

LOWPER WATER COMPANY
PO BOX 20429
SEATTLE, WA 98102
(800) 928-3750

PUD #1 Clallam County
Attn: Water Department
PO Box 1090
Port Angeles, WA 98362

Attn: Mike Kitz

Re: Lower Water System

Dear Mike:

Per our conversation, please find enclosed draft copy of a Purchase and Sales Agreement for the Lower Water System. Have your attorney review and see if it meets your approval.

If you have any questions, please call me at (206) 786-3410 or (206) 282-4200.

Sincerely,

David Dorland

Enclosure

PURCHASE AND SALE AGREEMENT

THIS AGREEMENT is made and entered into this ____ day of _____, 2011, by and between Lower, Incorporated, a Washington corporation ("Seller"), and Clallum Public Utility District No. 1 of Clallum County, Washington, a Washington municipal corporation ("Buyer").

RECITALS

WHEREAS, Seller is the owner of the Lower Water System, ID# _____, located in Clallum County, Washington; and

WHEREAS, Seller desires to sell said Lower Water System to Buyer including all water rights, water service area, licenses, easements and permits, water distribution lines, records, wells, pumps, buildings, storage tanks, facilities and equipment of whatsoever nature owned by Seller and utilized in conjunction with such water system, all of which together shall hereafter be referred to as the "Water System." Such Water System is more particularly described in Exhibit 1, which is attached hereto and incorporated herein by this reference; and

WHEREAS, Buyer desires to purchase said Water System as described in Exhibit 1.

NOW, THEREFORE, in consideration of the promises and benefits set forth below, the parties hereto agree as follows:

1. Purchase Price. The consideration for the Water System is Buyer's ensuing operations of the Water System. All material property assets of the Water System are listed and described in Exhibit 1.
2. Conveyance. Upon Closing, Seller shall transfer and convey to Buyer all of Seller's right, title, and interest in the Water System except as expressly provided otherwise herein. Such conveyance to Buyer shall include transfer of the entire Water System service area authorized by applicable law.

Real property interests owned or held by Seller for the use and benefit of the Water System and occupied by its facilities, shall be conveyed by Quit Claim Deed in a form acceptable to Buyer. Licenses, franchises or permits shall be transferred by the method required by applicable law or contract.

Buyer and Seller shall execute any document reasonably necessary to accomplish transfer or assignment of water rights for the Water System, if applicable.

3. Seller's Warranties.

a) Seller warrants that, as of the date and time of Closing, the Water System is operating in substantial compliance with all material applicable laws and regulations, except specifically with regard to any approval by the Washington State Department of Health of a

current water system plan ("Plan"). After Closing, responsibility for such Plan will pass to Buyer; PROVIDED, that penalties, if any, assessed against the Water system for any regulatory violations prior to the date of Closing shall be satisfied by Seller.

b) Seller warrants that the real and personal property, rights and interests to be conveyed pursuant to this Agreement and associated with the Water System shall be free of any and all liens, security interests or encumbrances of whatsoever nature. Easements of record, unrecorded easements, claims of adverse possession, treaty or unrecorded rights asserted by Indian tribes or other matters that are not insured under a standard purchaser's title insurance policy shall not be considered to be encumbrances. Upon Closing, Seller shall satisfy any and all debts, liens and security interests associated with the Water System. Except as expressly described in the documents of transfer and sale, including quitclaim deeds transferring easements, Seller warrants that it has no knowledge of any other claims or interests by any other person in the real and personal property, water rights, contract rights and interests associated with the Water System conveyed hereby. Seller warrants to Buyer that Seller has corporate authority to make the conveyance to be made pursuant to this Agreement. Seller further warrants that, effective upon Closing, 1) all bills and taxes relating to construction, installation and repair of the Water System by Seller, or of persons authorized by Seller, have been paid in full; and 2) all existing contractual obligations of the Water System or of Seller on behalf of the Water System to provide service for payments received have been satisfied. Seller hereby agrees to satisfy or defend Buyer against any such claims or obligations. Seller's obligation to satisfy or defend claims warranted against in this paragraph includes litigation fees and expenses at trial and on appeal, provided, that, Seller shall not have any obligations to pay Buyer's attorney's fees and costs if Seller undertakes the obligation to defend such claims.

