SETTLEMENT AGREEMENT AND RELEASE

THIS SETTLEMENT AGREEMENT AND RELEASE ("Agreement") is entered into by and between Pagosa Area Water and Sanitation District, a water and sanitation district governed by Title 32 of the Colorado Revised Statutes acting through its Water Activity Enterprise ("PAWSD") and San Juan Water Conservancy District, a Colorado political subdivision organized as a water conservancy district pursuant to C.R.S. §§ 37-45-101, et seq. ("SJWCD," and, collectively, "Districts") for themselves and their successors and assigns.

RECITALS

A. SJWCD and PAWSD have long studied options for improving the firm yield of their constituents' water supply and partnered to plan for and develop a reservoir at Dry Gulch, which came to be known as the San Juan River Headwaters Project ("Project").

B. The Districts jointly-acquired water rights for the reservoir at Dry Gulch were originally decreed in Case Nos. 73-308D and 04CW85, Water Division 7 ("Project Water Rights"). The Districts filed an application for diligence for the Project Water Rights decreed in Case No. 04CW85 on August 31, 2026.

C. In 2008, PAWSD and SJWCD purchased from a private party most of the land required to construct a reservoir in Dry Gulch and associated facilities, including approximately 666 acres of land ("Running Iron Ranch" or the "Ranch") and (ii) irrigation water rights represented by shares of stock in the Park Ditch Company.

D. SJWCD and PAWSD own the Running Iron Ranch land as tenants in common, with SJWCD owning an undivided 10.73 percent interest and PAWSD owning an undivided 89.27 percent interest. SJWCD owns 11 shares and PAWSD owns 89 shares in the Park Ditch Company.

E. SJWCD and PAWSD obtained financing from the Colorado Water Conservation Board ("CWCB") to pay for the transaction costs and the purchase price for Running Iron Ranch, including (a) a grant to SJWCD in the amount of $1,000,000 ("Grant") and (b) a loan to PAWSD in the original principal amount of $9,219,363 ("CWCB Loan").

F. In 2015, SJWCD, PAWSD, and CWCB agreed to restructure the CWCB Loan, as memorialized in that certain Agreement to Restructure Colorado Water Conservation Board Dry Gulch Reservoir Loan Contract Number C150261, a Loan Contract Amendment effective September 27, 2016, and certain ancillary agreements with CWCB referenced in the Agreement to Restructure (collectively, "2015 Restructure Agreement").

G. The 2015 Restructure Agreement divided the CWCB Loan into two tranches, Loan A, which is to be fully paid in 20 annual installments on or before October, 2034, and Loan B which is to be fully paid in 20 annual installments beginning in October, 2035. PAWSD has made the first 12 installment payments on Loan A, including most recently the payment due October 1, 2026.

H. On December 13, 2024, PAWSD filed a lawsuit in Archuleta County District Court, Case No. 24CV30069, against SJWCD seeking declaratory relief authorizing it to sell Running Iron Ranch or, in the alternative, recognizing the right to partition the Property ("Lawsuit"). SJWCD asserted counterclaims for declaratory relief, breach of contract, and injunctive relief. On December 5, 2025, the Court granted in part and denied in part, a motion for summary judgment filed by SJWCD.

I. Representatives of PAWSD and SJWCD participated in mediation concerning the Lawsuit on March 13, 2026, and reached agreement on a settlement approach they memorialized in a Confidential Term Sheet for Conveyance of Running Iron Ranch to the San Juan Water Conservancy District (the "Settlement Framework"). The Settlement Framework includes terms the Districts acknowledge will be subject to acceptance by CWCB. Once fully performed, with adjustments that may be necessary and appropriate to obtain CWCB approval, the settlement would resolve all claims in the Lawsuit. Each of the Districts' respective boards of directors approved the Settlement Framework effective March 16, 2026, and executed the Term Sheet.

J. Pursuant to the Settlement Framework, representatives from PAWSD and SJWCD have met multiple times with representatives of CWCB to provide information and confirm the CWCB would be amenable to changes contemplated by the Settlement Framework. On May 21, 2026, CWCB staff presented to the CWCB Board of Directors the outline of proposed changes to the CWCB Loan, and the CWCB Board expressed no fundamental objection. However, the CWCB Board did indicate a preference that proceeds from any sale of any portion of the Running Iron Ranch should be immediately used to pay off Loan A, rather than be retained by the Districts and used to fund future Loan A installment payments. Changes to the CWCB Loan and Grant remain subject to documentation, review, and approval of CWCB.

