LETTER OF CREDIT

[to be provided]

BONDHOLDERS' RISK FACTORS AND INVESTMENT CONSIDERATIONS

AN INVESTMENT IN THE BONDS INVOLVES A HIGH DEGREE OF RISK. A BONDHOLDER IS ADVISED TO READ THE SECTIONS "SECURITY FOR THE BONDS" AND THIS HEADING FOR A DISCUSSION OF CERTAIN RISK FACTORS WHICH SHOULD BE CONSIDERED IN CONNECTION WITH AN INVESTMENT IN THE BONDS. THE FACTORS LISTED BELOW, AMONG OTHERS, COULD ADVERSELY AFFECT THE COMPANY'S OPERATION AND REVENUES AND EXPENSES OF THE SYSTEM TO AN EXTENT WHICH CANNOT BE DETERMINED AT THIS TIME. ANY PURCHASER OF THE BONDS MUST MAKE AN INDEPENDENT DECISION AS TO THE CREDIT-WORTHINESS OF THE COMPANY.

The following represents a summary of certain of the risks associated with the Bonds. This list should not be considered all-inclusive and any risk not listed should not be presumed to be immaterial.

1. Except for amounts on deposit in the Reserve Account, or Letter of Credit in lieu thereof, the payments received pursuant to the Loan Agreement and the Mortgage, primarily rates, fees and charges for services of the System, provide the only security for payment of the Bonds. The income of the Company is dependent on the rates which it is authorized to charge its customers. The inability of the Company to secure rates it believes are compensatory, or a delay in securing rate relief, could result in the Company being unable to meet coverage requirements or debt service payments on the Bonds.

2. The environmental aspects of the Company's operations are regulated primarily by (a) the U.S. Environmental Protection Agency ("EPA"), and (b) the Florida Department of Environmental Protection ("DEP") under Chapter 403 Florida Statutes and the rules and regulations promulgated by DEP thereunder. There are no assurances that these agencies will not increase their present environmental standards, which could require additional unexpected capital expenditures and permits to operate. While the Company would seek to increase its approved rates and charges to support such additional costs, there is no assurance that such rate increases would be granted, or that such permits required to operate the Wastewater System could be obtained.

3. If all, substantially all or any portion, of the System is damaged or destroyed by any casualty or condemned by appropriate governmental authority, there is no assurance that casualty insurance proceeds or pollution liability insurance proceeds (if available),., and other available monies of the Company will be sufficient either to repair or replace the damaged or destroyed or condemned property, or to pay the redemption price of the Bonds if called for redemption as a result of such casualty. Even if applicable casualty insurance coverages are adequate, there is no assurance that such damage or destruction would not have a material adverse effect on the ability of the Company to provide wastewater service to its customers or on the revenues of the Company. In the event of condemnation, there is no assurance that the resulting purchase price will be sufficient to refund or defease the Bonds, although Florida law requires payment of full compensation to owners of property taken by eminent domain.

4. If any cost factor of the expenses of the Company should experience an extraordinary increase, the debt service coverage could be negatively impacted. These expenses will be significantly influenced by the performance of management and by external circumstances such as the existence of litigation, changes in regulatory policy or legislation or the necessity to carry out unexpected repairs or replacements any of which could have a material adverse financial effect on the Company.

5. In the event of a default by the Company and the LOC Provider, the ability of the Master Trustee and the Bond Trustee to raise sufficient funds to pay the principal and interest on the Bonds will depend upon the exercise of various remedies specified by the Master Indenture, Bond Indenture and the Mortgage. Under existing law (including, without limitation, the Federal Bankruptcy Code), those remedies are often subject to discretion and delay and may not be readily available or maybe limited. The legal opinions to be delivered concurrently with the delivery of the Bonds will be qualified as to the enforceability of the various legal instruments by limitations imposed by state and federal laws, rulings and decisions affecting remedies, and by bankruptcy, reorganization or other laws affecting enforcement of creditors' rights generally. Bankruptcy proceedings and equity principles may delay or otherwise adversely affect the enforcement of Bondholders' rights in the property granted as security for the Bonds. Foreclosure of a mortgage is an equitable proceeding. Furthermore, if the security for payment of the Bonds is inadequate for payment in full of the Bonds, bankruptcy proceedings and equity principles may limit any attempt by the Master Trustee to seek payment from other property of the Company, if any.

