

RESOLUTION 95-3

RESOLUTION OF CHINO BASIN WATERMASTER APPROVING  
SETTLEMENT BETWEEN KAISER VENTURES INC. ("Kaiser") AND  
CALIFORNIA STEEL INDUSTRIES INC. ("CSI") AND ACCEPTING  
ABANDONMENT OF WATER BY KAISER

WHEREAS on January 24, 1978, the Chino Basin Watermaster ("Watermaster") was appointed by the Superior Court of the State of California in and for the County of San Bernardino ("Court") to administer and enforce the provisions of the Judgment in Case No. RCV 51010 ("Judgment").

WHEREAS Kaiser is the successor to Kaiser Steel Corporation ("Kaiser Steel") and Kaiser Resources Inc. ("Kaiser Resources") and has been and is a party to the Judgment and a member of the Non-Agricultural Overlying Pool. CSI is also a party to the Judgment and a member of the Non-Agricultural Overlying Pool.

WHEREAS from 1942 until 1983 Kaiser Steel operated a large steel production and processing facility on property near Fontana, California ("Fontana Property"). In 1984 CSI purchased a portion of the Fontana Property from Kaiser Steel and in 1988 and 1989 acquired additional portions of the Fontana Property.

WHEREAS from 1984 to the present CSI has operated a steel processing plant on its portions of the Fontana Property. From 1984 to the present Kaiser has delivered water to CSI pursuant to certain utility services agreements.

WHEREAS on October 21, 1993 the California Regional Water Quality Control Board, Santa Ana Region adopted Resolution No. 93-72, which was intended to allow Kaiser to fulfill certain groundwater remediation obligations described therein by participating in a desalter project being undertaken by the Santa Ana Watershed Project Authority pursuant to the terms of a Salt Offset Agreement (the "Salt Offset Agreement").

WHEREAS Kaiser and CSI now desire to resolve certain disputes and to allocate certain rights and liabilities as between them including certain water rights and rights to water stored pursuant to the terms of the Judgment. Kaiser and CSI intend to enter into agreements entitled Water Rights Acknowledgment and Water Rights Agreement to help achieve these purposes. In addition,

Kaiser desires to abandon water to Watermaster for the purpose of meeting its obligations pursuant to the Salt Offset Agreement and Watermaster desires to accept the abandonment of water by Kaiser for this purpose. Kaiser intends to execute an agreement entitled an "Election To Abandon Water To Watermaster" for this purpose.

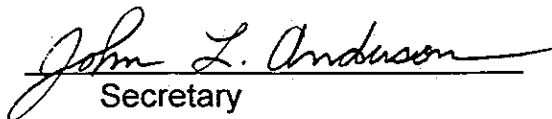
NOW, THEREFORE, Watermaster does hereby resolve and determine as follows:

1. Watermaster approves the Water Rights Acknowledgment and Water Rights Agreement, attached hereto as Exhibits "1" and "2" respectively.
2. Watermaster approves and agrees to accept the abandonment of water by Kaiser to Watermaster for the purpose of meeting its obligations under the Salt Offset Agreement. A copy of the agreement effecting this abandonment, the Election To Abandon Water To Watermaster (the "Election"), is attached hereto as Exhibit "3."
3. Watermaster's approvals and acceptances set forth in Paragraphs 1 and 2 above are conditioned upon (i) the execution of the Water Rights Acknowledgment and the Water Rights Agreement by Kaiser and CSI, (ii) the execution of the Election To Abandon Water To Watermaster by Kaiser, (iii) the execution of appropriate water rights and water storage assignments from Kaiser Steel and Kaiser Resources in favor of Kaiser Ventures Inc. so that all the water rights and water in storage are held by Kaiser Ventures Inc., (iv) Kaiser Ventures Inc. intervenes in the Judgment herein, and (v) the Court approves the Water Rights Agreement, the Water Rights Acknowledgment, the Election, and Kaiser Ventures' intervention in the Judgment.

ADOPTED this 18th day of October, 1995

  
\_\_\_\_\_  
Bill Hill, Chairman

ATTEST:

  
\_\_\_\_\_  
Secretary

KAISER VENTURES INC.

