

READ THIS PROPERTY REPORT BEFORE SIGNING ANYTHING

This Report is prepared and issued by the developer of this subdivision. It is *NOT* prepared or issued by the Federal Government.

Federal law requires that you receive this Report prior to your signing a contract or agreement to buy or lease a unit in this subdivision. However, NO FEDERAL AGENCY HAS JUDGED THE MERITS OR VALUE, IF ANY, OF THIS PROPERTY.

If you received this Report prior to signing a contract or agreement, you may cancel your contract or agreement by giving notice to the seller any time before midnight of the seventh day following the signing of this contract or agreement.

If you did not receive this Report before you signed a contract or agreement, you may cancel the contract or agreement any time within two years from the date of signing.

Name of Subdivision: **HORSESHOE BAY, TEXAS**

Name of Developer: **NR.L.L. EAST, LLC, a Florida limited liability company
d/b/a LANDAUCTION.COM**

Date of this Report: **MAY 11, 2007**

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NOTE: In this Property Report, the words "you" and "your" refer to the buyer. The words "we," "us" and "our" refer to the Developer.

RISKS OF BUYING LAND

The future of any land is uncertain and dependent upon many factors. DO NOT expect all land to increase in value.

Any value which your Lot may have will be affected if the roads, utilities and all proposed improvements are not completed.

Resale of your Lot may be difficult or impossible, since you may face the competition of our own sales program and local real estate brokers may not be interested in listing your Lot.

Any subdivision will have an impact on the surrounding environment. Whether or not the impact is adverse and the degree of impact will depend upon the location, size, planning, and extent of development. Subdivisions which adversely affect the environment may cause governmental agencies to impose restrictions on the use of the land. Changes in plant and animal life, air and water quality and noise levels may affect your use and enjoyment of your Lot and your ability to sell it.

In the purchase of real estate, many technical requirements must be met to assure that you receive proper title. Since this purchase involves a major expenditure of money, it is recommended that you seek professional advice before you obligate yourself.

WARNINGS

THROUGHOUT THIS PROPERTY REPORT THERE ARE SPECIFIC WARNINGS CONCERNING THE DEVELOPER, THE SUBDIVISION OR INDIVIDUAL LOTS. BE SURE TO READ ALL WARNINGS CAREFULLY BEFORE SIGNING ANY CONTRACT OR AGREEMENT.

GENERAL INFORMATION

This Report covers Forty-Three lots (43) ("**Lots**") located in Horseshoe Bay, Llano and Burnet Counties, Texas. See **Schedule "1"** beginning on Page 33 for a listing of these Lots. It is estimated that this registration will eventually contain 1,000 lots. It is estimated that this subdivision will eventually contain 7,800 lots.

The Developer of the Subdivision is:

N.R.L.L. East, LLC, a Florida limited liability company
d/b/a LandAuction.com
1 Mauchly
Irvine, California 92618

Telephone number: (800) 499-6199

Answers to questions and information about this subdivision may be obtained by telephoning the developer at the number listed above.

The lots in this offering are within various subdivisions, as shown on Schedule "1" beginning on Page 33 herein, all of which are promotionally to be referred to as "Horseshoe Bay".

<p>CERTAIN RECREATIONAL FACILITIES, WHICH ARE OWNED BY HORSESHOE BAY RESORT, INC., A PRIVATE CORPORATION WHICH IS NOT OWNED OR CONTROLLED BY US, ARE AVAILABLE ONLY TO THOSE PAYING MEMBERS OF THE HORSESHOE BAY COUNTRY CLUB. YOUR PURCHASE OF A LOT GIVES YOU NO RIGHT TO USE THESE FACILITIES UNLESS YOU ARE ACCEPTED FOR MEMBERSHIP IN THE CLUB AND THERE IS NO ASSURANCE YOUR APPLICATION WILL BE ACCEPTED. THE COST OF A CLUB MEMBERSHIP IS SUBSTANTIAL AND THERE WILL BE NO REFUND OF THE PURCHASE PRICE OR YOUR LOT IF YOU ARE UNABLE TO BECOME A MEMBER. THE VALUE OF YOUR LOT MAY BE ADVERSELY AFFECTED BY YOUR INABILITY TO BECOME A CLUB MEMBER, SO YOU SHOULD CAREFULLY CONSIDER YOUR PURCHASE OF A LOT IF IT IS BASED UPON YOUR PRESUMED ABILITY TO BECOME A MEMBER AND USE THE FACILITIES.</p>
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TITLE TO THE PROPERTY AND LAND USE

GENERAL INSTRUCTIONS

A person with legal title to property generally has the right to own, use and enjoy the property. A contract to buy a Lot may give you possession but does not give you legal title. You will not have legal title until you receive a valid deed. A restriction or an encumbrance on your Lot, or on the subdivision, could adversely affect your title.