4. Accounts Receivables. All regular billings, fees, and receivables for water service shall be prorated as of the date of Closing. It is understood that the Water System has approximately _____ active water service customers that are using water as of the date of Closing. Seller shall provide the Buyer with reasonably accurate and complete Water System books, records, and accounts sufficient to inform Buyer regarding active and inactive customer accounts and all other applicable customer classifications, linked to customer names and service addresses. Seller shall be entitled to any accounts receivable associated with the Water System, delinquent or otherwise, due and pro-rated to the date of Closing, but Buyer shall have no obligation to collect any such amounts on behalf of Seller; provided, that, if Buyer receives sums from customers that are not in payment of services provided by the Buyer after the date of Closing, Buyer shall promptly remit such sums to Seller and shall not hold such sums as any credit against future services to be provided by Buyer. Buyer shall be entitled to accounts receivable associated with the Water System for all services provided by the Buyer after the date of Closing.

5. Conditions.

a) This Agreement is subject to approval of Buyer's elected Board of Commissioners, and shall not be executed by Buyer until such approval.

b) Should Seller be unable or unwilling to satisfy each and every one of its warranties or conditions in a manner acceptable to Buyer prior to Closing, then this Agreement shall be voidable at Buyer's option upon ten (10) days written notice to Seller.

6. Buyer's Warranties.

a) Upon approval as specified in Section 5a), above, and execution by an authorized representative of Buyer, this Agreement shall constitute a binding agreement of the Buyer; the signature below shall be by a person authorized by Buyer to bind Buyer to this Agreement.

b) Buyer is a municipal corporation in good standing under the laws of the State of Washington.

c) Entry into this Agreement and consummation of the transactions contemplated thereby shall not place Buyer in breach of any loan or bonding term or condition or in substantial violation of any material statute or rule.

d) Buyer has exercised its due diligence in inspecting the Water System and has satisfied itself as to the condition of said Water System and is entering into this transaction based upon its own due diligence and review and is not relying on any representation or statement by Seller or any of Seller's employees or agents.

7. Closing.

a) This Agreement shall be executed by Seller and the original hereof delivered to Buyer along with fully-executed original Quit Claim Deeds in a form attached as Exhibit 2. Upon execution of the original of this Agreement, Buyer shall deliver to Seller a fully executed copy thereof.

Buyer and Seller shall jointly select the closing agent. The closing agent shall be responsible for recording of documents of sale. Closing costs shall be shared equally by Buyer and Seller. The costs of recording of the Quit Claim Deeds shall be paid by Buyer. Cost of recording any documents related to satisfaction of secured obligations shall be paid by Seller. Any real estate excise taxes or other transaction taxes shall be paid by Buyer.

b) Closing shall occur as soon as reasonably practicable, not to exceed twenty (20) days after full execution of the original Agreement. If this Agreement is not executed by the Buyer within ninety (90) days following execution of all pertinent documents by Seller, then this Agreement shall be voidable at Seller's option upon ten (10) days written notice to Buyer.

8. Survival. The warranties, covenants, and other substantive provisions of this Agreement shall survive Closing.

9. Disclosure. Seller has disclosed to Buyer that Seller has recorded obligation for reimbursement of Ten Thousand Six Hundred Seventy and No/100 Dollars (\$10,670.00) plus accrued interest from twelve (12) connections to the Water System. Buyer understands that not

all connections may be fully activated prior to Closing since some or all of the applicants must obtain building permits and that not all payments may be made to the Seller from the applicants and as a result there may be obligations of the applicants evidenced by Notice of Continuing Lien (copy attached as Exhibit 3). Buyer agrees to notify Seller when any of the remaining lots on the Water System seek activation. It shall be Seller's obligation to collect any funds owed to it and Buyer shall have no responsibility to Seller for any such funds even in the event Buyer fails to notify Seller.

