

7420 Alysheba Ct.
Nampa, Id. 83686
August 27, 2004

Idaho Department of Water Resources
Western Region
2735 Airport Way
Boise, Idaho 83705
Attn: Mr. Dan Nelson

RECEIVED

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WATER RESOURCES
WESTERN REGION

Re: Application 63-31439 for Water Right Transfer

Dear Mr. Nelson:

Thank you for your letter to ERO Resources Corp. dated August 19, 2004 regarding the subject application, and for your review of the information provided to you regarding the transfers for McKay, Trull, Tuel, and MacDonald. Our understanding is that you need a letter from each applicant to specify the alternative they wish to pursue in going forward. This letter is intended to provide that information for McKay.

We understand that you have proposed coupling the two water rights (surface/canal water and ground water) together by including in the transfer approval the following two conditions:

1. If the surface water right(s) appurtenant to the place of use is sold, transferred, leased or used on any other place of use, this right to divert groundwater shall not be used without an approved transfer pursuant to Section 42-222, Idaho Code, or approval of the Department if a transfer is not required.
2. The right holder shall make full beneficial use of all surface water rights available to the right holder for irrigation of the lands authorized to be irrigated under this right. The right holder shall limit the diversion of ground water under this right to those times when the surface water supply is not available or the surface water supply is not reasonably sufficient to irrigate the place of use authorized under this right.

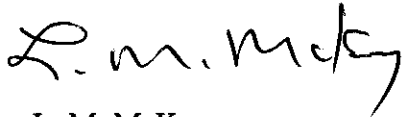
Your letter indicated that the key words in the second condition are "when the surface water supply is not available or the surface water supply is not reasonably sufficient to irrigate the place of use" . This allows us to irrigate with ground water as long as the current surface water delivery system is not adequate to supply the entire subdivision. The only reason for a change in this right would be if the Homeowners Association redesigned and improved the surface water delivery system to adequately supply the entire subdivision.

As an alternative, your letter indicated that we had the option of selling or turning back the surface water rights to the canal company, prior to approval of the transfer. Our

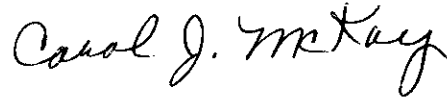
understanding is that this approach would eliminate the need for the two conditions, but would require a written agreement between the applicant, the Homeowners Association, and the Boise-Kuna Water District.

Assuming we have correctly understood the information in your letter, the transfer application for McKay can include the two conditions as noted. Please proceed on that basis.

Sincerely,



L. M. McKay



Carol J. McKay

c.c. ERO -- Steve Hannula
1106 N. Cole Rd. Suite C
Boise, Id. 83704