Here we will discuss the type of sales contract you will sign and the deed you will receive. We will also provide you with information about any restrictions and encumbrances, mortgages, or liens affecting your Lot and some important facts about payments, recording, and title insurance.

METHOD OF SALE

Purchase Agreement And Delivery Of Deed

The lots in this offering will be sold at duly noticed public auctions in accord with the laws of the state in which the auction is held.

All lots are sold using a Real Estate Purchase Agreement (“**Agreement**”). Lots purchased with financing shall make use of a Promissory Note secured by a Mortgage. You may NOT assign your agreement to a third party.

If you are the successful bidder on any lot(s), you may structure your purchase in either of two ways:

Cash

If you purchase by cash you will receive a properly executed Warranty Deed no later than one hundred eighty (180) days following the execution of the Agreement.

Real Estate Purchase Agreement/Deed of Trust

Purchasers will sign an Agreement to initiate the transaction and are required to pay a minimum down payment of the purchase price based on approved credit. Within one hundred eighty (180) days following your execution of the Agreement, or sooner if you are paying cash, you will receive a properly executed Warranty Deed. You must also execute a Deed of Trust and Note in our favor for the balance of the purchase price for a maximum term of fifteen (15) years from the date of closing. Payments on the Note will be made on a monthly basis and there will be no penalty for full or partial prepayment of the remaining Note balance. If financing is provided by the Seller, it is estimated that Closing will take place at such time that Buyer has made four (4) timely consecutive monthly payments of principal and interest under the Note, or such earlier date in the event that the Seller, in its discretion, waives the aforementioned condition.

Document Preparation and Processing Fees

Buyers will be required to sign all purchase documents at the time of purchase. All buyers will be required to pay \$995.00 for the preparation of necessary purchase documentation, which covers document preparation, processing, and recording fees. You will be required to pay any taxes imposed for the recording of the Warranty Deed and any Note and Deed of Trust (“**Recording Tax**”).

General Terms of Sale

All bids are subject to a 10% buyer's premium. The buyer's premium is added to the winning bid and becomes payable as part of the total sale price.

The first \$500.00 of every purchase must be paid in Cash or Cash Equivalent. Any additional amounts due may be paid with a personal check (First party, preprinted checks with satisfactory identification required.) Cash equivalent means Cashier's Checks (made payable to yourself), Money Orders, Traveler's Checks and Gold Coins (American Eagles, Maple Leafs and Krugerrands at the most recent bid price listed in the Wall Street Journal).

Parcels designated as "Cash or Terms" may be purchased with financing by making a down payment based upon approved credit. The remaining balance can be financed on a fully amortized loan at 13.9% interest for the length of time listed below:

Up to \$5000 may be financed up to 5 years
\$5001 to \$15,000 may be financed up to 7 years
\$15,001 to \$35,000 may be financed up to 9 years
\$35,001 to \$50,000 may be financed up to 10 years
\$50,001 to \$75,000 may be financed up to 12 years
\$75,001 and above may be financed up to 15 years

Parcels designated as "Bid plus Finance" may be purchased for the Winning Bid plus the financing terms stated within the designated individual parcel descriptions, if any, or for all cash as follows: Winning Bidder shall be responsible for both the down payment (Winning Bid) plus the terms of the stated financing. Winning Bidder shall pay the Winning Bid as the down payment amount in full on auction day. Winning Bidder shall also make monthly payments based on the financing terms, interest rate, and fees described in these General Terms of Sale and/or within the designated individual parcel description. Winning Bidder has the option to payoff the financing in full on auction day without penalty. All sales are subject to credit approval. If Winning Bidder is approved for financing, loans will be repayable at the contracted amount per month, including interest, until paid in full. Minimum monthly payments shall not be less than \$50, unless the parcel has financing stated in the designated individual parcel description. Loans can be paid off at any time without a prepayment penalty. The lender shall receive a late payment penalty charge of \$10 or 10% of the monthly payment, whichever is greater, for any payment which becomes more than ten days late.

