

RESOLUTION NO. 01- 2004

A Resolution Regarding Capitalization and Valuation of Stock of Saddle Mountain Mutual Water Company

WHEREAS, the Saddle Mountain Mutual Water Company ("Company") has been duly organized as a non-profit mutual ditch and reservoir company pursuant to the provisions of the Colorado Revised Non-Profit Corporation Act, as amended, and the provisions of Title 7, Article 42, of the Colorado Revised Statutes, as amended; and

WHEREAS, the Board of Directors of the Company ("Board") is charged with administering the business affairs of the Company for the exclusive benefit of its shareholders pursuant to the Articles of Incorporation and the Bylaws of the Company, which have been approved by the Board and duly filed with the Secretary of State as required; and

WHEREAS, to provide for the initial capitalization of the Company, R. Burns Moore, Gene H. Moore and David I. Folkman, Jr. ("Moore and Folkman") have dedicated to the Company their ownership interests of 0.14 cubic feet per second ("cfs") under the Watson Ditch No. 1 water right and 0.04 cfs under the Welty Ditch water right ("Water Rights"), which Water Rights shall be held in trust for the exclusive benefit of Moore and Folkman and others who hereafter become shareholders of the Company; and

WHEREAS, to provide for the initial capitalization of the Company, Moore and Folkman have loaned to the Company the initial sum of \$70,000, the repayment of which sum to Moore and Folkman shall be secured under a Note to be executed by the Company on their behalf pending valuation of the Water Rights and issuance of stock with a specified value to Moore and Folkman as repayment; and

WHEREAS, the Company has filed an application for approval of a plan for augmentation ("Augmentation Plan") with the Water Court for Water Division No. 2 on October 31, 2003, and an application for approval of a substitute water supply plan ("SWSP") with the State Engineer on January 7, 2004, using the Water Rights dedicated to the Company by Moore and Folkman as the source of augmentation and replacement water; and

WHEREAS, until the water augmentation and replacement requirements of the shareholders of the Company are determined by the Water Court, the value of the Water Rights and *pro rata* entitlement of shares of stock in the Company to the Water Rights cannot be reliably estimated or determined; and

WHEREAS, in return for the Water Rights dedicated and the monies loaned to the Company by Moore and Folkman, and until such time as the Company can determine the per share

value and *pro rata* entitlement to which shareholders of the Company will be entitled, the Board has determined to preliminarily issue ten (10) shares of common stock to Moore and Folkman with an unspecified value in the interim;

WHEREAS, upon the preliminary issuance of such shares of stock to Moore and Folkman, which shares shall represent the as of yet undetermined value of the Water Rights, the Company shall undertake a preliminary study of the value of the Water Rights held in trust for the benefit of the Company's shareholders; and

WHEREAS, upon entry of the Company's Water Court decree and determination of the per share value and *pro rata* entitlement of shares of stock in the Company to the Water Rights, the Company will then authorize issuance of the remaining shares of common stock to Moore and Folkman in return for release of the Note,

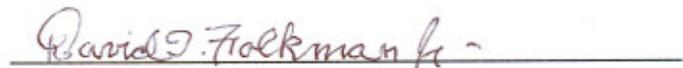
NOW, THEREFORE, BE IT RESOLVED BY THE BOARD ON BEHALF OF THE COMPANY:

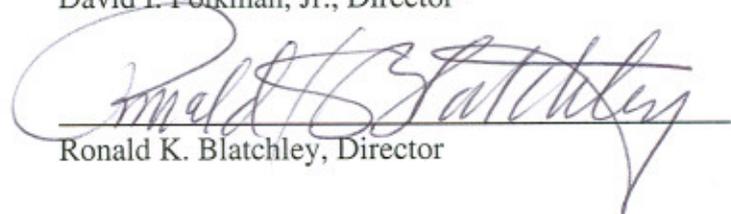
1. The Board hereby authorizes the preliminary issuance of ten (10) shares of common stock of the Company to Moore and Folkman with no specified value at this time.
2. The Board hereby authorizes the execution of a Note in the name of Moore and Folkman in the amount of \$70,000, which Note shall ensure repayment of the initial monies loaned by Moore and Folkman for the Company's start-up.
3. The Board hereby authorizes its water rights consultants to undertake a preliminary study of the Water Rights and related Augmentation Plan assets and facilities, if any, and to offer a professional opinion on the probable market value of the Water Rights and such assets and facilities.
4. The Board hereby authorizes that at the time of entry of the Augmentation Plan decree, the Company's water rights engineers and attorneys shall conduct a final study of the market value of the Water Rights, the number of shares of common stock that should be issued to Moore and Folkman, in addition to the ten (10) shares of common stock hereby issued on a preliminary basis, and the per unit or per share replacement water requirements of the shareholders based on that total number of shares of common stock.
5. The Board hereby pledges that following entry of the Augmentation Plan decree and completion of the study of the market value of the Water Rights and the per unit replacement water requirements, the Board shall adopt a resolution specifying the per unit value and *pro rata* entitlement of shares of common stock in the Company to the Water Rights, and authorizing issuance of the remaining shares of common stock to Moore and Folkman which, along

with the ten (10) shares of common stock already issued to Moore and Folkman, shall have the per unit or per share value and *pro rata* entitlement to the Water Rights as specified by the Board in said resolution, and which shares shall also be sufficient to fully compensate Moore and Folkman for the monies loaned to the Company in return for release of the Note by Moore and Folkman.

PASSED, ADOPTED AND APPROVED this 04th day of March, 2004.


R. Burns Moore, Director


David L. Folkman, Jr., Director


Ronald K. Blatchley, Director