ELECTION TO ABANDON WATER  
TO WATERMASTER

RECITALS

1. Pursuant to the case entitled Chino Basin Municipal Water District v. City of Chino, et al., Case No. RCV 51010 (Formerly Case Number SCV 164327), January 30, 1978, hereafter "Chino Judgment", rights to the use of water in the Chino Groundwater Basin were adjudicated to various entities, and the Chino Basin Watermaster was appointed to administer the judgment subject to the jurisdiction of the court.
2. Under the Chino Judgment, Kaiser Ventures Inc. ("Kaiser") has an adjudicated right to the safe yield of the Chino Groundwater Basin of 2,930.274 acre-feet annually, and is a member of the Overlying (Non-Agricultural) Pool. In addition to its share of the safe yield, Kaiser also has rights to water held pursuant to storage agreements with the Watermaster, derived from its unexercised rights. Kaiser has 21,046.61 acre-feet of water in storage and 2,930.274 held as carryover water with Watermaster as of June 30, 1994.
3. Paragraph 6 of Exhibit "G" of the Chino Judgment provides that Overlying Non-Agricultural rights are appurtenant to the land and are only assignable with the land for overlying use, subject to an exception not relevant here. Therefore, Kaiser cannot directly transfer or assign its water rights except in accordance with the provisions of the Chino Judgment.
4. Paragraph 61 of the Chino Judgment provides that loss of water rights through abandonment, forfeiture, or otherwise can only be accomplished by a written election of the owner of the right filed with the Watermaster, or by court order.
5. On October 21, 1993, Kaiser entered into a Settlement Agreement with the Regional Water Quality Control Board, Santa Ana Region, (Salt Offset Agreement), in which, among other things, Kaiser agreed to execute a written election to abandon 1000 acre-feet of water annually from its storage accounts for 25 years, if the Chino Basin Watermaster determined that such abandoned water could be used to satisfy the replenishment obligations of the Santa Ana Watershed Project Authority Desalter Project ("Desalter").

6. On September 28, 1995, the Advisory Committee of the Chino Basin Watermaster recommended approval of Resolution 95-3, accepting Kaiser's abandonment of water and applying it for the use of the Desalter as replenishment water, subject to approval of the court. On October 18, 1995, the Chino Basin Watermaster approved the resolution, subject to approval by the court in the Chino Judgment.

7. Kaiser now desires to execute a written abandonment of 25,000 acre-feet of water in accordance with the Salt Offset Agreement, contingent on the Watermaster obtaining court approval of Resolution 95-3. Concurrently herewith, Kaiser and California Steel Industries, Inc. are entering into a "Water Rights Agreement" and a "Water Rights Acknowledgment" to resolve their dispute relating to water rights, storage rights and carryover rights accorded under the Chino Judgment.

#### ELECTION TO ABANDON STORED WATER

8. Recitals 1-7 are incorporated in, and made a part of this Election to Abandon Water.

9. Kaiser hereby agrees and elects to abandon to Watermaster a total of 25,000 acre-feet of water over a period of time not to exceed 25 years from the date at which court approval of Resolution 95-3 is obtained, in accordance with Kaiser's commitment under the Salt Offset Agreement and pursuant to Resolution 95-3 of the Chino Basin Watermaster. Kaiser further agrees that this Election to Abandon Water shall be an obligation owed to Watermaster and enforceable pursuant to the continuing jurisdiction of the Court in the Chino Judgment.

10. Kaiser will implement paragraph 9 above by abandoning specific amounts of water on an annual basis by means of written notice to the Watermaster, in amounts which will be no less than 1,000 acre-feet a year, provided that Kaiser may choose to abandon larger amounts of water in any year, and such larger amounts, to the extent they exceed 1,000 acre-feet, shall reduce or eliminate the 1,000 acre-feet per year obligation for future years. Such abandoned water shall be water held by Kaiser in local storage agreements with Watermaster or water to which it is entitled pursuant to water rights recognized under the Chino Judgment and accorded to it pursuant to the Water Rights Agreement and the Water Rights Acknowledgment.

11. Each year Kaiser shall file a statement with Watermaster indicating the following:

(a) The amount of water which Kaiser elects to abandon to Watermaster that fiscal year.

(b) An accounting of how much water in total has been abandoned to Watermaster in accordance with this Election. Any required statement shall be filed at or before the time required by the Rules and Regulations of the Chino Basin Watermaster for the filing by members of the Overlying (Non-Agricultural) Pool of the final quarterly reports. For the first 18 years of operation pursuant to this Election, the requirement of this paragraph 11 for a statement is satisfied by the statement of abandonment contained in paragraph 12 below.

12. For the year 1995-96, Kaiser elects to abandon 18,000 acre-feet of water to Watermaster currently held by it in Storage Accounts with Watermaster in furtherance of the Salt Offset Agreement. Said abandonment shall be effective as of the date Court approval of Resolution 95-3 is obtained.

13. Kaiser requests that the Watermaster file this Election to Abandon with the Court and provide Kaiser and the Regional Water Quality Control Board, Santa Ana Region, with a written acceptance of the abandonment.

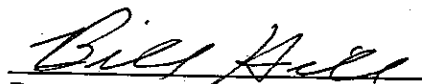
Executed on October 18, 1995.

KAISER VENTURES INC.

  
By: Daniel M. Larson, Pres. + CEO

Agreed to and accepted on October 18, 1995.