This Purchase and Sale Agreement, with Exhibits, sets forth the entire, final, and exclusive understanding of Seller and Buyer with regard to the subject matter hereof, and supersedes any and all prior agreements with respect thereto.

IN WITNESS WHEREOF, _____ has executed this Agreement this ____ day of March, 2011.

Lowper, Incorporated

Clallum Public Utility District No. 1

By: _____

By: _____

Its: _____

Its: _____

STATE OF WASHINGTON)

County of _____) ss.

On this ____ day of March, 2011, before me, the undersigned, a Notary Public in and for the State of Washington, duly commissioned and sworn, personally appeared _____, to me known to be the _____ of Lower, Incorporated, the corporation that executed the within and foregoing instrument, and acknowledged said instrument to be the free and voluntary act and deed of said corporation, for the uses and purposes therein mentioned, and on oath stated that he/she is authorized to execute said instrument.

Witness my hand and official seal hereto affixed the day and year first above written.

[Printed Name]
Notary Public in and for the State of
Washington, residing at _____
My commission expires _____

STATE OF WASHINGTON)

County of _____) ss.

On this ____ day of March, 2011, before me, the undersigned, a Notary Public in and for the State of Washington, duly commissioned and sworn, personally appeared _____, to me known to be the _____ of Clallum Public Utility District No. 1, the municipal corporation that executed the within and foregoing instrument, and acknowledged said instrument to be the free and voluntary act and deed of said municipal corporation, for the uses and purposes therein mentioned, and on oath stated that he/she is authorized to execute said instrument.

Witness my hand and official seal hereto affixed the day and year first above written.

[Printed Name]
Notary Public in and for the State of
Washington, residing at _____
My commission expires _____

EXHIBIT I

EXHIBIT 2

After recording return document to:

Richard A. Finnigan
2112 Black Lake Blvd SW
Olympia, WA 98512

Document Title: Quitclaim Deed
Reference Number of Related Document:
Grantor: Lowper, Incorporated
Grantee: Clallam Public Utility District No. 1
Abbr. Legal Description:
Assessor's Tax Parcel Numbers:
Real Estate Excise Tax Affidavit Number:

QUITCLAIM DEED

The Grantor, Lowper, Incorporated, a Washington corporation, for and in consideration of the sum of TEN AND NO/100 (\$10.00) Dollars, and other valuable consideration, convey(s) and quitclaim(s) to Clallam Public Utility District No. 1 of Clallam County, Washington, a Washington municipal corporation, the following described interest, and any after acquired interest therein, situated in Clallam County, in the State of Washington:

Dated: March _____, 2011.

Lowper, Incorporated

By: _____

Its: _____

EXHIBIT 3

Apr 28 11 02:02p

04/28/2011 14:28 206764384000
RE: Lower Draft Purchase & Sales Agreement

ILIAD INC*

p.20
PAGE 03/05
Page 1 of 1

From: Mike Kitz x216 <MikeK@clallampud.net>
To: waterarvs <waterarvs@aol.com>
Subject: RE: Lower Draft Purchase & Sales Agreement
Date: Fri, Mar 11, 2011 11:05 am

Dave Dorland,

Our attorney is working on the agreement that you provided to transfer the Lower Water System to the PUD.

He needs a copy of all easements/franchises to cover the route of the pipes and water meters.

Would you please provide these as soon as possible??

Mike Kitz

Michael L. Kitz, P.E.
Water/Wastewater Systems Superintendent
PUD #1 of Clallam County
2431 E. Highway 101
P.O. Box 1090
Port Angeles, WA 98162
360.365.3216 Office
360.565.1162 Fax
360.460.6606 Cell
mlkitz@clallampud.net

From: waterarvs@aol.com [mailto:waterarvs@aol.com]
Sent: Friday, March 04, 2011 11:58 AM
To: Mike Kitz x216
Subject: Fwd: Lower Draft Purchase & Sales Agreement

-----Original Message-----

From: shelia <shelia@iliadnw.com>
To: waterarvs <waterarvs@aol.com>
Sent: Fri, Mar 4, 2011 11:54 am
Subject: [Image File] Sondra,, #989

FROM:

Image data has been attached to the e-mail.