6. The Company has obtained a Letter of Credit to secure the availability of funds in the Reserve Account as that term is defined in the Master Indenture. The LOC Provider will issue the Letter of Credit pursuant to which it will guarantee availability of funds in the Reserve Account when due. The ongoing stability and financial condition of the LOC Provider, and the LOC Provider's ability to pay on the LOC and otherwise perform its obligations under the LOC is the primary source of funding for the Reserve Account. In the event the LOC Provider defaults on the LOC, there can be no assurance that the funds will be available in the Reserve Account. No rating has been assigned to the LOC or the LOC Bank and the Company has not independently verified the financial condition of the LOC Provider and no statements herein can be relied upon as though subject to an independent certified public accountant audit of the LOC Provider.

7. The ability of the Company to repay the Bonds is conditioned on Revenues obtained from existing customers of the System. The addition of future customers to the System may provide additional Revenue for repayment of the Bonds, although there can be no assurance that growth in the customer base will occur or at what rate it will occur. If for any reason customers leave the North Key Largo service area, the Revenues generated by such customers will no longer be available to the Company which will affect Company's ability to repay the Bonds. There can be no assurance that restrictive State and local building and development laws will permit any significant growth in customers within the Company's service area to replace any existing customers who leave the System.

8. No application has been made for a credit rating for the Bonds. The absence of a rating adversely affects the market for the Bonds. There can be no assurance that there will be a secondary market for the Bonds, depending upon prevailing market conditions, the financial condition or market position of firms who may make a secondary market and the financial condition and results of operations of the Company. The Bonds should therefore be considered long-term investments in which funds are committed to maturity.

9. The ability of the Issuer and the Master Trustee to exercise rights under the Loan Agreement, the Mortgage, the Master Indenture and the Bond Indenture may be limited by bankruptcy, insolvency, fraudulent conveyance, reorganization or other laws or equitable principles related to or affecting the enforcement of creditors' rights.

10. If the Company were to file a petition for relief under Chapter 11 of the Federal Bankruptcy Code, its Revenues and certain of its accounts receivable and other property created or otherwise acquired after the filing would not be subject to the security interests of the Master Trustee created under the Bond Indenture for the benefit of the holders of the Bonds. The filing would operate as

an automatic stay of the commencement or continuation of any judicial or other proceeding against the Company, and its property, and as an automatic stay of any act or proceeding to enforce a lien upon its property. If the bankruptcy court so ordered, the property of the Company could be used for the benefit of the Company in its financial rehabilitation efforts despite the security interest of the Master Trustee therein. In a Chapter 11 proceeding, the Company could file a plan of reorganization for the adjustment of its debts and thereby attempt to modify or alter the rights of its creditors generally, or of any class of them secured or unsecured. Such plan if confirmed by the bankruptcy court, binds all creditors who had notice or knowledge of the bankruptcy proceeding. No plan may be confirmed unless certain conditions are met, among which are that the plan is in the best interests of creditors, is feasible and has been accepted by each class of claims impaired if at least two-thirds in dollar amount and more than one-half in number of the class are cast in its favor. Even if the plan is not so accepted, it may be confirmed if the court finds that the plan is fair and equitable with respect to each non-accepting class of creditors impaired thereunder and does not discriminate unfairly.