CHINO BASIN WATERMASTER

  
By: Bill Hill

## WATER RIGHTS AGREEMENT

This WATER RIGHTS AGREEMENT is entered into as of June 1, 1995, by and between Kaiser Ventures Inc. ("KAISER") and California Steel Industries, Inc. ("CSI") with reference to the following facts:

### RECITALS

A. From 1942 until 1983, Kaiser Steel Corporation operated a large steel production and processing facility on approximately 2,000 acres of land near Fontana, California, owned by Kaiser Steel Corporation (the "FONTANA PROPERTY"). Pursuant to an Agreement of Purchase and Sale entered into effective as of August 17, 1984, CSI purchased approximately 378 acres of the FONTANA PROPERTY. In 1988 and 1989, CSI acquired from third parties approximately 43 and 29 acres, respectively, of property previously owned by Kaiser Steel Corporation and comprising a portion of the FONTANA PROPERTY. The 378, 43 and 29 acres of the FONTANA PROPERTY formerly owned by Kaiser Steel Corporation and now owned by CSI are hereinafter collectively referred to as the "CSI PROPERTY."

B. Pursuant to the judgment (the "1978 JUDGMENT") in Chino Basin Municipal Water District v. City of Chino, et al., San Bernardino Superior Court, Case No. RCV 51010 (the "WATER

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September 26, 1995

CASE"), non-agricultural overlying rights to the beneficial use of 2,930.274 acre-feet of water annually from the safe yield of the Chino groundwater basin was decreed as set forth at page 60, line 9 of Exhibit "D" to the 1978 JUDGMENT (the "WATER RIGHTS"). The WATER RIGHTS are more specifically described in Section II:B.8 and Exhibits "D" and "G" of the 1978 JUDGMENT.

C. From 1984 through the date of this WATER RIGHTS AGREEMENT, CSI has operated a steel processing plant on the CSI PROPERTY. From 1984 through the date of this WATER RIGHTS AGREEMENT, KAISER delivered water to CSI pursuant to certain utility services agreements.

D. On or about August 25, 1992, CSI and the Chino Basin Watermaster (the "WATERMASTER") filed a "Joint Motion to Interpret, Enforce, Carry-out, Modify, Amend or Amplify the Judgment Herein" in the WATER CASE (the "JOINT MOTION"). KAISER disputed CSI's and WATERMASTER's claims in the JOINT MOTION. The Court referred the JOINT MOTION to a Special Referee for the preparation of a report and recommendation. Although the Special Referee's report has been filed with the Court, no final order on the JOINT MOTION has been entered by the Court.

E. On or about March 25, 1993, CSI filed "California Steel Industries, Inc.'s Notice of Motion to Interpret, Enforce, Carry-out, Modify, Amend, or Amplify Paragraph 7, Page 66 of Exhibit G of the 1978 Judgment" (the "EXHIBIT G MOTION"). KAISER disputed CSI's claims in the EXHIBIT G MOTION. The Court

has not ruled on the EXHIBIT G MOTION pending its ruling on the JOINT MOTION.

F. On October 21, 1993, the California Regional Water Quality Control Board, Santa Ana Region (the "RWQCB") adopted Resolution No. 93-72, which allowed KAISER to fulfill certain groundwater remediation obligations described therein by participating in a desalter project being undertaken by the Santa Ana Watershed Project Authority pursuant to the terms of a Salt Offset Agreement (the "SALT OFFSET AGREEMENT"). CSI objected to the Resolution and, on or about March 10, 1994, brought an action to contest the Resolution and the SALT OFFSET AGREEMENT, such action being entitled California Steel Industries, Inc. v. California Regional Water Quality Control Board, Santa Ana Region, San Bernardino County Superior Court Case No. SCV 10862 (the "SALT OFFSET ACTION"). The SALT OFFSET ACTION has been dismissed.

G. KAISER has entered into Chino Basin Local Storage Agreements 9.0 and 9.1, which permit the storage of a total of 30,000 acre feet of overlying water rights carried over from preceding years. As of June 30, 1994, 21,046.61 acre feet of water were in storage under those contracts and 2,930.274 acre-feet of water was held as carryover water. Those contracts have expired and, as of the date of this WATER RIGHTS AGREEMENT, KAISER is attempting to renew or to replace those contracts. As used herein, the term "LOCAL STORAGE AGREEMENTS" refers to Local



Storage Agreements 9.0 and 9.1, as well as to any renewals or replacements of those agreements that KAISER may obtain.

H. Concurrently with their execution of this WATER RIGHTS AGREEMENT, the parties are entering into a "Settlement Agreement" for the purpose of resolving a number of disputes as between them (the "SETTLEMENT AGREEMENT").

I. The parties would like to compromise and settle their disputes concerning CSI's and KAISER's entitlement to certain of the WATER RIGHTS and the proposed amendments to the Watermaster Rules and Regulations currently being litigated in the WATER CASE as a result of the JOINT MOTION and the EXHIBIT G MOTION.