FW: Lower Water System/Illiad, Inc.

Page 1 of 1

From: Mike Kitz x216 <mikek@clallampud.net>
To: watersrvs <watersrvs@aol.com>
Cc: pmirwin <pmirwin@plattirwin.com>; Doug Nass x230 <dougn@clallampud.net>
Subject: FW: Lower Water System/Illiad, Inc.
Date: Fri, Mar 18, 2011 1:06 pm
Attachments: MEMO_to_Mike_Kitz_&_Doug_Nass_re_Lower_H2O_Sys_3-17-11.pdf (62K)

Dave Dorland,

A copy of our attorney's opinion on the transferability of the Lower water system is attached to this e-mail.

The first hurdle that has to be resolved is in the matter of pipeline easements. As you can see, our research does not indicate any recorded easement rights for the water main and appurtenances. This needs to be resolved before we spend a lot of attorney time revising the purchase agreement.

Please provide any information you have on easements/franchises for the route of the pipe as soon as possible.

Mike Kitz

Michael L. Kitz, P.E.
Water/Wastewater Systems Superintendent
PUD #1 of Clallam County
2431 E. Highway 101
P.O. Box 1090
Port Angeles, WA 98362
360.565.3216 Office
360.565.1162 Fax
360.460.6606 Cell
mikek@clallampud.net

From: Sheri Summers [<mailto:sheris@plattirwin.com>]
Sent: Friday, March 18, 2011 9:21 AM
To: Doug Nass x230; Mike Kitz x216
Cc: Patrick Irwin
Subject: Lower Water System/Illiad, Inc.

Dear Mr. Nass and Mr. Kitz:

Please find attached Patrick's memorandum regarding the above. If you have any questions, please give him a call.

Sheri Summers
Legal Assistant to Patrick M. Irwin
PLATT IRWIN LAW FIRM
403 S. Peabody St.
Port Angeles, WA 98362

PLATT IRWIN

LAW FIRM

403 South Peabody
Port Angeles, Washington 98362
(360) 457-3327 FAX (360) 452-5010

MEMORANDUM

TO: Mike Kitz and Doug Nass
FROM: Patrick Irwin
DATE: March 17, 2011
RE: Acquisition of the Lower Water System from Iliad, Inc.

I have reviewed the proposed purchase agreement from Iliad, Inc. for the purchase of the Lower Water System. While I have problems with the document itself, and will rewrite it once due diligence details are hammered out, there is a preliminary issue that first must be addressed.

I have researched the title for the Lower Water System in order to assure that Iliad, Inc. has the authority to transfer its easement rights (where the pipes run under ground) to the District. In my search, I have not been able to find any easement rights that ran directly to Lower, Inc., or any authority for Lower to transfer any easement right to Iliad, Inc. While it is possible that Iliad, Inc. is in possession of some form or equitable right to be on its customer's land, there is no recorded right.

If the District is to acquire the Lower Water System, it is my recommendation that the District also receive as a part of the transaction a grant of easement from each of the owners within the Lower Water System. This can be accomplished by Iliad, Inc. getting an easement that has specific right inuring to Iliad and is transferable to the District, or the District get easements directly that are contingent on the District taking over the system.

Should a representative of Iliad, Inc. disagree with my assessment of this matter, I am open to review any additional agreements or documents it may have, but at this time I find no easement right that runs to Iliad, Inc.

PM:ss

Apr 28 11 02:02p

04/28/2011 14:28 285764384000
Fwd: Lower Water Company

ILIAD INC*

p.23

PAGE 06/06

Page 1 of 1

From: watersrvs <watersrvs@aol.com>
To: mkek <mkek@chilampud.net>
Subject: Fwd: Lower Water Company
Date: Thu, Mar 24, 2011 12:21 pm
Attachments: 20110324105211.pdf (57K)

Dear Mike:

Please find attached recorded Assignment of Easement. Is the legal description to the nonexclusive road and utility easement what your attorney is looking for? Please advise.