K. The Districts have negotiated the terms of this comprehensive settlement agreement and mutual release for the purpose of implementing the Settlement Framework and fully resolving the claims in the Lawsuit.

NOW, THEREFORE, in consideration of their mutual undertakings as set forth below and for good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the Districts agree as follows:

Section 1 – Sale of a Portion of Running Iron Ranch and Application of Proceeds

a. The Districts agree that a portion of the Running Iron Ranch to be identified will be offered for sale to raise funds to repay the outstanding balance of the Loan A tranche of the CWCB Loan. The Districts acknowledge that CWCB has indicated that the Districts must not sell portions of the Running Iron Ranch necessary for the Project.

b. SJWCD shall retain a real estate broker and other professionals as necessary to identify a portion or portions of the Ranch ("Severed Property") that can be marketed and sold with the net proceeds equaling or exceeding the Floor Price defined below.

- The Floor Price shall be the amount required to fully pay off Loan A and reimburse PAWSD the $219,104.95 principal portion of the 2026 Loan A payment

and reimburse PAWSD for any annual installment payments made between the date of this Agreement and the date that Loan A is fully paid off.

- "net proceeds" shall mean proceeds from such sale(s) available to the Districts after payment for reasonable direct out-of-pocket expenses associated with marketing and making the parcel(s) legally available for sale, and closing such sale, including surveyor fees, consultant fees, real estate broker commissions, title insurance premiums, closing costs and any required County land use change fees. (The Districts shall remain responsible for their respective staff time, overhead, and attorney fees.) Any such expenses incurred prior to sale shall be paid exclusively by SJWCD as they are incurred and such expenses shall be reimbursed to SJWCD at the closing.

- The Severed Property shall (i) not be needed to plan, construct, operate, and maintain the Project; or (ii) be marketed, sold, and conveyed subject to reservation of any easements, deed restrictions, or other property interests necessary to plan, construct, operate, and maintain the Project. If approval of a subdivision or other government approval is required to sell and convey the Severed Property, SJWCD will seek such approval with PAWSD providing any requested reasonable assurances and cooperation.

c. The Districts shall enter a commercially reasonable listing agreement with the real estate broker selected by SJWCD, subject to approval by PAWSD, which shall not be unreasonably withheld, to market and sell the Severed Property. SJWCD will have responsibility to work with and communicate with the broker in the marketing and sale process. All offers to purchase the Severed Property received by either District shall be reported promptly to the listing agent and the other District and will be reviewed by SJWCD. Any offer determined to be acceptable to SJWCD, or any proposed counteroffer, shall be delivered to PAWSD after execution by SJWCD and executed by PAWSD within 24 hours after receipt from SJWCD, unless PAWSD determines, in its reasonable discretion, that the offer or counteroffer does not reflect the fair market value of the subject parcel. However, PAWSD shall accept any purchase price provided that the CWCB has made a binding commitment to release PAWSD from all obligations related to the CWCB Loan, Grant, and 2015 Restructure Agreement (together, the "CWCB RIR Obligations"), and the purchase price is greater than or equal to the Floor Price and sufficient to meet any conditions of such binding CWCB commitment.

d. Sale of the Severed Property is contingent upon execution of a new or amended loan agreement between CWCB and SJWCD as set forth in in Section 2 of this Agreement.

e. SJWCD agrees to use reasonable efforts to market the Severed Property such that a sale can be closed on or before September 30, 2027. If sale of the Severed Property is closed, but Loan A has not been fully satisfied for any reason, by October 1, 2027, the Loan A payment due October 1, 2027 shall be paid from the sale proceeds. If a sale of the Severed Property has not closed and Loan A is not satisfied by September 30, 2027, PAWSD shall make the Loan A payment due October 1, 2027. The Districts shall continue to market the Severed Property until they have received net proceeds equal to the Floor Price. Net proceeds in excess of the amount required to pay off Loan A shall be disbursed (i) first to PAWSD the amount required to

reimburse PAWSD the $219,104.95 principal portion of the 2026 Loan A payment and any annual installment payments made between the date of this Agreement and the date that Loan A is fully paid off, and then (ii) to the Districts, pro rata based on their percentage ownership interests, unless otherwise required by CWCB.

f. SJWCD shall be responsible for managing and maintaining the Running Iron Ranch at its sole cost and expense, except that (i) any Park Ditch assessment or expenses allocable to PAWSD's shares in the Park Ditch through the closing of sale of the Severed Property and (ii) any expense arising in relation to the former gravel mining operation and its reclamation on the Ranch shall be the responsibility of PAWSD.