In compromise of the disputes between the parties regarding the ownership and use of the WATER RIGHTS, including all carryover and storage rights associated therewith, and in consideration of the mutual promises set forth in the SETTLEMENT AGREEMENT and in this WATER RIGHTS AGREEMENT, the parties agree as follows:

1. Incorporation of defined terms.

Except as explicitly set forth herein, each of the terms defined in the SETTLEMENT AGREEMENT and the exhibits to the SETTLEMENT AGREEMENT used in this WATER RIGHTS AGREEMENT shall have the meaning ascribed to them in the SETTLEMENT AGREEMENT and the exhibits to the SETTLEMENT AGREEMENT.

2. Appointment of Escrow.

Concurrently with their execution of this WATER RIGHTS AGREEMENT, the parties hereto shall execute escrow instructions, in the form attached to the SETTLEMENT AGREEMENT as Exhibit "2," appointing State Street Bank and Trust of California, N.A. ("ESCROW HOLDER") to act as the escrow holder under the terms of this WATER RIGHTS AGREEMENT.

3. Allocation of WATER RIGHTS.

In compromise of the disputes between the parties, including their claimed entitlement to beneficially use the WATER RIGHTS and carryover and storage rights associated therewith, and in consideration of the mutual covenants set forth in the SETTLEMENT AGREEMENT, concurrently with their execution of this WATER RIGHTS AGREEMENT, KAISER and CSI shall execute and deliver to ESCROW HOLDER a "Water Rights Acknowledgment" in the form attached hereto as Exhibit "A" (the "WATER RIGHTS ACKNOWLEDGMENT"). Within seven (7) days of this WATER RIGHTS AGREEMENT becoming effective, ESCROW HOLDER shall deliver the WATER RIGHTS ACKNOWLEDGMENT to CSI, which may then record the WATER RIGHTS ACKNOWLEDGMENT in the Official Records of the County Recorder of San Bernardino County, California and otherwise proceed in accordance with the 1978 JUDGMENT by filing the WATER RIGHTS ACKNOWLEDGMENT with WATERMASTER.

4. ASSIGNMENT of WATER RIGHTS.

Immediately after executing this WATER RIGHTS AGREEMENT, the parties will jointly undertake to enter into an appropriate agency agreement, pursuant to Paragraph 6 of Exhibit "G" of the 1978 JUDGMENT, and the rules and regulations of WATERMASTER, and consistent with the provisions of this WATER RIGHTS AGREEMENT and the WATER RIGHTS ACKNOWLEDGEMENT respecting the use and priorities of the "Joint Water Rights" described in the WATER RIGHTS ACKNOWLEDGMENT (the "JOINT WATER RIGHTS"), with the San Gabriel Valley Water Company (the "WATER COMPANY"), pursuant to which:

a. the PARTIES shall assign the JOINT WATER RIGHTS to the WATER COMPANY for a period ending upon June 30, 2005, and

b. the WATER COMPANY shall:

(1) provide water service to the overlying lands of CSI and KAISER, subject to the provisions of paragraph 4(b)(1) of the WATER RIGHTS ACKNOWLEDGMENT, and

(2) pay to KAISER an amount equal to at least 90% of the then-current replenishment charge for the CHINO BASIN for such portion of the JOINT WATER RIGHTS as may be used by CSI or KAISER.

In the event such an agency agreement is not consummated with the WATER COMPANY, CSI shall pay KAISER an amount equal to 90% of the then-current replenishment charge for

the CHINO BASIN for all or any portion of the JOINT WATER RIGHTS used by CSI on its lands.

5. Agreement to be delivered to WATERMASTER.

A copy of this WATER RIGHTS AGREEMENT and of the WATER RIGHT ACKNOWLEDGMENT shall be delivered to WATERMASTER by CSI and KAISER, with directions to modify WATERMASTER's records in accordance therewith. CSI and KAISER shall jointly request that WATERMASTER correct its records to reflect the allocation of water set forth in the WATER RIGHTS ACKNOWLEDGMENT.

6. Acknowledgment of source of water delivered to CSI by KAISER.

CSI and KAISER agree that, from 1984 through 1994, all of the water delivered to CSI by KAISER was derived from either KAISER's rights as a shareholder of Fontana Union Mutual Water Company or from the "CSI Water Rights" as described in the WATER RIGHTS ACKNOWLEDGMENT (the "CSI WATER RIGHTS"), or both. To the extent that the water produced and delivered by KAISER to CSI was derived from the CSI WATER RIGHTS, or CSI's stored water resulting from the CSI WATER RIGHTS, such water was delivered by KAISER to CSI at CSI's request and on CSI's behalf.

7. Effect of WATER RIGHTS AGREEMENT upon prior water charges.

Notwithstanding the provisions of this WATER RIGHTS AGREEMENT and the WATER RIGHTS ACKNOWLEDGMENT, neither KAISER nor CSI shall be entitled to any adjustments to previously

billed rates and charges for past deliveries of water to CSI by KAISER.

8. (1) WATER RIGHTS defined by 1978 JUDGMENT.