Our Title Company is looking and we are reviewing all our contracts. I will keep you advised.

If you have any questions, please call me at (208) 786-3410.

Sincerely

David Dorland

-----Original Message-----

From: shella <shella@iliadnw.com>
To: watersrvs <watersrvs@aol.com>
Sent: Thu, Mar 24, 2011 12:15 pm
Subject: [Image File] Sondra, #015

FROM:
Image data has been attached to the e-mail.

From: Mike Kitz x216 <MikeK@clallampud.net>
To: waterarvs <waterarvs@aol.com>
Subject: FW: Lower Water Company
Date: Wed, Mar 30, 2011 4:55 pm

Dave,

As you can see, our attorney still has concerns with the validity of the transferability of the easements for the water mains and appurtenances.

To go forward with this transaction, we will need a Preliminary Commitment of Title showing that the easements are insurable and/or easements will need to be re-granted by all property owners along the route of the pipes.

Please keep me informed as to your progress.

Mike Kitz

Michael L. Kitz, P.E.
Water/Wastewater Systems Superintendent
FUD #1 of Clallam County
2431 E. Highway 101
P.O. Box 1090
Port Angeles, WA 98362
360.565.3216 Office
360.565.1162 Fax
360.460.6606 Cell
mikek@clallampud.net

From: Patrick Irwin [mailto:patrickirwin@plattirwin.com]
Sent: Wednesday, March 30, 2011 4:28 PM
To: Mike Kitz x216
Subject: RE: Lower Water Company

Dear Mike:

The document given was a part of my review. I am eager to see what his title company comes up with. If someone will insure the transaction (after full disclosure of our concerns) then, I guess, we can go forward.

Until then, I do not see anything new. My opinion is not changed.

Patrick Irwin

From: Mike Kitz x216 [mailto:MikeK@clallampud.net]
Sent: Monday, March 28, 2011 2:30 PM
To: patirwin@plattirwin.com
Subject: FW: Lower Water Company

Hi Patrick,

Here is Dave Dorland's response to our request for additional information on the transferability of the Lower

Water System easements.

Please review this document and let me know if you still believe the easement rights for the water mains do not extend to Illiad, Inc and/or if they will have to get an easement from each of the owners within the Lower Water System that is transferable to the District.

Thanks,

Mike Kitz

Michael L. Kitz, P.E.
Water/Wastewater Systems Superintendent
PUD #1 of Clallam County
2431 E. Highway 101
P.O. Box 1090
Port Angeles, WA 98362
360.565.3216 Office
360.565.1152 Fax
360.450.6606 Cell
mikek@clallampud.net

From: waterarva@aol.com [mailto:waterarva@aol.com]
Sent: Thursday, March 24, 2011 12:21 PM
To: Mike Kitz #216
Subject: Fwd: Lower Water Company

Dear Mike:

Please find attached recorded Assignment of Easement. Is the legal description to the nonexclusive road and utility easement what your attorney is looking for? Please advise.

Our Title Company is looking and we are reviewing all our contracts. I will keep you advised.

If you have any questions, please call me at (206) 785-3410.

Sincerely

David Dorland

-----Original Message-----

From: sheila <sheila@iliadnw.com>
To: waterarva <waterarva@aol.com>
Sent: Thu, Mar 24, 2011 12:15 pm
Subject: [Image File] Sondra, #015

FROM:

Image data has been attached to the e-mail.