Type of Deed

The transfer of legal title will be accomplished by a Statutory Warranty Deed, free and clear of liens and encumbrances other than stated herein or in the individual parcel description. Following the recording of the Warranty Deed, the fee for which will be paid for by us from the Document Fee and the payment by you of any Recording Tax, you will have good and marketable title to the Lot, subject to the exceptions set forth in the Agreement and documents of record

Oil, Gas and Mineral Rights

The oil, gas or mineral rights to the lots in this Community will not belong to the purchasers of those lots. These lots are subject to mineral reservations retained by previous land owners in the chain of title. The exercise of these rights could affect the use, enjoyment and value of your lot. The holder of such a reservation is entitled to reasonable reentry to take minerals but is liable for any damages resulting to the owner of the land.

ENCUMBRANCES, MORTGAGES AND LIENS

Some Lots in this offering are subject to the blanket encumbrance listed below:

Type of Lien – Deed of Trust

Holder of Lien – Textron Financial Corporation

Lots Subject to Lien - See Schedule “1” attached hereto beginning on Page 33

The Deed of Trust held by Textron Financial Corporation located at 45 Glastonbury Blvd., Glastonbury, Connecticut 06033 encumbers the Lots in this offering and contains provisions to allow Lots to be released prior to deeding. In case of our default, provisions in the Deed of Trust and Note preserve your rights as the Purchaser and insure that you will receive a release of your Lot from the Deed of Trust providing that you have fully complied with the terms of your Agreement. If no default occurs, we will obtain a release for your benefit at the time of the closing.

The Horseshoe Bay Covenants and Restrictions impose a foreclosable lien upon your lot as security for payment of the annual assessments. You are obligated to pay to the Horseshoe Bay Property Owners Association. The Horseshoe Bay Property Owners Association and Associations listed in detail beginning on Page 29 may take necessary legal action to enforce this lien in the event your assessment payments become delinquent.

The Developer has entered into a contract for the purchase of the twenty (20) lots being registered herein from the Owner and will not be the owner of the lots at the time of sale, but will obtain title before your closing.

RECORDING THE AGREEMENT

Method Or Purpose Of Recording

The Agreement that you sign when making an earnest money deposit on any lot in this offering may be recorded in the public records of County Clerk of Llano County or Burnet County, Texas depending upon the location of your Lot. Under Texas law, the recording of your Agreement or deed protects you against future purchasers or creditors of anyone having an interest in the land.

Within one hundred eighty (180) days, ninety (90) if you are paying cash, following your execution of an Agreement, we will convey good and marketable fee simple title to the Lot to you by properly executed warranty deed. We will record your deed. The recording of your deed gives notice to all subsequent creditors of the seller of other interests in the lot you are purchasing.

<p>UNLESS YOUR AGREEMENT OR DEED IS RECORDED, YOU MAY LOSE YOUR LOT THROUGH THE CLAIMS OF SUBSEQUENT PURCHASERS OR SUBSEQUENT CREDITORS OF ANYONE HAVING AN INTEREST IN THE LAND.</p>
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You are urged to consult your attorney to ascertain your rights and obligations in the event of such recording.

Title Insurance

We do not offer title insurance. You will receive an insurable title. You should obtain, at your expense, an attorney's opinion of title or an owner's title insurance policy from a properly licensed title insurance company in the amount of the price of your lot. Either document will describe the rights of ownership in your lot. We recommend that you have an appropriate professional interpret the policy for you if you choose to purchase such policy.

PAYMENTS

Escrow

All deposits and Closing Costs made pursuant to the applicable Agreement will be held in safekeeping by the Developer until closing.

YOU MAY LOSE YOUR DOWN PAYMENT AND/OR CLOSING COSTS ON YOUR LOT IF WE FAIL TO DELIVER LEGAL TITLE TO YOU AS CALLED FOR IN THE AGREEMENT, BECAUSE THEY ARE NOT HELD IN AN ESCROW ACCOUNT WHICH FULLY PROTECTS YOU.

