

## EXHIBIT F

RECORDED AT THE REQUEST OF  
AND WHEN RECORDED MAIL TO:  
STATE OF CALIFORNIA  
State Lands Commission  
Attn: Title Unit  
100 Howe Avenue, Suite 100-South  
Sacramento, CA 95825-8202

**STATE OF CALIFORNIA  
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**STATE OF CALIFORNIA  
STATE LANDS COMMISSION**

**AMENDMENT OF LEASE PRC 8727.1**

**WHEREAS**, the State of California, acting through the State Lands Commission, hereinafter called Lessor, and, Cabrillo Power I LLC, hereinafter called Cabrillo, have heretofore entered into an agreement designated as Lease PRC 8727.1, authorized by the Lessor on May 10, 2007 and executed August 14, 2007, whereby the Lessor granted to said Lessee a General Lease – Industrial Use covering certain State Land situated in San Diego County, hereinafter referred to as Lease Premises (“Lease Premises”); and

**WHEREAS**, Section 4, Paragraph 15(e) provides that the Lease may be terminated and its terms, covenants and conditions amended, revised or supplemented only by mutual written agreement of the parties; and

**WHEREAS**, Cabrillo and Poseidon (Channelside) LLC, hereafter referred to as Poseidon, have entered into an Agreement dated July 11, 2003; and

**WHEREAS**, the Agreement between the Cabrillo and Poseidon provides for a use of the Lease Premises that is not allowed under current provisions contained in the Lease; and

**WHEREAS**, Poseidon has applied to the Lessor to use the Lease Premises for desalination purposes; and

**WHEREAS**, by reason of the foregoing, it is now the desire of the parties to amend the foregoing Agreement.

**NOW THEREFORE**, the parties hereto agree as follows:

**SECTION 1 – BASIC PROVISIONS and MAILING ADDRESS** is amended to include Poseidon as a Co-Lessee, whose mailing address is 501 W. Broadway, Suite 1260, San Diego, CA 92101. Any reference to “Lessee” in this lease shall refer to both Cabrillo and Poseidon as Co-Lessees.

**SECTION 1 – LAND USE OR PURPOSE** is amended to include desalination use of the existing improvements by Poseidon.

**SECTION 2 – SPECIAL PROVISIONS** shall be amended to include the following amendment to paragraph 8 (which replaces the prior paragraph 8) and to add paragraphs 10 through 23 as separate obligations of Poseidon:

8. Authorized Uses:

It is the intent of the parties to this lease that the improvements and activities authorized herein are for the exclusive use of the Co-Lessees, Cabrillo and Poseidon, in conjunction with Cabrillo's existing power plant cooling water system involving the intake of sea water and the commingling of brine water discharge from Poseidon's desalination facility. The test desalination facility shall cease operation prior to the operation of the Poseidon desalination facility.

10. Poseidon shall, at all times during the term of the Lease, comply with the Energy Minimization and Greenhouse Gas Reduction Plan (the GHG Plan), as adopted by the California Coastal Commission on August 6, 2008, except that, notwithstanding the provisions of that Plan:

- a) Poseidon shall also, at all times during the term of the Lease, fully offset direct greenhouse gas (GHG) emissions from the generation of electricity and other energy used for the construction and operation of the desalination facility. Additionally, Poseidon will be deemed to have offset construction impacts by obtaining 1,327 tons of carbon offsets/RECs subject to the verification procedures in the GHG Plan;
- b) The provisions of the GHG Plan entitled, "Contingency if No GHG Reduction Projects are Reasonably Available," shall not apply to this Lease;
- c) At any time during the term of the Lease, Poseidon may seek a determination from Lessor's Executive Officer that (i) offsets in an amount necessary to mitigate the Project's GHG emissions are not reasonably available; (ii) the "market price" for carbon offsets or RECs is not reasonably discernable; (iii) the market for offsets or RECs is suffering from significant market disruptions or instability; or (iv) the market price has escalated to a level that renders the purchase of offsets/RECs economically infeasible to the Project. Any request submitted by Poseidon shall be considered and determined by the Lessor's Executive Officer within 60 days. A denial of any such request may be appealed by Poseidon to Lessor for consideration at the next available public meeting of Lessor. If Poseidon's request for such a determination is approved by the Lessor's Executive Officer, Poseidon may delay or postpone acquisition of carbon offsets or RECs required under this lease for a period of up to three years following the Lessor's Executive Officer's determination., provided that Poseidon does ultimately acquire all carbon offsets or RECs required under this lease;
- d) In calculating the amount of reduction in GHG emissions from the State Water Project (SWP) that Poseidon may take when calculating the amount of carbon offsets or RECs it must acquire under the GHG Plan, Poseidon shall take into account only that amount of water from the SWP to which the Metropolitan Water District (MWD) is entitled to take, but that the MWD does not take.