Section 2 – Negotiation of Amended Loan Agreement with CWCB

Upon execution of this Agreement, SJWCD shall undertake to negotiate with CWCB the terms of a new or amended loan agreement providing for (i) application of the net sale proceeds from the Severed Property to the payment of Loan A, (ii) conveyance by PAWSD of its remaining interests in the Running Iron Ranch, Park Ditch Company Shares, and Project Water Rights to SJWCD, (iii) SJWCD assuming obligations for the Loan B tranche of the CWCB Loan, and (iv) PAWSD being released by CWCB from obligations related to the CWCB RIR Obligations (provided that SJWCD shall not be responsible for addressing any claims or obligations PAWSD may have relating to water conservation). The terms of the new or amended loan agreement must be acceptable to SJWCD and CWCB and shall be approved by PAWSD so long as they accomplish the requirements stated in this paragraph. PAWSD and SJWCD shall communicate and coordinate with one another about the CWCB negotiations and the potential sale of a portion of Running Iron Ranch on at least a monthly basis while the Agreement is in effect.

Section 3 – Diligence Cases for Project Water Rights

Notwithstanding the Settlement Framework and this Agreement, the Districts agree to take all reasonable actions necessary and appropriate and in a timely manner to maintain the Project Water Rights in support of the Project. Without limiting the foregoing, the Districts shall jointly prosecute the application for diligence filed August 31, 2026, for the Project Water Rights decreed in Case No. 04CW85, with SJWCD leading the effort at its expense.

Section 4 – Conveyance of Running Iron Ranch to SJWCD and Release of PAWSD from CWCB RIR Obligations

Contemporaneously with, or as soon as reasonably practicable after, the sale of the Severed Property as provided in Section 1 of this Agreement and contemporaneously with CWCB entering into a new or amended loan agreement with SJWCD, PAWSD shall be released from the CWCB RIR Obligations and reimbursed for the $219,104.95 principal portion of the 2026 Loan A payment and any annual installment payments made between the date of this Agreement and the date that Loan A is fully paid off, as provided above. Upon satisfaction of the foregoing, PAWSD shall convey its remaining interests in the Running Iron Ranch, shares in the Park Ditch Company, and Project Water Rights to SJWCD. PAWSD shall convey its interest in the Running Iron Ranch by a special warranty deed acceptable to SJWCD, with PAWSD having the right to obtain title insurance at its discretion and expense. Project Water Rights shall be transferred without warranty by a bargain and sale deed and applicable assignment acceptable to

SJWCD, subject to payment by PAWSD of its pro rata share of all outstanding dues and assessments as of the date of transfer.

Prior to December 31, 2027, SJWCD must: (a) enter into a contract for the purchase and sale of the Severed Property; and (b) reach an agreement with CWCB to release PAWSD from the CWCB RIR Obligations and reimburse PAWSD for the $219,104.95 principal portion of the 2026 Loan A payment as well as any annual installment payments made by PAWSD between the date of this Agreement and the date that Loan A is fully paid off; or PAWSD shall have the right to terminate this Agreement.

Section 5 – Mutual Release and Dismissal of Lawsuit

Upon consummation of the transactions contemplated by this Agreement, including (1) conveyance of all of PAWSD's interest in the Running Iron Ranch remaining after sale of the Severed Property, the Project Water Rights, and shares in the Park Ditch Company; and (2) the release of PAWSD from any further obligations with respect to the Project other than those obligations set forth in this Agreement, the Running Iron Ranch, the CWCB RIR Obligations; the Districts shall (a) file a stipulation of dismissal of the Lawsuit with prejudice and with each party to pay its respective costs and fees, and (b) execute a mutual release discharging one another and their successors and assigns from claims arising from or relating to the Districts' ownership of the Running Iron Ranch, Project Water Rights, and Park Ditch Company shares. The Districts' only remaining claims against each other shall be the potential claims stemming from the Districts' performance (or lack of performance) of the obligations set forth in this Agreement.

