

## APPENDIX A

### **City of Regina Water Supply of Recycled Water to Western Potash Corp.**

#### **Draft Key Commercial Terms**

This term sheet sets out the key commercial terms and conditions upon which the City of Regina (“COR”) will provide recycled water access to Western Potash Corp. (“WP”) for WP’s proposed Milestone Potash Solution Mining Project (“WP Mine”). This term sheet is intended to advance discussions towards the completion of definitive agreements to be made between the City and WP in connection with such supply.

#### Commercial Terms

##### ***I. Term:***

COR will provide WP with access to recycled water for a period of 45 years from the start of water flow, which is anticipated to begin by December 31, 2014 but no later than December 31, 2019. If no water flows by December 31, 2019 or any commitment or connection fee payment is not received in full upon the specified date, the contract becomes null and void.

##### ***II. Recycled Water Quality:***

Access to recycled water shall be provided by COR through a connection to COR’s waste water treatment plant such that treated effluent will be diverted from Wascana Creek to WP. The COR will endeavour to supply WP with access to fully treated effluent of a quality that meets or exceeds the limits specified within the COR’s annual Operating Permit, however, while the COR will use reasonable efforts to supply effluent within the Operating Permit, the COR will not be responsible for any quality variations that may occur in the composition of the effluent. WP acknowledges and agrees that the quality and composition of the recycled water may vary from time to time and that the COR will not be responsible for any cost or expense that may be required to treat recycled water to be used by WP.

The parties acknowledge that the COR is planning a refurbishment and expansion of its waste water treatment plant. The parties will work together to preserve WP’s access to treated effluent as contemplated herein, following such planned refurbishment.

##### ***III. Recycled Water Access Volumes:***

COR will provide WP with an exclusive right to access a maximum of up to 60,000 cubic metres per day of recycled water during the first 6 years of flow and a maximum of up to 42,240 cubic metres per day for the remaining 39 years of the contract, which will be deemed the "Maximum Daily Water Supply". WP acknowledges and agrees that the

COR cannot guarantee or warrant that the Maximum Daily Water Supply of recycled water will be available each day as flows will fluctuate below and above the Maximum Daily Water Supply. The COR and WP agree to collaboratively pursue any reasonable engineering and construction solutions, at WP's sole expense, that may allow recycled water to be available to WP at a rate of 2500 cubic metres per hour for the first 6 years of flow and at a rate of 1760 cubic metres per hour for the remaining 39 years of the contract, but WP acknowledges and agrees that the COR is not responsible for controlling, adjusting or compensating WP for any variations in flow that may occur, or the impacts those variations may have upon WP.

WP may nominate a daily water supply for a particular calendar year which is greater or less than the Maximum Daily Water Supply, by September 30 of the prior year, by providing written notice of such nomination to COR. The COR may in its sole discretion accept or reject such nomination.

#### ***IV. Incremental Volumes:***

With the COR's approval, WP may obtain access to recycled water at a rate higher than the Maximum Daily Water Supply.

The COR will have full right and ability to grant access to any treated or untreated effluent that may exist beyond the Maximum Daily Water Supply for its own use or to a third party. However, if COR provides access to effluent to one or more third parties, such third-party access will be on an interruptible basis and subject to WP's effluent access up to the Maximum Daily Water Supply on a priority basis.

For any cubic metre above the Maximum Daily Water Supply, WP will be required to pay the current year per cubic metre rate (\$0.25 per cubic metre in 2014 which shall be inflated by 1% annually).

#### ***V. Connection Fee:***

WP agrees to pay to the COR for access to the Maximum Daily Water Supply, at WP's option, either:

- **Annual Fee Option.** An annual connection fee equal to the annual rate per cubic metre (\$0.25 per cubic metre) times the Maximum Daily Water Supply volume times 365 days (21.9 M cubic metres per year) which will be payable by January 15<sup>th</sup> of each calendar year. In the event that WP nominates a daily water supply that is greater or less than the Maximum Daily Water Supply and the COR accepts such nomination, the annual connection fee for that year will be adjusted accordingly. The rate per cubic metre will be inflated 1% per year starting in 2015.