- e) Poseidon shall provide copies of all reports that are required to be provided to the California Coastal Commission to Lessor's Executive Officer the time any such reports are required to be submitted to the California Coastal Commission.
11. a) Poseidon shall, at all times during the term of the Lease, comply with the Marine Life Mitigation Plan, as adopted by the California Coastal Commission on August 6, 2008. Poseidon will provide copies of all reports that are required to be provided to the California Coastal Commission to the Lessor's Executive Officer at the time any such reports are required to be submitted to the California Coastal Commission. The restoration project shall require up to 55.4 acres of wetlands restoration to be implemented in two Phases, with the first Phase (Phase I) comprising not less than 37 acres of wetlands restoration, and the second Phase (Phase II) comprising up to an additional 18.4 acres. Obligations for Phase II of the wetland mitigation comprise 18.4 acres, but may be proportionally reduced by the California Coastal Commission if it finds that Poseidon has reduced marine life impacts caused by entrainment and impingement.
- b) The provision of the Marine Life Mitigation Plan notwithstanding, Poseidon shall receive no mitigation credits for direct benefits to marine life from dredging that would otherwise be required pursuant to compliance with the Marine Life Mitigation Plan.
- c) 24 months after issuance of the Coastal Development Permit for the desalination facility, Poseidon shall submit to Lessor's Executive Officer, for his or her review and approval, proposed performance standards for Phase I of the wetland mitigation. Prior to submitting its Coastal Development Permit application for Phase II of the wetlands mitigation, Poseidon shall submit to Lessor's Executive Officer, for his or her review and approval, proposed performance standards for Phase II of the wetland mitigation. The Lessor's Executive Officer shall coordinate his or her review with the staff of the Coastal Commission and the Regional Water Quality Control Board. The Performance Standards in Phase I and II shall be modified if so directed by Lessor's Executive Officer.
12. Poseidon, without interference with, or interruption of, powerplant scheduled operations and at its sole cost and expense, shall use the best available design, technology, and mitigation measures at all times during which this Lease is in effect to minimize the intake (impingement and entrainment) and mortality of all forms of marine life associated with the operation of the desalination facility as determined by the San Diego Regional Water Quality Control Board or any other federal, state, or local entity having applicable jurisdiction.
13. As reasonably determined by the Lessor's Executive Officer, the monitoring, maintenance, and operation of the wetland restoration site(s) and the reference site(s) may be modified to conform with equivalent or superior standards and requirements developed by the San Diego Regional Water Quality Control Board or the California Coastal Commission or any other federal, state, or local entity having applicable jurisdiction.
14. Within ten years from the effective date of this Amendment, or upon such earlier time as agreed to by Lessor's Executive Officer, or upon notice by Cabrillo that it will no longer

require the use of the Lease Premises for the purposes of generating electrical power, Lessor will undertake an environmental review of the ongoing impacts of operation of the desalination facility to determine if additional requirements pursuant to Special Provision paragraph number 12, above, are required. Lessor, at its sole discretion, may hire a qualified independent environmental consultant, at the sole expense of Poseidon, with the intent to analyze all environmental effects of facility operations and alternative technologies that may reduce any impacts found. Lessor may require, and Poseidon shall comply with, such additional requirements as are reasonable and as are consistent with applicable state and federal laws and regulations and as Lessor determines are appropriate in light of the environmental review.