Apr 28 11 02:03p

04/28/2011 14:29
FW: Lower

206764384000

ILIAD INC

p.26

PAGE 05/06
Page 1 of 1

From: wateravs <wateravs@aol.com>
To: mkek <mkek@clallamud.net>
Cc: rickinn <rickinn@localsecure.com>
Subject: Fwd: Lower
Date: Thu, Mar 31, 2011 10:28 am
Attachments: 20110331083947.pdf (206K)

Dear Mike:

Please find enclosed the following easement documents on the Lower water system. Recording #623432, 716439 and grant of easement not recorded. Please see if this is what your attorney needs.

Please let me know. Any questions, please call (206) 786-3410.

Sincerely,

David Dorland

-----Original Message-----

From: sheila <sheila@iliadnw.com>
To: wateravs <wateravs@aol.com>
Sent: Thu, Mar 31, 2011 10:23 am
Subject: [Image File] Sondra,, #019

FROM:

Image data has been attached to the e-mail.

Dave Dorland, 08:51 AM 3/9/2011, Lower/Cllallam PUD - Purchase and Sale Agreement

To: Dave Dorland <watersrvs@aol.com>
From: "Richard A. Finnigan" <rickfinn@localaccess.com>
Subject: Lower/Cllallam PUD - Purchase and Sale Agreement
Cc:
Bcc:
Attached: C:\Users\Kathy McCrary\Documents\MyFiles\Lower\PURCHASE AND SALE AGREEMENT.doc;

Dave, the Purchase and Sale Agreement that I sent to you on Wednesday, March 2, 2011, had a typographical error. The word "Clallam" was misspelled. Attached is the Agreement with the correct spelling.

Please call to discuss the status.

Rick Finnigan
(360) 956-7001
(360) 587-3852 (fax)

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Printed for Kathy McCrary <kathym@localaccess.com>

*Sent 3/9/11
8:51 AM
KM*

Dave Dorland, 12:01 PM 3/2/2011, Lower/Clallum PUD - Purchase and Sale Agreement

To: Dave Dorland <watersrvs@aol.com>
From: "Richard A. Finnigan" <rickfinn@localaccess.com>
Subject: Lower/Clallum PUD - Purchase and Sale Agreement
Cc:
Bcc:
Attached: C:\Users\Kathy McCrary\Documents\MyFiles\Lower\PURCHASE AND SALE AGREEMENT.doc;

Dave, attached for your review is a Purchase and Sale Agreement.

Rick Finnigan
(360) 956-7001
(360) 587-3852 (fax)

The information in this e-mail message is privileged and confidential. It is intended only for the use of the recipients named above. If you received this transmission in error, you are hereby notified that any dissemination, distribution or copying of this communication is strictly prohibited. If you have received this message in error, please do not read it. Please reply to sender and delete this mail. Thank you.

Printed for Kathy McCrary <kathym@localaccess.com>

*Sent 3/2/11
12:01
PM*

PURCHASE AND SALE AGREEMENT

THIS AGREEMENT is made and entered into this ____ day of _____, 2011, by and between Lowerper, Incorporated, a Washington corporation ("Seller"), and Clallam Public Utility District No. 1 of Clallam County, Washington, a Washington municipal corporation ("Buyer").

RECITALS

WHEREAS, Seller is the owner of the Lowerper Water System, ID# _____, located in Clallam County, Washington; and

WHEREAS, Seller desires to sell said Lowerper Water System to Buyer including all water rights, water service area, licenses, easements and permits, water distribution lines, records, wells, pumps, buildings, storage tanks, facilities and equipment of whatsoever nature owned by Seller and utilized in conjunction with such water system, all of which together shall hereafter be referred to as the "Water System." Such Water System is more particularly described in Exhibit 1, which is attached hereto and incorporated herein by this reference; and

WHEREAS, Buyer desires to purchase said Water System as described in Exhibit 1.

NOW, THEREFORE, in consideration of the promises and benefits set forth below, the parties hereto agree as follows:

1. Purchase Price. The consideration for the Water System is Buyer's ensuing operations of the Water System. All material property assets of the Water System are listed and described in Exhibit 1.
2. Conveyance. Upon Closing, Seller shall transfer and convey to Buyer all of Seller's right, title, and interest in the Water System except as expressly provided otherwise herein. Such conveyance to Buyer shall include transfer of the entire Water System service area authorized by applicable law.