Prepayment

You have the right to prepay the balance on your Note or Agreement at any time without any penalty.

Default

If for any reason you default with respect to the Agreement prior to closing, we may retain all monies paid by you as liquidated and agreed upon damages as our sole and exclusive remedy. If you default on the Deed of Trust and Note, we or our assignees will have the remedies provided therein, including the right to foreclose the Deed of Trust and/or to sue you for breach of the Note pursuant to Texas law.

RESTRICTIONS ON THE USE OF YOUR LOT

Restrictive Covenants

All platted lots and tracts in the subdivision are subject to restrictive covenants which affect the use of your lot. The lots in the Horseshoe Bay, Horseshoe Bay West, and Horseshoe Bay South sections of the subdivision are governed by the Horseshoe Bay Declaration of Reservations. These restrictive covenants are recorded in the counties of Llano and Burnet, Texas. The lots in the Horseshoe Bay Applehead Island section of the subdivision are governed by the Horseshoe Bay Applehead Island Declaration of Reservations. The lots in Pecan Creek are governed by the Declaration of Reservations for Pecan Creek. The lots in Bay Country are governed by the Declaration of Reservations for Bay Country. By buying a lot in the subdivision, you are bound to comply with the restrictive covenants. Complete copies of these restrictions are available upon request.

The major provisions of these restrictive covenants will be discussed in the paragraphs below. This discussion, however, will highlight only certain areas of the covenants to give you an idea of the type and scope of building and the restrictions of your lot and is not a legal analysis of your rights. This discussion should not be a substitute for a careful study of these agreements by you.

Section 2 of the Horseshoe Bay, Horseshoe Bay Applehead and Horseshoe Bay Applehead Island, controlled by Horseshoe Bay Applehead Inc. creates a separate Committee of Architecture which has the

authority to approve or disapprove all of your plans for construction and placement or altering of improvements on your lot. In addition, such Committee determines whether the subdivision lot owners in its section are in compliance with the covenants. The original developer appointed the members to the Committee governing the lots in the Horseshoe Bay and Horseshoe Bay West sections and therefore controls this Committee. The Committee governing the Horseshoe Bay Applehead and Applehead Island sections were appointed by the original developer, and therefore, controlled by Horseshoe Bay Applehead, Inc. (a company not affiliated with us). The control of any of these Committees may be terminated by transfer of the power of appointment of that Committee to any person or civic group. This control may also be terminated by amendment to the Declarations according to their terms. However, any future amendment to the Horseshoe Bay Declaration requires the approval of the Board of Directors of the Horseshoe Bay Property Owners Association.

Section 3 of the Horseshoe Bay, Horseshoe Bay Applehead, and Horseshoe Bay Applehead Island Declarations lists several conditions affecting your use of lots. Each Lot or Tract in the Horseshoe Bay, Horseshoe Bay West, and Horseshoe Bay South section of the subdivision is restricted to one of the following classifications:

- R-1 – Single Family Residential District
- R-2 – Two Family Residential District
- R-4 – Multiple Residential District
- R-6 – Apartment, Townhouse and Cottage District
- C-2 – Commercial District
- A-1 – Amenities Land
- F-D – Future Development Land

Each lot in the Horseshoe Bay Applehead section of the subdivision is restricted to one of the following classifications:

- R-1 – Single Family Residential District
- R-2 – Two Family Residential District
- R-3 – Townhouse Residential District
- R-4 – Multiple Residential District
- C-2 – Commercial District

Each lot in the Horseshoe Bay Applehead Island section of the subdivision is restricted to one of the following classifications:

- R-1 – Single Family Residential District
- R-2 – Two Family Residential District
- R-4 – Multiple Residential District
- C-2 – Commercial District

The classification of your lot will dictate what type of dwelling (e.g., single family, multiple family, apartment) may be placed on the lot. See Schedule “1” on Page 33 of this Property Report for the building classification of your lot.