The Revenues are subject to and may be limited by the laws of the United States and the State of Florida, with respect to bankruptcy, insolvency and creditors' rights generally. For example, all or substantially all of the Revenues received by the Company after the commencement of a bankruptcy proceeding by the Company may not be subject to the foregoing pledge or security interest. Revenues which arise after the date of the filing of a petition in bankruptcy may be used for the benefit of the Company in its financial rehabilitation efforts despite the security interest of the Master Trustee therein. The extent of the Master Trustee's lien in the Revenues will be limited to the lower of the value of the Revenues existing on the date of filing of the bankruptcy petition and on the day 90 days prior to the day of filing. In addition, since it may not be possible for the Trustee to perfect a security interest in any manner whatsoever in certain types of revenues (e.g., gifts, donations, insurance proceeds and medical reimbursement program payments) prior to actual receipt thereof by the Company, upon the filing of a bankruptcy petition by the Company, the Master Trustee may be determined not to have a lien in these types of revenues.

11. The service area of the Company is located on Key Largo in the Florida Keys, an archipelago off the southern tip of Florida, an area subject to tropical storms and hurricanes. If such a storm were to make landfall at or near the Company's service area the System, and customers' homes and businesses, may experience substantial damage and a resulting interruption in service. Such events may materially adversely affect the Company's ability to provide service and collect System Revenues. The Company and it's customer base are less susceptible to such damage than other areas in Florida due to high quality construction standards. The Company has taken steps to mitigate the impact of such a storm including implementation of a hurricane preparedness plan and securing insurance coverage where available.

TAX EXEMPTION

Federal Tax Matters; the Bonds

In the opinion of Livermore, Freeman & McWilliams, P.A., Bond Counsel, under existing law interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103(a) of the Code, except for interest on any Bond for any period during which it is held by a "substantial user" or a "related person" as those terms are used in Section 147(a) of the Code, and interest on the Bonds is an item of tax preference under Section 57 of the Code and therefore may be subject to the alternative minimum tax imposed on individuals and certain corporations under the Code. Bond Counsel will express no opinion as to any other tax consequences regarding the Bonds. Reference is made to the proposed form of the opinion of Bond Counsel attached as an appendix hereto for the

complete text thereof.

The opinion on tax matters will be based on and will assume the accuracy of certain representations and certifications and compliance with certain covenants of the Company and the Issuer to be contained in the transcript of proceedings and which are intended to evidence and assure the foregoing, including that the Bonds are and will remain obligations the interest on which is excluded from gross income for federal income tax purposes. Bond Counsel will not independently verify the accuracy of the certifications and representations made by the Company and the Issuer.

The Code prescribes a number of qualifications and conditions for the interest on state and local government obligations to be and to remain excluded from gross income for federal income tax purposes, some of which, including provisions for potential payments by the issuer to the federal government, require future or continued compliance after issuance of the Bonds in order for the interest to be and to continue to be so excluded from the date of issuance. Noncompliance with these requirements by the Company or the Issuer could cause the interest on the Bonds to be included in gross income for federal income tax purposes and to be subject to federal income taxation retroactively to the date of their issuance. The Company and the Issuer will each covenant to take all actions required of it for the interest on the Bonds to be and to remain excluded from gross income for federal income tax purposes, and not to take any actions that would adversely affect that exclusion.

Under the Code, interest on the Bonds may be subject to a branch of profits tax imposed on certain foreign corporations doing business in the United States and a tax imposed on excess net passive income of certain S corporations.

Under the Code, the exclusion of interest from gross income for federal income tax purposes can have certain adverse federal income tax consequences on items of income or deductions for certain taxpayers, including financial institutions, certain insurance companies, recipients of Social Security and Railroad Retirement benefits, and those that are deemed to incur or continue indebtedness to acquire or carry tax-exempt obligations. The applicability and extent of these or other tax consequences will depend upon the particular tax status or other tax items of the owner of the Bonds. Bond Counsel will express no opinion regarding such consequences.

From time to time, there are legislative proposals in Congress which, if enacted, could alter or amend one or more of the federal tax matters referred to above or could adversely affect the market value of the Bonds. It cannot be predicted whether or in what form any such proposal might be enacted or whether, if enacted, it would apply to obligations (such as the Bonds) issued prior to enactment.

