

6. Late Payment. Maker acknowledges that the late payment by Maker of any amount due under this Note will cause Holders to incur additional costs and expenses, the exact amounts of which are extremely difficult or impractical to fix at the time. Therefore, if any payment is not received by Holders within five (5) days after the same becomes due, Maker shall immediately pay to Holders, a late charge equal to Two Hundred Fifty Dollars (\$250.00).

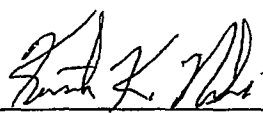
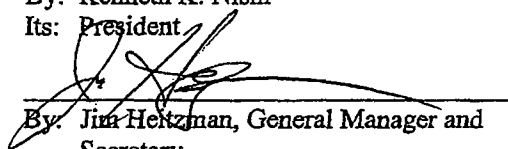
7. Security. This Note is secured by a Deed of Trust of even date herewith. If the trustor under the Deed of Trust sells, conveys, or alienates the property securing payment of this Note, or any part thereof, or any interest therein, or is divested of title or any interest therein in any manner or way, whether voluntarily or involuntarily, without the written consent of the Holders being first had and obtained, Holders shall have the right, at their option, except as prohibited by law, to declare this Note, irrespective of the Maturity Date, immediately due and payable. Consent to one such transaction shall not be deemed consent to further or future transactions.

8. Non-Negotiable. This Note shall not be negotiable by any Holder without the prior written consent of Maker.

9. Default. Should Maker fail to make any payment due under this Note or default in Maker's obligations under the Deed of Trust and such failure or default continues for a period of ten (10) days after written notice from Holders to Maker demanding that Maker cure such failure or default, the whole sum of principal and interest shall, at the option of Holders, become immediately due and payable. Further, if this Note is not paid when due, whether at maturity or by acceleration, Maker agrees to pay all costs of collection, including, but not limited to, reasonable attorneys' fees and all expenses incurred in connection with the protection or realization of any collateral, or in the enforcement of this Note or any Deed of Trust, which costs are incurred by the Holders on account of such efforts, whether or not a suit, action, trustee's sale or other proceeding is commenced.

IN WITNESS WHEREOF, Maker has delivered this Note to Holders effective as of the Note Date.

MARINA COAST WATER  
DISTRICT, a county water district  
and political subdivision of the State  
of California

  
By: Kenneth K. Nishi  
Its: President  
  
By: Jim Hertzman, General Manager and  
Secretary