



September 8, 2023

Members of the CMWC Board of Directors:

We do not feel you have addressed our concerns listed in our August 30, 2023 letter. Namely, a fair bid and open process as well as the declared conflict of interest of CMWC Board members.

In response to your letter of August 22, 2023 and email of September 5, 2023 (the "**Solicitation**"), Mountain Green Secondary Water Company ("**MGSWC**") is pleased to present this offer to purchase the Silver Leaf Reservoir (the "**Reservoir**") to the Board of Directors (the "**Board**") for Cottonwood Mutual Water Company ("**CMWC**").

As an initial matter, we note that the proposed sale of the Reservoir is far outside CMWC's regular business activities and course of business. Accordingly, the proposed sale needs to be approved by the members of CMWC and not just the Board under Utah Code § 16-6a-1202. That same section also limits Board recommendation where there are conflicts of interest. Nevertheless, we look forward to commencing the process where MGSWC becomes the owner of the Reservoir, and we firmly believe that MGSWC's ownership of the Reservoir is in the best interest of the community and the shareholders of both CMWC and MGSWC.

To fully understand MGSWC's offer presented below, a review of the historical information set forth in the attached flyer prepared by MGSWC is important. Because the presently available minutes of the CMWC Board do not reflect the discussion of the Board leading to the Solicitation, we encourage newly elected/appointed Board members to review the attached information in evaluating the proposals CMWC receives in response to the Solicitation to be fully informed as to the implications of any sale of Silverleaf Reservoir.

MGSWC proposes to purchase the Silverleaf Reservoir (the "**Reservoir**") for the sum of \$200,000 (the "**Base Price**"), pursuant to the following terms and conditions:

1. CMWC will convey the Reservoir to MGSWC by special warranty deed in exchange for MGSWC's payment of the Base Price.
2. MGSWC will pay all closing and title insurance costs associated with the conveyance of the Reservoir to MGSWC.
3. Closing to occur on a date selected by MGSW and CMWC, but not later than thirty (30) days after the transaction has been approved by CMWC pursuant to applicable law.
4. On a post-closing basis, MGSWC will recognize CMWC's existing right to store 50 AF of water in the Reservoir without cost on a first-in/last-out basis, which recognition will be reflected in an easement to store such 50 AF of water granted by MGSWC at the closing and which will survive for so long as CMWC requires such easement. This same right to store and easement would likewise apply and be augmented to the extent that CMWC acquires all or a portion of water right 35-5791 and its associated change application a16924 or similar changes allowing for domestic use from CMWC's culinary water system.
5. Notwithstanding CMWC's rights to store water in the Reservoir under paragraph 3 above, MGSWC would assume full responsibility to maintain the Reservoir to deliver CMWC's eligible water rights without cost to CMWC.

6. MGSWC will exercise commercially reasonable efforts to secure State funding to reconstruct/replace the Reservoir dam (the “Dam”) as soon as possible, taking such actions as are reasonably required to maintain or improve the Dam’s position on the State’s list for dam reconstruction/replacement.
7. MGSWC will maintain commercial general liability insurance in an amount of not less than \$1M per occurrence/\$3M aggregate pertaining to its operations, including the ownership and operation of the Reservoir and the Dam.
8. MGSWC will indemnify and hold harmless CMWC from any claims pertaining to the operation of the Reservoir and the Dam for so long as CMWC stores water in the Reservoir.

In the event, that other bona fide offers meet or exceed the MGSWC Base Price, a premium shall be include and escalate to exceed the highest offer by Two Thousand Five Hundred Dollars (\$2,500.00) as set forth below. Because MGSWC and CMWC share a supermajority of shareholders and to remove the unnecessary burden of special assessment, MGSWC will pay to CMWC a premium equal to: (a) Two Thousand Five Hundred Dollars (\$2,500.00); plus (b) twenty-eight percent (28%) of the difference between: (i) the total cash purchase price offered by the highest of any other bona fide third-party respondent to the Solicitation; and (ii) the Base Price, plus Two Thousand and Five Hundred Dollars (\$2,500.00). The premium calculation is premised upon:

1. The existing approximately 72% commonality between MGSWC’s shareholders and CMWC’s shareholders.
2. The fact that the MGSWC’s shareholders (or their respective predecessors in interest), as shareholders in CMWC, already paid for the Reservoir vis-à-vis the March 13, 2013 Settlement Agreement and Mutual Release with Wilkinson Family Farm as outlined in the historical information provided.
3. The culinary water delivery system for the Cottonwoods and Rollins Ranch are designed to have a secondary and culinary component. Both systems benefit by reason of the storage available in the Reservoir and the reduced culinary demand the secondary system affords the culinary system by reason of water stored in the Reservoir. As noted above, approximately 72% of CMWC’s shareholders participate in the parallel secondary water system operated by MGSWC, and CMWC has for nearly two decades approved culinary water connections in contemplation of that parallel system.
4. No other company or group of individuals has the same interest in the Reservoir or the unique history of having funded its acquisition. Neither WFF, nor their respective successors in interest with respect to Phases 6, 8 and 9, have participated in the restoration and ongoing maintenance of the Reservoir over the past two decades (i.e., dam study, piezometers, dredge, and expansion, etc.) and they have refused to pay for their prorated share of improvements to the pipeline delivery system that delivers water to Silverleaf Reservoir. The water right that these parties rely on, moreover, is a water right associated with property they do not now own, and they have no real property interest in Silverleaf Reservoir, having long ago conveyed it away for consideration received (See CMWC/WFF Settlement Agreement and the August 2007 Wilkinson Family Partnership Deed to WWC).

MGSWC believes the foregoing offer is fair given the significant sums required to reconstruct/replace the Reservoir, the significant overlap between CMWC and MGSWC’s shareholders and the history of the Reservoir’s maintenance, operation, and funding over the last two decades. MGSWC further hopes that

its proposal will be considered by the Board in a manner consistent with the Board's fiduciary duties to its shareholders in considering the conflict-of-interest rules applicable to the Board.

Sincerely,

MGSWC Board

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