The WATER RIGHTS are subject to the provisions of the 1978 JUDGMENT, which defines and limits their use. Nothing in this WATER RIGHTS AGREEMENT or the WATER RIGHTS ACKNOWLEDGMENT is intended to change or modify the nature or use of the WATER RIGHTS in a manner inconsistent with the 1978 JUDGMENT.

9. Performance of SALT OFFSET AGREEMENT.

a. KAISER acknowledges its obligations, pursuant to the terms of the SALT OFFSET AGREEMENT, to abandon to the WATERMASTER 1,000 acre-feet of water a year for 25 years to satisfy the replenishment obligation of the SAWPA desalter project. KAISER and CSI agree that KAISER'S obligation to abandon water to WATERMASTER hereunder shall be an obligation expressly made for the benefit of WATERMASTER and enforceable by WATERMASTER pursuant to the continuing jurisdiction of the Court under the 1978 JUDGMENT. The parties agree that the obligations of KAISER to WATERMASTER under this agreement shall be binding upon KAISER'S successors and assigns.

b. In partial satisfaction of its obligations under the SALT OFFSET AGREEMENT, on or before December 1, 1995, KAISER shall irrevocably abandon to the WATERMASTER at least 18,000 acre feet of its stored water for the purpose of

satisfying the replenishment obligation of the SAWPA desalter project.

c. To the extent that CSI does not make use of the JOINT WATER RIGHTS, as defined in the WATER RIGHTS ACKNOWLEDGMENT, during the INTERIM PERIOD, as defined therein, KAISER shall either:

(1) irrevocably abandon said water to the WATERMASTER for the purpose of satisfying the replenishment obligation of the SAWPA desalter project or

(2) store said water under the LOCAL STORAGE AGREEMENTS and account for the storage of such water separately from the remainder of the water stored under the LOCAL STORAGE AGREEMENTS.

d. To the extent that KAISER has not already fulfilled all of its obligations to provide water to the SAWPA desalter project, during the FINAL PERIOD, as that term is defined in the WATER RIGHTS ACKNOWLEDGMENT, KAISER shall either:

(1) irrevocably abandon to the WATERMASTER for the purpose of satisfying the replenishment obligation of the SAWPA desalter project the water to which it is entitled by reason of the JOINT WATER RIGHTS or

(2) store said water under the LOCAL STORAGE AGREEMENTS and account for the storage of such water separately from the remainder of the water stored under the LOCAL STORAGE AGREEMENTS.

e. To the extent that KAISER elects to store water as provided at paragraphs 9(c)(2) and 9(d)(2) of this WATER RIGHTS AGREEMENT, KAISER shall abandon a sufficient quantity of said water to the WATERMASTER for the purpose of satisfying the replenishment obligation of the SAWPA desalter project, at or before the time that it is obligated to provide such water under the SALT OFFSET AGREEMENT, so as to satisfy its obligations under the SALT OFFSET AGREEMENT at or before the time that said obligations are due.

10. Court approval of WATER RIGHTS AGREEMENT.

Within thirty days following their execution of this WATER RIGHTS AGREEMENT, the PARTIES shall jointly petition the court having jurisdiction over the WATER CASE for an order:

- a. approving this WATER RIGHTS AGREEMENT,
- b. decreeing CSI's exclusive right to the beneficial use of the CSI WATER RIGHTS and the parties' mutual rights to the beneficial use of the JOINT WATER RIGHTS as provided in the WATER RIGHTS ACKNOWLEDGMENT, and
- c. approving KAISER's abandonment of 18,000 acre feet of its stored water to the WATERMASTER for the SAWPA desalter project as described at paragraph 9(b) if this WATER RIGHTS AGREEMENT.

Pending the entry of such an order, the parties shall request that the court having jurisdiction over the WATER CASE stay all proceedings with respect to the JOINT MOTION and the EXHIBIT G

MOTION. Upon the entry of a final order as set forth above, and all of the conditions to the effectiveness of the SETTLEMENT AGREEMENT having been satisfied, CSI shall execute a "Notice of Withdrawal of Motion" with respect to the JOINT MOTION and the EXHIBIT G MOTION in the form attached hereto as Exhibit "B."

11. Condition to effectiveness of WATER RIGHTS AGREEMENT.

This WATER RIGHTS AGREEMENT shall become effective upon the entry of an order of the Court in the WATER CASE approving this WATER RIGHTS AGREEMENT as provided herein.

12. Advice of counsel.

The PARTIES represent and warrant that they have sought and obtained the advice and counsel of their attorneys with respect to this WATER RIGHTS AGREEMENT.

13. Amendment.

This WATER RIGHTS AGREEMENT cannot be modified except by written document signed by all of the PARTIES.

14. Choice of laws.

This WATER RIGHTS AGREEMENT shall in all respects be interpreted, enforced, and governed by and under the internal laws of the State of California.

15. Interpretation of WATER RIGHTS AGREEMENT.

This WATER RIGHTS AGREEMENT has been mutually drafted. The language of this WATER RIGHTS AGREEMENT shall be



construed as a whole according to a fair meaning, and not strictly for or against any of the parties.