Section 3 and 8 of each Declaration as noted above also have a detailed list of restrictions and specifications governing the type, size, design, quality, appearance and placement of lot improvements. These restrictions and standards govern most of the improvements you could normally place on your lot. In addition, there are restrictions and standards on size and height of building structures, minimum size of yard and minimum area of dwelling. These restrictions affect your use and enjoyment of your lot; therefore, you are strongly encouraged to read this section of the covenants with particular attention.

Section 3 and 8 of each Declaration as noted above also have general land use restrictions applicable to all lots regarding the following subjects; building area, garages and carports, water supply, electrical power, parking, mobile homes, private boat dock, dust and erosion control, maintenance easements, occupancy of structure before completion, drilling and mining on the lot, camping area, spaces between buildings, passageways, hunting and firearms, storage of tools and trash, grass and weeds, accessory buildings, motorbikes and motorcycles, trees and shrubs, and placing of advertising structures on a lot.

Lots in the Horseshoe Bay, Horseshoe Bay West, Horseshoe Bay South, Anchorage, and Matern Island sections to which the original developer still retains title and which are not subject to a contract-for-deed granted by the original developer, and lots in the Horseshoe Bay Applehead and Horseshoe Bay Applehead Island sections owned by Horseshoe Bay Applehead, Inc., and Lake Lyndon B. Johnson Improvement Corporation are not subject to the maintenance fees. In addition, the Horseshoe Bay Golf Course, Tennis Courts, Horseshoe Bay Clubhouse, Marina, and Horseshoe Bay Airstrip are not subject to the Maintenance Fees, the Additional Base Maintenance Fee or assessment.

Section 5 of the Horseshoe Bay Declaration, Sections 4.4 and 5 of the Horseshoe Bay Applehead Declaration and Section 5 of the Horseshoe Bay Applehead Island Declaration discuss the duration, the severability, and the enforcement of the restrictive covenants and the procedural requirements for amending the restrictive covenants. As a lot owner, you may bring legal action against any other owner of a lot governed by the same Declaration of Reservations who is violating or attempting to violate the Declaration of Reservations. Section 5 of the Horseshoe Bay Declaration of Reservations also has the restrictions applicable to the Mobile Home District.

Additional restrictions regarding number of dwelling units per lot, area within each dwelling unit, and size of moorings, docks and piers, are set forth on the plat maps for certain lots in plats W29.1 and W29.3.

Easements

All lots in this offering are free of easements which may encroach on the normal building area of the lot. The following easements concern lots in the offering. The effect of these easements is that you may not be able to build or place improvements on these easements.

- (a) 150 foot wide utility easement in favor of the Lower Colorado River Authority ("LCRA). The following lots in Plat 32.2 are affected by this easement: C3201 through C3207, and C3209. The following lots in Plat 37.1 are affected by this easement: 37042, 37043, 37044, 37058, 37059 and 37060.
- (b) Channel Easement fifty feet wide to the Texas Highway Department for drainage purposes reflected on the face of Plat 5.4 affecting Tract Y.
- (c) Parking easements in favor of all commercial lots for the purpose of public parking and service access appearing on the face of plat 19.2, 21.2 and 32.2 and affecting each lot thereon.
- (d) 30 feet access easements for road and utility purposes reserved on the face of Plat 11.1 and encumbering the following lots: 11012, 11013, 11016 and 11017 to the extent of 15 feet on each lot.
- (e) 40 foot access easement for road and utility purposes reserved on the fact of Plat 12.1, and encumbering all lots thereon except 12022, 12007, and 12001.

