

ENGINEERING • SURVEYING • RESOURCES & ENVIRONMENTAL SERVICES

RESOURCE CONCEPTS, INC.

Virginia Highlands-
Water

August 9, 2006

Mr. G. Blake Smith
Chief Executive Office
Somerset
7690 Town Square Way
Reno, Nevada 89523

Subject: Proposed Water Resource Services

Dear Blake:

I appreciated the recent opportunity to meet with you and Fred Turnier and to discuss your property in Storey County. I had hoped to be able to discuss the issues with Mark Amodei before I sent this, but his schedule and the West Nile virus prevented our detailed discussion prior to completing this letter.

Based on our meeting and discussions, I understand there are four potential water resource areas for preliminary exploration and initial feasibility review.

1. The first area of review is the existing Virginia City pipeline and water supply system from Marlette and Hobart Lake to Virginia City. This would analyze the potential capacity of the existing infrastructure, as well as provide preliminary order of magnitude costs for potential reconstruction or rehabilitation of the pipeline and siphon. The scope would also include coordination with others in review of the physical and jurisdictional considerations and potential issues, particularly from a water resources and water rights perspective.
2. The second area would be a review and investigation of the issues and potential for reallocation, trade or substitution of surface water rights from the Tracy power plant by effluent or other sources for use on the 6800 acre parcel you have purchased.
3. The third general area of review would be an overall look at the hydrologic status and commitments of water within the Truckee Segment hydrographic area. This would include existing water rights, pending applications, reviewing and researching the status of the potential increase and availability based on the recent

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US Geological Survey work, and review of the original hydrographic analysis. We would look at the location of the 6800 acres with regard to hydrographic boundaries and adjacent water rights.

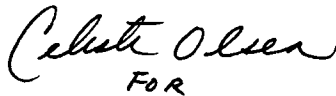
4. A fourth suggestion for preliminary review and investigation is the possibility of creating a Storey County Water District. I would suggest a careful review with Mark Amodei and the Storey County Commissioners to see if they would have any interest. It could be an opportunity for the County and greatly facilitate developers because the County would be the interface with other water suppliers and water right holders.

Each of these tasks as outlined would be very general in nature and would be undertaken utilizing information which you provide as well as other available sources. It would be done in coordination with you and your project team. A more detailed investigation or review in specific areas could be accomplished after the big picture aspects of these tasks are better defined, and the less desirable alternatives eliminated.

We would propose to bill you on a time and materials basis for this first week. Thereafter, each step would identify a scope and not to exceed budget. I appreciate that you are willing to be flexible, but I would recommend that we take a relatively small step in each of these four areas to give you an overview and a first level for a point of discussion. We can then pursue additional elements or areas of higher potential. On this basis, I would anticipate that the work under these four tasks, including a letter summary report covering each one would be in the range of \$7,500-10,000. We would be able to proceed on your authorization and will be glad to discuss any changes, adjustments or questions that you may have.

We thank you for the opportunity of providing this proposal and look forward to working with you regarding water and related resource issues.

Sincerely,



FOR

Bruce R. Scott, P.E.
Principal

BRS:co

cc: *Mark Amodei, Esq.*
Fred Turnier