MEMORANDUM

To:Saqib Shirazi, P.E., Innovative Water Technologies, Texas Water
Development Board (TWDB)

FROM: Jesus Leal, P.E., NRS Consulting Engineers, Inc.

SUBJECT: North Alamo Water Supply Corporation Victoria Road Plant No. 5 RO Brackish Groundwater Desalination Project Demonstration Project Grant Contract between the Texas Water Development Board (TWDB) and North Alamo Water Supply Corporation (Corporation); TWDB Contract No. 1104831108

DATE: November 30, 2011 (September - November Quarter)

CONTRACT: TWDB Contract No. 1104831108

Recent Project Activities:

In accordance with TWDB contract, North Alamo Water Supply Corporation provides the following update:

Task 2.1 Fiberglass Research and Evaluation

This task has been completed.

Task 2.2 Design/Specifications/Bidding

This task has been completed.

Task 2.3 Test Drilling

This task has been completed.

Task 2.4 Aquifer Evaluation and Recommendations

This task has been completed.

Task 2.5 TCEQ Coordination and Exception Process

This task has been completed.

Task 3.1 Design/Bid/Phase-Production Well

This task has been completed.

Task 3.2 Bidding Phase

This task has been completed.

Task 3.3 Bid Evaluation

This task has been completed.

Task 4.1 Construction

The Well No.1 with stainless steel is 99% complete. The contractor has developed the well and poured the foundation. It is expected for this well to be 100% complete by mid-January 2012. All that remains in installation of pumping equipment and concrete finish work. It is anticipated that Well No.2 with fiberglass material will begin construction on the 3rd week of January 2012 with anticipated completion of end of March 2012.

Task 4.2 Testing/Monitoring

No Update.

Task 4.3 Start Up/Operations

No Update.

Task 4.5 Report

The attached draft outline of the report is attached showing the sections of the report which have been prepared to a rough draft stage, indicated by an "X". Sections of the report which have not been completed are indicated with an "O".

Issues Encountered:

The contractor has encountered difficulties with the drilling and developing of Well No.1. The project is approximately two months behind schedule. Drilling problems were partially contractor performance issues (inadequate drill pipe size) and difficult drilling conditions (20 feet of 3-4-inch diameter gravel). Development difficulties were the result of flow into the well being concentrated in the 20 feet of screen opposite the large gravel. Additional development allowed the well's specific capacity to approximately double. Both of these issues have been resolved.

Items to be Addressed and Anticipated Project Activities:

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