**OR**

- **Up-Front Fee Option.** An "up-front" connection fee based on the following schedule:
  - From the time the definitive agreement is signed until December 31, 2012 - \$80,000,000.
  - Between January 1, 2013 & December 31, 2013 - \$85,500,000.
  - Between January 1, 2014 & December 31, 2014 – \$90,000,000 or a split payment of \$45,000,000 in 2014 & \$47,250,000 in 2015
  - Between January 1, 2015 & December 31, 2015 - \$94,500,000 or a split payment of \$47,250,000 in 2015 & \$49,612,500 in 2016
  - Between January 1, 2016 & December 31, 2016 - \$99,225,000 or a split payment of \$49,612,500 in 2016 & \$52,093,125 in 2017
  - Between January 1, 2017 & December 31, 2017 - \$104,186,250 or a split payment of \$52,093,125 in 2017 & \$54,697,781 in 2017
  - Between January 1, 2018 & December 31, 2018 - \$109,395,563 or a split payment of \$54,697,781 in 2018 & \$57,432,670 in 2019
  - Between January 1, 2019 and December 31, 2019 - \$114,865,341

A connection fee payment option must be selected and committed to in writing prior to any water flow commencing.

All payments will be non-refundable and immediately released to the COR.

***VI. Commitment Fee:***

WP will pay \$0.5 M to the COR upon execution of the definitive agreements for the implementation of the arrangements described in this term sheet.

If WP starts flowing water or makes an upfront connection fee payment prior to December 31, 2016, the commitment fee will offset the annual or upfront connection fee payable by Western Potash, in the first year water flow commences.

If Western Potash has not started flowing the water by December 31, 2016, the commitment fee will become non-refundable and immediately forfeited to the COR.

In the event WP does not draw water by December 31, 2016, WP shall prior to January 15<sup>th</sup> of each such year following pay the COR an annual stand-by fee of \$0.2M. All such stand-by fees paid will be non-refundable.

In the event that WP does not commence flowing water by December 31, 2019, the COR shall have the option, at its sole and unfettered discretion to terminate the contract with no refund of any payments made to the COR.

### ***VII. Operations & Maintenance Costs:***

WP agrees to enter into an operating and maintenance agreement with the COR wherein the COR will provide operating and maintenance services to WP on a cost plus basis, as follows:

- An estimate of the Annual Operating and Maintenance Plan will be mutually agreed to by WP and the COR annually, during the last quarter of the current operating year for the next annual operating cycle.
- WP shall be responsible for the payment to COR of any and all costs related to the operation and maintenance of the pipeline, including, but not limited to labour plus benefits, overtime and market supplements, insurance, materials, supplies, equipment, consultants, contractors, and, any other costs included within the Annual Operating and Maintenance Plan.
- The operating and maintenance contract will be billed/paid monthly at the following rates:
  - o COR will be paid 17% overhead on the annual maintenance costs, including the electricity amount billed to WP (the "Overhead Charge"); and,
  - o COR will be paid a 15% mark-up on the annual maintenance costs (but not including the electricity amount billed to WP) plus the Overhead Charge to an annual maximum of \$200,000.
- WP will be directly responsible for related utilities including power, gas, telephone and data.

Either party may cancel the Operations & Maintenance contract upon the provision of 12 months prior written notice.

WP acknowledges and agrees that all capital replacement and risk of the infrastructure rests with WP and WP will indemnify and save the COR harmless from and against any loss or damage due to or occurring from the maintenance, repair, rehabilitation, or operation of the infrastructure unless such damage is caused by the COR's negligence .

### ***VIII. Pump House/Pipeline Capital Costs:***

All Capital Costs related to the construction of the pipeline, the pump house and the access road to the pump house, are the sole responsibility of WP. WP will own the pipeline and the pump house and be responsible for any and all liability related thereto.