Real property interests owned or held by Seller for the use and benefit of the Water System and occupied by its facilities, shall be conveyed by Quit Claim Deed in a form acceptable to Buyer. Licenses, franchises or permits shall be transferred by the method required by applicable law or contract.

Buyer and Seller shall execute any document reasonably necessary to accomplish transfer or assignment of water rights for the Water System, if applicable.

3. Seller's Warranties.

a) Seller warrants that, as of the date and time of Closing, the Water System is operating in substantial compliance with all material applicable laws and regulations, except specifically with regard to any approval by the Washington State Department of Health of a

current water system plan ("Plan"). After Closing, responsibility for such Plan will pass to Buyer; PROVIDED, that penalties, if any, assessed against the Water system for any regulatory violations prior to the date of Closing shall be satisfied by Seller.

b) Seller warrants that the real and personal property, rights and interests to be conveyed pursuant to this Agreement and associated with the Water System shall be free of any and all liens, security interests or encumbrances of whatsoever nature. Easements of record, unrecorded easements, claims of adverse possession, treaty or unrecorded rights asserted by Indian tribes or other matters that are not insured under a standard purchaser's title insurance policy shall not be considered to be encumbrances. Upon Closing, Seller shall satisfy any and all debts, liens and security interests associated with the Water System. Except as expressly described in the documents of transfer and sale, including quitclaim deeds transferring easements, Seller warrants that it has no knowledge of any other claims or interests by any other person in the real and personal property, water rights, contract rights and interests associated with the Water System conveyed hereby. Seller warrants to Buyer that Seller has corporate authority to make the conveyance to be made pursuant to this Agreement. Seller further warrants that, effective upon Closing, 1) all bills and taxes relating to construction, installation and repair of the Water System by Seller, or of persons authorized by Seller, have been paid in full; and 2) all existing contractual obligations of the Water System or of Seller on behalf of the Water System to provide service for payments received have been satisfied. Seller hereby agrees to satisfy or defend Buyer against any such claims or obligations. Seller's obligation to satisfy or defend claims warranted against in this paragraph includes litigation fees and expenses at trial and on appeal; provided, that, Seller shall not have any obligations to pay Buyer's attorney's fees and costs if Seller undertakes the obligation to defend such claims.

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5. Conditions.

a) This Agreement is subject to approval of Buyer's elected Board of Commissioners, and shall not be executed by Buyer until such approval.

b) Should Seller be unable or unwilling to satisfy each and every one of its warranties or conditions in a manner acceptable to Buyer prior to Closing, then this Agreement shall be voidable at Buyer's option upon ten (10) days written notice to Seller.

6. Buyer's Warranties.

a) Upon approval as specified in Section 5a), above, and execution by an authorized representative of Buyer, this Agreement shall constitute a binding agreement of the Buyer; the signature below shall be by a person authorized by Buyer to bind Buyer to this Agreement.

b) Buyer is a municipal corporation in good standing under the laws of the State of Washington.

c) Entry into this Agreement and consummation of the transactions contemplated thereby shall not place Buyer in breach of any loan or bonding term or condition or in substantial violation of any material statute or rule.

d) Buyer has exercised its due diligence in inspecting the Water System and has satisfied itself as to the condition of said Water System and is entering into this transaction based upon its own due diligence and review and is not relying on any representation or statement by Seller or any of Seller's employees or agents.

7. Closing.

a) This Agreement shall be executed by Seller and the original hereof delivered to Buyer along with fully-executed original Quit Claim Deeds in a form attached as Exhibit 2. Upon execution of the original of this Agreement, Buyer shall deliver to Seller a fully executed copy thereof.