Florida Taxes

The Bonds and the interest thereon are exempt from all taxation under the laws of the State of Florida except estate taxes and taxes measured by income which are imposed by Chapter 220, Florida Statutes, on "corporations", "banks" and "savings associations" as such terms are defined in Chapter 220.

ACCREDITED INVESTOR

The Bonds will be offered for exchange only to certain Accredited Investors that are Holders of the 1995 Bonds. "Accredited Investor" means an investor who qualifies as an "accredited investor" under any of the following categories at the time of the sale of the Bonds to that person or entity: (i) a bank, as defined in Section 3(a)(2) of the Securities Act of 1933, as amended (the "Securities Act"), or any savings and loan association or other institution as defined in Section 3(a)(5)(A) of the Securities Act,

whether acting in its individual or fiduciary capacity; (ii) a broker or dealer registered pursuant to Section 15 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"); (iii) an insurance company, as defined in Section 2(13) of the Securities Act; (iv) an investment company registered under the investment Company Act of 1940; (v) an organization described in Section 501(c)(3) of the Internal Revenue Code of 1986, as amended, corporation, Massachusetts or similar business trust, or partnership not formed for the specific purpose of acquiring the Bonds, with total assets in excess of $5,000,000; (iv) a natural person whose individual net worth, or joint net worth with that person's spouse at the time of purchase, exceeds $1,000,000; (vii) a natural person who had an individual income in excess of $200,000 in each of the two most recent years or joint income with that person's spouse in excess of $300,000 in each of those years and who has a reasonable expectation of reaching the same income level in the current year; and (viii) a trust with total assets in excess of $5,000,000, not formed for the specific purpose of acquiring the Bonds, whose purchase is directed by a sophisticated person as described in 17 C.F.R Section 230.506(b)(2)(ii) promulgated under the Securities Act. The Bonds are not deemed to be suitable investments for anyone other than an "accredited investor." Anyone interested in purchasing any or all of the Bonds will be required to execute and deliver an "Accredited Investor Letter" in substantially the proposed form attached as Appendix C hereto.

LITIGATION

There is no litigation or other proceeding pending or, to the knowledge of the Issuer or the Company, threatened to restrain or enjoin the issuance, sale, or delivery of the Bonds, or in any way contesting the validity or enforceability of the Bonds, the proceedings pursuant to which the Bonds are issued, or the collection, application or pledge of the revenues and receipts and other moneys purported to be pledged by the Indenture.

FINANCIAL ADVISOR

First Southwest Company, Orlando, Florida, has acted as Financial Advisor to the Company in connection with the Offer to Exchange and the issuance of the Bonds.

INDEPENDENT ACCOUNTANTS

The financial statements of the Company for the years ending December 31, 2003 and 2004, have been prepared by McGladrey & Pullen, C.P.A., which report is included as Appendix D hereto with their consent.

DISCLOSURE REQUIRED BY FLORIDA BLUE SKY REGULATIONS

Section 517.051, Florida Statutes, and the regulations promulgated thereunder require that the Issuer make full and fair disclosure of any bonds or other debt obligations of such entity that have been in default as to payment of principal or interest at any time after December 31, 1975 (including bonds or other debt obligations for which it has served only as a conduit issuer such as industrial development or private activity bonds issued on behalf of private businesses).

There has been a default with respect to one issue of industrial development revenue bonds issued by the Authority. The Authority served only as a conduit issuer and the Authority has been informed by its advisors that the borrower is in default under the indenture pursuant to which such bonds

were issued. Under the indenture and other pertinent documents the Authority is not liable for the payment of the principal of or interest on such bonds, except from payments made to the Authority by the borrower on whose behalf such bonds were issued.

ENFORCEABILITY OF REMEDIES

The remedies available to the owners of the Bonds upon an event of default under the Master Indenture, the Bond Indenture, the Loan Agreement or the Mortgage are in many respects dependent upon judicial actions which are often subject to discretion and delay. Under existing constitutional and statutory law and judicial decisions, including specifically Title 11 of the United States Code, the remedies specified by the Federal bankruptcy code, the Master Indenture, the Bond Indenture, the Loan Agreement, or the Mortgage, the Bonds may not be readily available or may be limited. The various legal opinions to be delivered concurrently with the delivery of the Bonds (including Bond Counsel's approving opinion) will be qualified, as to the enforceability of the remedies provided in the various legal instruments, by limitations imposed by bankruptcy, reorganization, moratorium, insolvency or other similar laws affecting the rights of creditors enacted before or after such delivery and by general principle of equity.