All costs of capital replacement and risk related to the operation of the pipeline and the pump house will be the sole responsibility of WP. WP will indemnify and save the COR harmless from and against any loss or damage due to or occurring from the construction, maintenance, repair, rehabilitation, presence or operation of the pipeline and the pump house, or the effluent that WP accesses, unless such damage is caused by the COR's negligence .

WP will compensate and fully reimburse the COR for any capital infrastructure improvements which are agreed to by both parties and are required by the COR to modify COR's infrastructure to accommodate the supply of effluent to WP.

***IX. Land Lease for Pump House on COR Property:***

WP agrees to lease the required land for the pump house at a rate of \$2,000 per acre/year, with a 10% rate increase every 5 years. Subject to the City's security and reasonable operational requirements, the COR will grant WP full and unfettered access to the pump house and the access road to the pump house.

WP will construct and maintain any related access roads to the pump house. If a subdivision or lease-subdivision is required, WP shall be responsible for any and all related costs.

The pump house will be located on the COR property near or adjacent to the COR's Disinfection Building, at its waste water treatment facility. The specific location, space requirements and access will be subject to both parties approval.

***X. Pipeline Right of Way***

COR will grant WP a permanent right-of-way/easement on COR lands for the purposes of constructing, operating and maintaining WP's effluent pipeline from the pump house. Subject to the City's security and reasonable operational requirements, the COR will grant WP full and unfettered access to the pipeline.

WP will make a one-time payment to the COR in the amount of \$7,200/acre (current estimate 8 acres) for a life time easement on COR lands for the purposes of constructing and operating the effluent pipeline.

**Other Proposed Terms**

***XI. Open Access Pipeline:***

If another party requests service off of WP's pump house and pipeline, WP shall be responsible for any such arrangements and any and all third party liability relating to such arrangements shall be WP's responsibility. In the event that any such third party service requires access to or connection with COR infrastructure, the COR may, in its sole discretion, accept or reject such third party service.

***XII. Environmental/Regulatory:***

The COR shall be the proponent for the water supply arrangements and will make commercially reasonable efforts to obtain all required environmental and regulatory approvals.

WP shall reimburse the COR for the costs incurred in relation to (i) the environmental/regulatory approval processes for the process water supply arrangements, at agreed upon rates for operation and maintenance and (ii) any costs relating to mitigation or payments required to be made as a result of the environmental/regulatory approval process.

### ***XIII. System Development and Operation***

WP shall, at its sole cost and expense, be responsible for coordinating all design, engineering, procurement, construction management, operation and management of the pump house, pipeline and any related infrastructure or work.

If requested by WP, the COR will provide information and assistance through a joint development committee (the "JDC"). WP acknowledges and agrees that the COR will not be providing any professional advice or services in relation to the project and the COR's role in the JDC would be for information purposes only. All risk and decision making authority will be WP's.

WP will reimburse COR for its time and expenses incurred as a result of being part of the JDC at the agreed upon rates for operation and maintenance.

### ***XIV. Conditions Precedent:***

Definitive agreements to implement the arrangements described in this term sheet are subject to the following conditions precedent:

- (a) The COR and WP obtaining a written waiver, pursuant to section 39(3) of *The Saskatchewan Water Corporation Act* of Saskatchewan Water Corporation's exclusive right to provide water and works to areas in which water and works are not being provided;
- (b) WP obtaining a water rights license from the Saskatchewan Watershed Authority pursuant to section 50 of *The Saskatchewan Watershed Authority Act*;
- (c) WP internal approvals;
- (d) City Council approval of commercial terms, environmental data/impacts, and final agreement conditions/details; and,
- (e) COR receiving all required environmental approvals.

Nothing in this term sheet is intended to create legally binding obligations between COR and WP until definitive agreements are signed by both WP and COR.

ACKNOWLEDGED AND AGREED to by Western Potash Corp. and the City of Regina  
as of the dates indicated below:

**WESTERN POTASH CORP.**

Per: \_\_\_\_\_

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

**CITY OF REGINA**

Per: \_\_\_\_\_

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

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