15. Poseidon shall provide copies of all regulatory monitoring and compliance reports pertaining to the operation of its desalination facility to Lessor at the time of submitting such reports with any regulatory agency.
16. a) Poseidon shall provide Lessor with
  - i) a non-cancelable operational performance deposit in the amount of \$1,000,000, prior to commencement of construction, but not more than one year from the effective date of the Lease Amendment. At any time during the term of the Lease, Lessor may require an increase in the amount of the performance deposit to reflect economic inflation or to cover any additionally authorized improvements, alterations, or purposes or any modification of rental.
  - and-**
  - ii) a non-cancelable wetland performance deposit in the amount of \$3,700,000 prior to commencement of operation of the desalination facility to ensure the implementation of compensatory mitigation, monitoring and maintenance as described in the approved plan. The wetland performance deposit for Phase I of the restoration project shall be proportionally and incrementally released based upon the productivity of the wetlands as determined by Lessor's Executive Officer, based upon the performance standards as outlined in the plan approved by the Lessor's Executive Officer.
- b) The performance deposit may take one of the forms set out below or some other form acceptable to Lessor, and shall guarantee Poseidon's full and faithful performance of all the terms, covenants, and conditions of this Lease;
  - (i) Cash;
  - (ii) A renewable Time Certificate of Deposit from a financial institution authorized to do business in the State of California, wherein the principal sum is made payable to the State or order and both the financial institution and the form of the certificate are approved by the Lessor's Staff;
  - (iii) A Non-Cancelable Bond issued by a responsible surety company authorized to do business in California, as approved by the Lessor's Staff, provided:
    - (A) The Bond is automatically renewable and any alteration of the bond shall first require 30 days' prior written notice to Lessor, and

- (B) The Bond shall guarantee payment in cash to Lessor of the performance deposit amount upon receipt of written demand from Lessor.
    - (iv) An irrevocable Standby Letter of Credit in a form acceptable to the Lessor's staff.
  - c) Regardless of the form in which Poseidon elects to make said performance deposit(s), all or any portion of the principal sum shall be available unconditionally to Lessor for correcting any default or breach of this lease by Poseidon, its successors or assigns or for payment of reasonable and actual expenses incurred by Lessor as a result of the failure of Poseidon, its successors or assigns, to perform faithfully any and all of the terms, covenants, and conditions of this Lease.
  - d) Should Poseidon elect to assign or provide a Time Certificate of Deposit to fulfill the performance deposit requirements of this Lease, the agreement entered into by Poseidon with a financial institution to establish a deposit necessary to permit assignment or issuance of a certificate may allow the payment to Poseidon or order of interest accruing on account of said deposit.
  - e) Should the entire performance deposit or any portion thereof be appropriated and applied by Lessor for the payment of overdue rent or any such other sum due and payable to Lessor by Poseidon, then Poseidon, within 30 days after written demand by Lessor, restore said performance deposit to the required amount. This Paragraph D is only applicable to the performance deposit and shall not be applicable to the wetland performance deposit.
  - f) Poseidon shall maintain the required performance deposit throughout the Lease term. Failure to do so shall be deemed a default and shall be grounds for immediate termination of this Lease Amendment as the same relates to the additional use approved by this Lease Amendment.
  - g) The performance deposit shall be rebated, reassigned, released, or endorsed to Poseidon or order, as Poseidon may direct at such time as Poseidon has vacated the premises, is not in default and has no further obligation under the Lease. Interest on the performance deposit required hereunder shall accrue for the benefit of Poseidon and shall be made available to Poseidon from time to time except as the same is required to remedy or cure any default by Poseidon; provided, however, that if the performance deposit is given in the form of cash then Poseidon shall not be entitled to any interest thereon.
17. Poseidon shall, as a separate obligation, provide to Lessor, prior to commencement of construction, in the form attached to this Lease Amendment as Exhibit A, or in a form approved by Lessor's staff, an unconditional guarantee by parent company Poseidon Water LLC for full performance by Poseidon of all the obligations under the Lease.
18. Poseidon shall, prior to the use of the Lease Premises for desalination purposes, provide to Lessor a detailed report of compliance with Order No. R9-2006-0065, NPDES No. CA0109223, adopted by the San Diego Regional Water Quality Control Board, on

August 16, 2006, and became effective on October 1, 2006, and any subsequent amendments thereto.