Section 6 – PAWSD Cooperation in Completion of Community Water Supply Study and Project Planning by SJWCD

a. Upon request by SJWCD after execution of this Agreement, and without limiting PAWSD's obligations under the Colorado Open Records Act prior thereto, PAWSD shall provide such data and information necessary or appropriate for a municipal water supply study to be conducted by or on behalf of SJWCD independently or in cooperation with other interested parties, provided that the provision of such data is not prohibited by any applicable law including the Colorado Open Records Act. PAWSD may condition its provision of data on nondisclosure agreements with service providers contributing to the water supply study which agreements are consistent in form and substance with confidentiality obligations commonly undertaken by such service providers and no more restrictive than PAWSD's agreements with any other service provider given access to similar PAWSD data and information.

b. PAWSD agrees to provide reasonable non-financial support for SJWCD's planning efforts for the development of the Project and to acknowledge the Project and its related water rights in PAWSD's future long-term water supply planning. If PAWSD includes additional water storage beyond its existing reservoirs in its planning, PAWSD will acknowledge and include the Project as a potential storage option for future water demand growth. PAWSD commits to a periodic evaluation of future water purchases from the Project based on its long-term demand projections, an evaluation of costs, and alternative sources of supply. PAWSD agrees to reasonably cooperate and provide further assurances in support of future water court applications concerning the Project's conditional water rights. PAWSD's obligations under this paragraph shall terminate upon the earlier to occur of: (1) cancellation of the Project's conditional water

rights; (2) sale of Running Iron Ranch by SJWCD; (3) any formal abandonment of the Project by SJWCD; and (4) December 31, 2039.

Section 7 – General Provisions

a. Attorneys' Fees and Costs. Each party shall pay its own attorney's fees and costs associated with this Agreement; provided, however, in the event of a material breach of any provision of this Agreement, the breaching party shall be required to pay all attorneys' fees and costs incurred by the non-breaching party or parties as a result of such breach.

b. Further Assurances. Each party agrees, without the receipt of additional consideration, to promptly execute such other documents and take such other actions as may be reasonably requested to facilitate or implement the terms of this Agreement and consummate the transactions it contemplates.

c. Opportunity to Consult. Each party agrees that it has had ample opportunity to consult legal, tax, and other advisors concerning the terms of this Agreement.

d. Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of Colorado without giving effect to the conflicts of law principles of any jurisdiction. Any disputes arising from this Agreement shall be resolved in Archuleta County District Court.

e. Warranty of Authority. Each signatory below represents and warrants that he or she is duly authorized to enter into and bind the respective District to the terms of this Agreement.

f. Severability. If any provision of this Agreement is found to be invalid or unenforceable by any court or other lawful forum, such provision shall be ineffective only to the extent that it is in contravention of applicable laws without invalidating the remaining provisions of this Agreement, unless such invalidity or unenforceability would defeat an essential purpose of this Agreement.

g. Entire Agreement; No Representations or Warranties. This Agreement embodies the entire agreement and understanding between the Districts with respect to its subject matter. This Agreement supersedes all prior agreements and understandings between the Districts with respect to such subject matter. Each party by signing this Agreement agrees that: (a) no promises or agreements not expressed herein have been made to it; and, (b) in executing this Agreement, no party has relied upon any statements or representations made by any other parties, parties' attorneys or agents concerning the subject matter, basis or effect of the Agreement except as set forth herein.

h. Counterparts. This Agreement may be executed in counterparts, all of which shall be considered one and the same agreement and shall become effective when the counterparts have been signed by both Districts and each District's signature has been delivered to the other District. Scanned copies of signatures in connection with this Agreement shall be effective as originals.

/ / /

Executed and entered into as of the date of the last party to sign.

San Juan Water Conservancy District

By: _____ Date: Nov 6, 2026

Randall Cooper, President, Board of Directors (Nov 6, 2026 17:05:47 MST)

Title: President San Juan Wa

Pagosa Area Water and Sanitation District

By: _____ Date: _____

Title: _____

20261105 Settlement_PAWSD and SJWCD

Final Audit Report 2026-11-07

Created:	2026-11-06
By:	Jeffrey M Kane (jkane@swpropertylaw.com)
Status:	Signed
Transaction ID:	CBJCHBCAABAAkAOF0WOXWOSJbRFgpm0MEqsoCbr8wRpv

"20261105 Settlement_PAWSD and SJWCD" History

Document created by Jeffrey M Kane (jkane@swpropertylaw.com)
2026-11-06 - 11:59:00 PM GMT

Document emailed to Randall Cooper, President, Board of Directors (rcooper.sjwcd@gmail.com) for signature
2026-11-06 - 11:59:04 PM GMT

Email viewed by Randall Cooper, President, Board of Directors (rcooper.sjwcd@gmail.com)
2026-11-07 - 0:02:19 AM GMT

Document e-signed by Randall Cooper, President, Board of Directors (rcooper.sjwcd@gmail.com)
Signature Date: 2026-11-07 - 0:05:47 AM GMT - Time Source: server - Signature Appearance Selected: MOBILE_DRAW

Agreement completed.
2026-11-07 - 0:05:47 AM GMT

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