16. Costs.

The parties shall each bear their own respective attorneys' fees and costs in connection with the JOINT MOTION, the EXHIBIT G MOTION and the preparation of this WATER RIGHTS AGREEMENT.

17. Attorney's fees.

In the event that either of the parties breaches this WATER RIGHTS AGREEMENT, the breaching party or parties shall pay each prevailing party all costs of any action or proceeding for damages and/or enforcement, including reasonable attorney's fees and costs.

18. Integration.

This WATER RIGHTS AGREEMENT is part of the SETTLEMENT AGREEMENT and is subject to its terms and conditions. Except as explicitly set forth in the SETTLEMENT AGREEMENT, this WATER RIGHTS AGREEMENT constitutes the final and complete agreement of the parties hereto with respect to the subject matter hereof and supersedes all prior or contemporaneous negotiations, promises, covenants, agreements or representations concerning any matters directly, indirectly or collaterally related to the subject matter of this WATER RIGHTS AGREEMENT. The parties hereto have expressly and intentionally included in this WATER RIGHTS AGREEMENT and the SETTLEMENT AGREEMENT all

collateral or additional agreements which may, in any manner, touch or relate to any of the subject matter of this WATER RIGHTS AGREEMENT and, therefore, all promises, covenants and agreements, collateral or otherwise, are included herein and therein. It is the intention of the parties to this WATER RIGHTS AGREEMENT that it and the SETTLEMENT AGREEMENT shall constitute an integration of all their agreements, and each understands that in the event of any subsequent litigation, controversy or dispute concerning any of its terms, conditions or provisions, no party hereto shall be permitted to offer or introduce any oral or extrinsic evidence concerning any other collateral or oral agreement between the parties not included herein or in the SETTLEMENT AGREEMENT.

19. Counterparts.

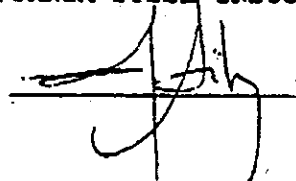
This WATER RIGHTS AGREEMENT may be executed in counterparts by the PARTIES and shall become effective and binding at such time as all of the PARTIES have signed a counterpart of this WATER RIGHTS AGREEMENT.

WHEREFORE, the parties hereto have executed this WATER RIGHTS AGREEMENT as of the date and year set forth above.

Dated: October 5, 1995 KAISER VENTURES INC.

By: 

Dated: \_\_\_\_\_, 1995 CALIFORNIA STEEL INDUSTRIES, INC.

By: 

(Signatures continued to next page)

APPROVED AS TO FORM:

Dated: Oct 17, 1995

BEST, BEST & KRIEGER

By: Arthur L. Littleworth  
Arthur L. Littleworth  
Anne T. Thomas  
Gene Tanaka  
Attorneys for KAISER  
Ventures, Inc.

Dated: Oct 24, 1995

LAW OFFICES OF JOHN D. MUSICK, JR.  
AND ASSOCIATES

By: John D. Musick, Jr.  
John D. Musick, Jr.  
Attorneys for California Steel  
Industries, Inc.

## WATER RIGHTS ACKNOWLEDGMENT

This Water Rights Acknowledgment (the "WATER RIGHTS ACKNOWLEDGMENT") is entered into as of June 1, 1995, by and between Kaiser Ventures Inc. ("KAISER") and California Steel Industries, Inc. ("CSI").

### RECITALS

A. From 1942 until 1983, Kaiser Steel Corporation operated a large steel production and processing facility on approximately 2,000 acres of land near Fontana, California, owned by Kaiser Steel Corporation (the "FONTANA PROPERTY"). Pursuant to an Agreement of Purchase and Sale entered into effective as of August 17, 1984, CSI purchased approximately 378 acres of the FONTANA PROPERTY. In 1988 and 1989, CSI acquired from third parties approximately 43 and 29 acres, respectively, of property previously owned by Kaiser Steel Corporation and comprising a portion of the FONTANA PROPERTY. The 378, 43 and 29 acres of the FONTANA PROPERTY formerly owned by Kaiser Steel Corporation and now owned by CSI are hereinafter collectively referred to as the "CSI PROPERTY."

B. Pursuant to the judgment (the "1978 JUDGMENT") in Chino Basin Municipal Water District v. City of Chino, et al., San Bernardino Superior Court, Case No. RCV 51010 (the "WATER

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September 26, 1995

CASE"), non-agricultural overlying rights to the beneficial use of 2,930.274 acre feet of water annually from the safe yield of the Chino groundwater basin was decreed as set forth at page 60, line 9 of Exhibit "D" to the 1978 JUDGMENT (the "WATER RIGHTS"). The WATER RIGHTS are more specifically described in Section II.B.8 and Exhibits "D" and "G" of the 1978 JUDGMENT.