19. Poseidon shall provide a written report to the Lessor for use at a public hearing to be conducted by Lessor within five years of the effective date of this lease amendment in order to publicly review and evaluate Poseidon's compliance with the terms of the lease as provided for in Section 4, Paragraph 6 including, but not limited to, compliance with the federal Clean Water Act, and California's Porter-Cologne Water Quality Control Act.
20. In the event that Poseidon fails to comply with any or all of its separate obligations under this Lease, Lessor may terminate Poseidon's rights under this Lease Amendment. Such termination shall not affect any or all of Cabrillo's rights or obligations under this Lease. Additionally, assuming that Cabrillo is not otherwise in default of any of its separate obligations under this Lease, no default by Poseidon of any or all of its separate obligations under this Lease will give Lessor the right to terminate any of Cabrillo's rights under this Lease.
21. Poseidon shall not make any changes in use or operation of the intake channels and jetties without prior authorization by Lessor.
22. Poseidon shall be responsible for reimbursing all of Lessor's reasonable staff expenses incurred by Lessor and its Staff to monitor compliance by Poseidon of all of its reservations, terms, covenants and conditions of the Lease for the term of the Lease. Upon execution of the Lease Amendment, Poseidon shall execute a Reimbursement Agreement with the Lessor specifying the mechanism by which all actual costs by Lessor shall be reimbursed. An expense deposit of \$25,000 shall be paid to and held by the Lessor as a cash surety to ensure performance of this paragraph.
23. Poseidon acknowledges that it is responsible for Section 4 General Provisions of Lease PRC 8727.1, except as otherwise noted below.

**SECTION 2 – SPECIAL PROVISIONS** shall be amended to include the following paragraph 24 as a separate obligation of Cabrillo:

24. Cabrillo shall notify Lessor in writing prior to discontinuing its use of the Lease Premises in connection with the production of electricity. Upon receipt of notification by Lessor, Cabrillo may apply to Lessor for approval of an assignment of its obligations under the lease to Poseidon. In considering Cabrillo's application for approval of an assignment, Lessor will take into account Poseidon's past performance and the likelihood that Poseidon could and would carry out all obligations under the lease as sole lessee. In the event that Lessor finds that there is a substantial probability that Poseidon would not or could not carry out all such obligations, then Lessor may disapprove the assignment, in which case, at Cabrillo's option, the lease would terminate or Cabrillo would remain as Co-Lessee.

**SECTION 2 – SPECIAL PROVISIONS** shall be amended to include the following paragraph 25:

25. Cabrillo and Poseidon shall be jointly and severally liable for all provisions of this Lease except for those provisions that specify a separate obligation of one or the other.

**SECTION 4 – GENERAL PROVISIONS** is amended as follows:

Paragraph 11, Default and Remedies, (a) Default, Paragraph (4) is hereby deleted in its entirety and is replaced with the following:

- (4) Co-Lessees’ failure to obtain, maintain and comply with all necessary governmental permits or other entitlements;

The effective date of this amendment to the aforesaid Agreement shall be August 22, 2008. This Amendment, consisting of seven pages together with Exhibit A, consisting of four pages, is a portion of document number PRC 8727.1, with a beginning date of December 14, 2006, consisting of four sections with a total of fourteen pages. All other terms and conditions of this lease shall remain in full force and effect. This Agreement will become binding on the Lessor only when duly executed on behalf of the State Lands Commission of the State of California.

**IN WITNESS WHEREOF**, the parties hereto have executed this Agreement as of the date hereafter affixed.

**CO-LESSEES:**  
\*CABRILLO POWER I, LLC

**LESSOR:**  
STATE OF CALIFORNIA  
STATE LANDS COMMISSION

By: \_\_\_\_\_

By: \_\_\_\_\_

Title: \_\_\_\_\_

Date: \_\_\_\_\_

Date: \_\_\_\_\_

\*POSEIDEION RESOURCES (CHANNELSIDE), LLC

By: \_\_\_\_\_

Title: \_\_\_\_\_

Date: \_\_\_\_\_

**\*All signatures must be acknowledged**

This Lease was authorized by the California State Lands Commission on \_\_\_\_\_