Buyer and Seller shall jointly select the closing agent. The closing agent shall be responsible for recording of documents of sale. Closing costs shall be shared equally by Buyer and Seller. The costs of recording of the Quit Claim Deeds shall be paid by Buyer. Cost of recording any documents related to satisfaction of secured obligations shall be paid by Seller. Any real estate excise taxes or other transaction taxes shall be paid by Buyer.

b) Closing shall occur as soon as reasonably practicable, not to exceed twenty (20) days after full execution of the original Agreement. If this Agreement is not executed by the Buyer within ninety (90) days following execution of all pertinent documents by Seller, then this Agreement shall be voidable at Seller's option upon ten (10) days written notice to Buyer.

8. Survival. The warranties, covenants, and other substantive provisions of this Agreement shall survive Closing.

9. Disclosure. Seller has disclosed to Buyer that Seller has recorded obligation for reimbursement of Ten Thousand Six Hundred Seventy and No/100 Dollars (\$10,670.00) plus accrued interest from twelve (12) connections to the Water System. Buyer understands that not

all connections may be fully activated prior to Closing since some or all of the applicants must obtain building permits and that not all payments may be made to the Seller from the applicants and as a result there may be obligations of the applicants evidenced by Notice of Continuing Lien (copy attached as Exhibit 3). Buyer agrees to notify Seller when any of the remaining lots on the Water System seek activation. It shall be Seller's obligation to collect any funds owed to it and Buyer shall have no responsibility to Seller for any such funds even in the event Buyer fails to notify Seller.

This Purchase and Sale Agreement, with Exhibits, sets forth the entire, final, and exclusive understanding of Seller and Buyer with regard to the subject matter hereof, and supersedes any and all prior agreements with respect thereto.

IN WITNESS WHEREOF, _____ has executed this Agreement this ____ day of March, 2011.

Lowper, Incorporated

Clallam Public Utility District No. 1

By: _____

By: _____

Its: _____

Its: _____

STATE OF WASHINGTON)

) ss.
County of _____)

On this ____ day of March, 2011, before me, the undersigned, a Notary Public in and for the State of Washington, duly commissioned and sworn, personally appeared _____, to me known to be the _____ of Lowerper, Incorporated, the corporation that executed the within and foregoing instrument, and acknowledged said instrument to be the free and voluntary act and deed of said corporation, for the uses and purposes therein mentioned, and on oath stated that he/she is authorized to execute said instrument.

Witness my hand and official seal hereto affixed the day and year first above written.

[Printed Name]
Notary Public in and for the State of
Washington, residing at _____.
My commission expires _____.

STATE OF WASHINGTON)

) ss.
County of _____)

On this ____ day of March, 2011, before me, the undersigned, a Notary Public in and for the State of Washington, duly commissioned and sworn, personally appeared _____, to me known to be the _____ of Clallam Public Utility District No. 1, the municipal corporation that executed the within and foregoing instrument, and acknowledged said instrument to be the free and voluntary act and deed of said municipal corporation, for the uses and purposes therein mentioned, and on oath stated that he/she is authorized to execute said instrument.

Witness my hand and official seal hereto affixed the day and year first above written.

[Printed Name]
Notary Public in and for the State of
Washington, residing at _____.
My commission expires _____.

EXHIBIT 1

EXHIBIT 2

After recording return document to:

Richard A. Finnigan
2112 Black Lake Blvd SW
Olympia, WA 98512

Document Title: Quitclaim Deed
Reference Number of Related Document:
Grantor: Lowper, Incorporated
Grantee: Clallam Public Utility District No. 1
Abbr. Legal Description:
Assessor's Tax Parcel Numbers:
Real Estate Excise Tax Affidavit Number:

QUITCLAIM DEED

The Grantor, Lowper, Incorporated, a Washington corporation, for and in consideration of the sum of TEN AND NO/100 (\$10.00) Dollars, and other valuable consideration, convey(s) and quitclaim(s) to Clallam Public Utility District No. 1 of Clallam County, Washington, a Washington municipal corporation, the following described interest, and any after acquired interest therein, situated in Clallam County, in the State of Washington:

Dated: March _____, 2011.

Lowper, Incorporated

By: _____

Its: _____

EXHIBIT 3