APPROVAL OF LEGALITY

Certain legal matters incident to the issuance of the Bonds and with regard to the tax-exempt status of the interest on the Bonds are subject to the legal opinion of Livermore, Freeman & McWilliams, P.A., Bond Counsel. The signed legal opinion, dated and premised on law in effect as of the date of issuance of the Bonds, will be delivered upon the issuance of the Bonds. Other legal matters are subject to the opinion of J. Richard Collins, County Attorney, Key West, Florida, and the opinion of Rose, Sundstrom & Bentley, Tallahassee, Florida, Counsel to the Company.

The proposed text of the legal opinion of Bond Counsel is set forth as Appendix B hereto. The actual legal opinion to be delivered may vary from that text if necessary to reflect facts and law on the date of delivery. The opinion will speak only as of its date, and subsequent distribution of it by recirculation of this Private Placement Memorandum or otherwise shall create no implication that Bond Counsel has reviewed or expresses any opinion concerning any of the matters referenced in the opinion subsequent to its date.

While Bond Counsel has participated in the preparation of certain portions of this Private Placement Memorandum, it has not been engaged by the Issuer to confirm or verify, and expresses and will express no opinion as to, the accuracy, completeness or fairness of any statements in this Private Placement Memorandum, or in any other reports, financial information, offering or disclosure documents or other information pertaining to the Issuer, the Company, the Master and Bond Trustee, the LOC provider or the Bonds that may be prepared or made available by the Issuer, the Company, the Trustee, the LOC provider or others to the holders of the Bonds or other parties.

CONTINUING DISCLOSURE

Pursuant to SEC Rule 15c2-12(d)(2) (the "Rule"), the Company is not an obligated person with respect to more than $10 million aggregate amount of outstanding municipal securities. The Company has undertaken in a written agreement for the benefit of the Holders of the Bonds to provide (A) upon request, to any Person, as defined in the Master Indenture, financial information and operating data, including audited financial statements, customarily prepared by the Company, and (B) in a timely manner

to each nationally recognized municipal securities information repository or to the Municipal Securities Rulemaking Board notice of events specified in Section (b)(5)(i)(C), of the Rule with respect to the Bonds, if material.

CERTIFICATE CONCERNING PRIVATE PLACEMENT MEMORANDUM

This Private Placement Memorandum has been authorized (but not "deemed final" or otherwise represented as being a "final official statement" as described in SEC Rule 15c2-12(b)) by the Issuer, and has been approved by the Company. Concurrently with the delivery of the Bonds, the Company will furnish its certificate to the effect that, to the best of its knowledge, this Private Placement Memorandum did not as of its date and does not as of the date of delivery of the Bonds, contain any untrue statement of a material fact or omit to state a material fact which is necessary in order to make the statements contained herein, in the light of the circumstances in which they were made, not misleading.

MISCELLANEOUS

All estimates and assumptions herein have been made upon the best information available and are believed by the Company to be reliable, but no representation whatsoever is made that such estimates or assumptions are correct or will be realized. Statements involving matters of opinion, whether or not so expressly stated, are set forth as opinions and are not representations of fact.

The agreement of the Company with the registered owners of the Bonds is fully set forth in the Indenture, and this Private Placement Memorandum is not to be construed as constituting any agreement with the purchasers of the Bonds. The forms of the basic documents including the Master Indenture, Bond Indenture, Loan Agreement and Mortgage are attached as Appendix A. The attached appendices are integral parts of this Private Placement Memorandum and must be read together with all of the foregoing statements.

NORTH KEY LARGO UTILITY CORP.

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By: David Ritz, President