C. KAISER has entered into Chino Basin Local Storage Agreements 9.0 and 9.1, which permit the storage of a total of 30,000 acre feet of overlying water rights carried over from preceding years. As of June 30, 1994, 21,046.61 acre feet of water were in storage under those contracts and 2,930.274 acre-feet of water was held as carryover water. Those contracts have expired and, as of the date of this WATER RIGHTS ACKNOWLEDGMENT, KAISER is attempting to renew or to replace those contracts. As used herein, the term "LOCAL STORAGE AGREEMENTS" refers to Local Storage Agreements 9.0 and 9.1, as well as to any renewals or replacements of those agreements that KAISER may obtain.

D. From 1984 through the date of this WATER RIGHTS ACKNOWLEDGMENT, CSI has operated a steel processing plant on the CSI PROPERTY. From 1984 through the date of this WATER RIGHTS ACKNOWLEDGMENT, KAISER delivered water to CSI pursuant to certain utility services agreements.

E. On or about August 25, 1992, CSI and the Chino Basin Watermaster (the "WATERMASTER") filed a "Joint Motion to Interpret, Enforce, Carry-out, Modify, Amend or Amplify the

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September 26, 1995

Judgment Herein" in the WATER CASE (the "JOINT MOTION"). KAISER disputed CSI's claims in the JOINT MOTION.

F. On or about March 25, 1993, CSI filed "California Steel Industries, Inc.'s Notice of Motion to Interpret, Enforce, Carry-out, Modify, Amend, or Amplify Paragraph 7, Page 66 of Exhibit G of the 1978 Judgment" (the "EXHIBIT G MOTION"). KAISER disputed CSI's claims in the EXHIBIT G MOTION. The Court has not ruled on the EXHIBIT G MOTION.

G. On October 21, 1993, the California Regional Water Quality Control Board, Santa Ana Region (the "RWQCB") adopted Resolution No. 93-72, which was intended to allow KAISER to fulfill certain groundwater remediation obligations described therein by participating in a desalter project being undertaken by the Santa Ana Watershed Project Authority pursuant to the terms of a "Salt Offset Agreement" (the "SALT OFFSET AGREEMENT"). CSI objected to the SALT OFFSET AGREEMENT and filed a petition for a writ of mandate, which has now been dismissed.

H. Concurrently with their execution of this WATER RIGHTS ACKNOWLEDGMENT, the parties are entering into a "Settlement Agreement" (the "SETTLEMENT AGREEMENT") and a Ground Water Indemnity Agreement (the "GROUNDWATER INDEMNITY AGREEMENT"), for the purposes of resolving certain disputes and allocating certain liabilities and potential liabilities as between them, and a "Water Rights Agreement," for the purpose of resolving their disputes relating to the WATER RIGHTS and

carryover and storage rights associated therewith (the "WATER RIGHTS AGREEMENT"). The PARTIES are entering into this WATER RIGHTS ACKNOWLEDGMENT for the purpose of effectuating the foregoing Agreements.

IT IS THEREFORE agreed that:

1. Incorporation of defined terms.

Except as explicitly set forth herein, each of the terms defined in the SETTLEMENT AGREEMENT and the exhibits to the SETTLEMENT AGREEMENT used in this WATER RIGHTS ACKNOWLEDGMENT shall have the meaning ascribed to them in the SETTLEMENT AGREEMENT and the exhibits to the SETTLEMENT AGREEMENT.

2. Acknowledgment of CSI WATER RIGHTS.

KAISER hereby recognizes CSI's sole ownership and exclusive right to use the following portions of the WATER RIGHTS and formally relinquishes any right title, claims or interest in said portions of the WATER RIGHTS to CSI:

a. 1000 acre feet annually of the decreed WATER RIGHTS as of August 17, 1984, including all right, title and interest to carried-over and stored water resulting from an under exercise of those rights occurring on and after August 17, 1984;

b. 300 acre feet annually of the decreed WATER RIGHTS as of July 1, 1995, including all right, title and interest to carried-over and stored water resulting from an under exercise of those rights occurring on and after July 1, 1995;

c. The unused balance of the 1000 acre feet of the decreed WATER RIGHTS referred to at paragraph 2(a), above, consisting of 510.14 acre feet of existing storage, as of June 30, 1994, held under the LOCAL STORAGE AGREEMENTS; and

d. 3024.09 acre feet of KAISER's capacity storage right under the LOCAL STORAGE AGREEMENTS, which provide, or it is anticipated will provide, for a total storage capacity of 30,000.00 acre feet.