- (f) Roadway and utility easement, a minimum of 40 feet wide, reserved on the face of Plat 33.1 and affecting all lots thereon except Lot 33001.
- (g) Utility Easement reserved on the fact of Plat 19.1, which will not adversely affect access to the lots subject to such easement.
- (h) 100 foot LCRA easement noted on the fact of Plat W1.2 bordering Lots W1001, W1014, W1115, W1116, W1117, W1121, W1126 through W1130, W1134 through W1136 on the fact of Plat 40.2 adjacent to Lots W40016B and 40017A, and on the face of Plat 41.8 across the road bordering Lots 41101 through 41112 and 41066.
- (i) Irrigation and Utility Easement passing through Lots 8083, W10007 through W10010, W10028, W10029, W27008, W27009, W30011 through W30014, W34001 and W34002.
- (j) Drainage Easement on or adjacent to Lots 8001-8002, 8004-8009, 8018-8021, 8026, 8057-8058, W1025, W11033, W11034, W11040, W11045, W11046, W11111, W11112, W16001A-W16009A, W16001B-W16009B, W16015A-W16017A, W17001B-W17003B, W17002-W17004, W18011, W18012, W18040, W18041, W18097-W18103, W19001, W19003, W19004, W19017, W19018, W19029-W19031, W19038A, W19039B, W19049-W19053, W19056, W20013A, W20013B, W20019A, W20019B, W20020-W20022, W20036-W20038, W20062, W20066, W20067, W20071, W20072, W21018A, W21027, W21028, W21037-W21041, W21056, W21057, W22040, W22041, W22064B, W22065, W25021, W25022, W25023, W25028, W25029, W25030, W25031, W25060, W25061, W25076, W25077, W27001, W27022, W27023, W27024, W27025, W27026, W27059, W27060, W27062, W27063, W27064, W28001, W28037, W28038, W28043, W28044, W28049, W28050, W28052, W28053, W28054, W28055, W28056, W29057, W28066, W28067, W28068, W28070, W28071, W28072, W28074, W28076, W28077, W28078, W28079, W28080, W28081, W28082, W28089, W28090, W28091, W28092, W28098, W28094, W28095, W28096, W28097, W28099, W29001-W29008, W29017, W29018, W29014-W29028, W30001, W30019, W30022, Tract DD, W34022, W34023, W35026, W35063, W35064, W35066, W35067.
- (k) 5, 10 and 15 foot easements on various lots through the subdivision for utilities.
- (l) The Lower Colorado River Authority has an easement to inundate the land up to the 825 foot contour line of Lake Lyndon B. Johnson. The 825 foot contour line is the boundary line of the lakefront portion of the subdivision. None of the lots in this offering other than 35015 through 35018, inclusive is covered by the inundation easement. However, in the easement, the developer's predecessors in title waive on behalf of themselves, their successors and assigns all rights to damage that they may have or claim with respect to the remainder of the land (i.e., that portion above the 825-foot contour line) which might be caused or claimed as a result of the LCRA's maintenance and operation of the lake. This waiver affects all lots included in this offering.
- (m) Five foot maintenance easements are set forth on the plat map for certain lots in Plat 9.5, 41.8, 43.2, 44.6, 44.7, 44.8, W11.3, W12.3, W19.2, W20.3, W21.2, W21.3, W22.2, W22.3, W22.4, W22.6 and W30.1.
- (n) Small landscape easement on Lot W29003.
- (o) Twenty foot utility and access easement adjacent to Lots W25015 and W25016.

PLATS, ZONING, SURVEYING, PERMITS AND ENVIRONMENT

Plats

The subdivision plat maps and the plats of all the lots included in this offering have been approved by the County Commissioners of Llano County or Burnet County, Texas. The maps and plats of all the lots have been recorded in the Plat Records of Llano County or Burnet County, Texas.

Zoning

There may be local, governmental zoning ordinances affecting the use of the Lot. Unless otherwise provided by the restrictive covenants, all lots within the subdivision are restricted to single family residential use or for subdivision amenities and facilities. A final report on the Zoning Ordinance (Ordinance No. ORD 06-06-20) that was made on June 12, 2006 is available at the Municipal City of Horseshoe Bay, Public Works/City Engineer, 1 Community Drive, Horseshoe Bay, Texas 78657, 830-598-8741.

Surveying

All lots in all units have been surveyed, staked and marked for identification.

Permits

No building or other improvement may be placed on your lot without first securing a building permit from the Committee of Architecture which has jurisdiction over your lot ("Committee"). The Committee will issue a permit if it approves the building and/or improvement plans; the improvement standards by which the Committee reviews building and improvement plans are listed in the applicable restrictive covenants.