3. Acknowledgment of KAISER WATER RIGHTS.

CSI hereby recognizes KAISER's sole ownership and exclusive right to use the following portions of the WATER RIGHTS and formally relinquishes any right title, claims or interest in said portions of the WATER RIGHTS to KAISER:

a. 2930.274 acre feet annually of the decreed WATER RIGHTS, including all right, title and interest to carried-over and stored water resulting from an under exercise of those rights from the date of the entry of the 1978 JUDGMENT through August 17, 1984;

b. 1000 acre feet annually of the decreed WATER RIGHTS, including all right, title and interest to carried-over and stored water resulting from an under exercise of those rights, effective August 17, 1984, and at all times thereafter;

c. 21,535.44 acre feet of stored water, as of June 30, 1994, held under the LOCAL STORAGE AGREEMENTS with WATERMASTER;



d. 1,930.274 acre-feet of carried over water:

and

e. 26,975.91 acre feet of the capacity storage right in the LOCAL STORAGE AGREEMENTS.

4. Acknowledgment of Joint WATER RIGHTS.

KAISER and CSI acknowledge that they have jointly held ownership of the following WATER RIGHTS:

a. 930.274 acre feet annually of the decreed WATER RIGHTS, including all right title and interest to carried-over and stored water resulting from an under exercise of those rights, effective August 17, 1984 and continuing through and including June 30, 1995; provided that KAISER had the exclusive right to the use of the foregoing water, together with the rights to carried-over and storage water resulting from the under exercise of those rights.

b. 630.274 acre feet annually of the decreed WATER RIGHTS, including all right, title and interest to carried-over and stored water resulting from an under exercise of those rights, effective July 1, 1995 (the "JOINT WATER RIGHTS"); provided that:

(1) Interim Period.

CSI shall have the first priority for use of the JOINT WATER RIGHTS on its lands from July 1, 1995 through June 30, 2005 (the "INTERIM PERIOD"), provided it first puts to use the 1,300 acre-feet referred to at paragraphs 2(a)

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and 2(b) of this WATER RIGHTS ACKNOWLEDGMENT plus any water in CSI's carry-over and/or storage account. KAISER shall have the right to use any portion of the JOINT WATER RIGHTS not used by CSI during the INTERIM PERIOD. KAISER shall have the exclusive right to carry over and store for its benefit, including satisfaction of its obligations under the SALT OFFSET AGREEMENT, any unexercised portion of the JOINT WATER RIGHTS during the INTERIM PERIOD.

(2) July 1, 2005 and thereafter.

KAISER shall have the first priority for the use of the JOINT WATER RIGHTS on the KAISER PROPERTY, or in fulfillment of its obligations under the SALT OFFSET AGREEMENT, from July 1, 2005 and thereafter (the "FINAL PERIOD"), provided: (1) with respect to its use to fulfill its obligations under the SALT OFFSET AGREEMENT, KAISER shall first exhaust any water it may have in its storage account and then shall have put to beneficial use on the KAISER PROPERTY, or used in fulfillment of its salt offset obligations, its right to the 1000 acre feet of water referred to in paragraph 3(b) above before making any use of the JOINT WATER RIGHTS and (2) with respect to its use on the KAISER PROPERTY, KAISER shall first exhaust its right to the 1000 acre feet referred to at paragraph 3(b) above and then any water that it may have in its storage account before making any use of the JOINT WATER RIGHTS. CSI shall have the right to use any portion of the JOINT WATER RIGHTS not used by KAISER during the

FINAL PERIOD. KAISER shall have the right to carry over and store for its sole benefit any unexercised portion of the JOINT WATER RIGHTS during the FINAL PERIOD.

(3) KAISER'S use of the JOINT WATER RIGHTS, and any water carried over and stored for KAISER'S benefit as a result of the JOINT WATER RIGHTS, is subject to KAISER'S obligations under the WATER RIGHTS AGREEMENT.

Dated: October 5, 1995 KAISER VENTURES INC.

By: *David M. Lawer, Pres - CEO*

Dated: \_\_\_\_\_, 1995 CALIFORNIA STEEL INDUSTRIES, INC.

By: *[Signature]*

APPROVED AS TO FORM:

Dated: Oct. 17, 1995 BEST, BEST & KRIEGER

By: *Arthur L. Littleworth*  
Arthur L. Littleworth  
Anne T. Thomas  
Gene Tanaka  
Attorneys for KAISER  
Ventures, Inc.

Dated: Oct 24, 1995 LAW OFFICES OF JOHN D. MUSICK, JR.  
AND ASSOCIATES

By: *[Signature]*  
John D. Musick, Jr.  
Attorneys for California Steel  
Industries, Inc.

STATE OF CALIFORNIA

*San Bernardino*  
COUNTY OF LOS ANGELES

On October 5, 1995 before me, Patricia M. Williams,  
personally appeared Daniel N. Lakout, personally known  
to me (~~or proved to me on the basis of satisfactory evidence~~) to  
be the person(s) whose names are subscribed to the within  
instrument and acknowledged to me that he/she executed the same  
in his/her authorized capacity(ies), and that by his/her/their  
signature(s) on the instrument the person(s), or the entity upon  
behalf of which the person(s) acted, executed the instrument.

WITNESS my hand and official seal.



Patricia M. Williams  
Signature of Notary Public