A building permit fee for lots in the Horseshoe Bay, Horseshoe Bay West and Horseshoe Bay South sections is payable to the Horseshoe Bay Property Owners' Association. The building permit fee is \$1,000 for each dwelling unit less than 5,000 square feet and \$1,500 for each dwelling unit more than 5,000 square feet. The building permit fee for commercial projects is \$1,500 if the project is under 10,000 square feet and over 10,000 square feet of covered building space will be subject to Plan Review. In general, there are additional fees charged for architectural approval of septic tanks, swimming pool, irrigation system, fence installation or television satellite dish and additions or alterations to home which run from \$25 to \$75. These architectural additions require no fees if constructed at the same time as a residence and as a part of the same plans. In addition, the Horseshoe Bay Property Owner's Association imposes a \$1,000 deposit to provide for after-construction clean up costs and compliance, which is 100% refundable after an occupancy permit has been issued and the building inspector has authorized the refund. Should the Project not be completed within the permit term, the permit holder can apply to the City at least thirty (30) days before the expiration of the Building Permit, in writing, for an extension of one hundred (100) days. If the Project is not completed within this time frame, the Building Inspector shall "red tag" the site and any additional construction will require a new permit at a minimum cost of \$500.

For lots in the Horseshoe Bay Applehead or Horseshoe Bay Applehead Island sections of the subdivision, the building permit fee is \$1,000 for each dwelling unit with less than 5,000 square feet of living area and \$1,500 for each dwelling unit with more than 5,000 square feet of living area. Again, in general there are additional fees charged for architectural approval of spas, fences, irrigation systems, swimming pools and additions and alterations to homes which run from \$25 to \$75. The building permit fee for commercial

projects is \$1,500 if the project is under 10,000 square feet and over 10,000 square feet covered building space will be subject to Plan Review.

For lots in Pecan Creek, you must obtain a building permit from the Pecan Creek Association. The building permit fee is \$1,000 for each dwelling unit with less than 5,000 square feet of living are and \$1,500 for each dwelling unit with more than 5,000 square feet of living area. Again, in general there are additional fees charged for architectural approval of spas, fences, irrigation systems, swimming pools and additions and alterations to homes which run from \$25 to \$75.

For lots in Bay Country, you must obtain a building permit from the Bay Country Association. The building permit fee is \$1,000 for each dwelling unit with less than 5,000 square feet of living are and \$1,500 for each dwelling unit with more than 5,000 square feet of living area. Again, in general, there are additional fees charged for architectural approval of spas, fences, irrigation systems, swimming pools and additions and alterations to homes which run from \$25 to \$75.

The original developer has been informed by the Fort Worth District Corps of Engineers that generally small floating docks or docks with pier pilings used for support do not require permits from that office, but that those involving retaining walls do require permits. In any event, that office requests that any lot owner contemplating the construction of any such structure submit the details to its office prior to commencing that construction. Its address is: Operations Division, Permit Section, Fort Worth District Corps of Engineers, Post Office Box 17300, Ft. Worth, Texas 76102.

Construction of boat docks and retaining walls require a permit from The Lower Colorado River Authority (LCRA). That office requests that any lot owner contemplating the construction of any such structure submit the details to its office prior to commencing that construction. Its address is: P. O. Box 220, Austin, Texas 78767.

The Llano County Department of Natural Resources Administrator, 801 Ford Street, Room 108, Llano, Texas 78643, will charge a \$25 base fee plus a fee of \$0.025 per square foot of the improvements for a Llano County Development Permit. This permit will also determine if your lot is in a flood plain. If you are constructing a home that is in a flood plain, you will be charged \$200 for the permit. Llano County also requires issuance of a permit for installation of On-Site Sewage facilities on installations no within 2,200 feet of Lake LBJ. The cost of this permit is \$200 which includes the final inspection.

Environment

No environmental study has been prepared. No determination has been made as to the possible adverse effects the subdivision may have upon the environment and surrounding area.

ROADS

Under this heading we will discuss the roads that lead to the subdivision, those within the subdivision and the location of nearby communities.

ACCESS TO THE SUBDIVISION

Access to the subdivision is provided by public roads. The main access road to the subdivision from points north and south is U.S. Highway 281, a four lane, 58 foot wide, asphalt paved road. The main access road to the subdivision from points east and west is State Highway 71, a two lane, 26 foot wide, asphalt paved road. In addition, FM Road 2147, a two lane, 24 foot wide, asphalt paved road, passes through the subdivision and connects with State Highway 71 on the west side of the subdivision and connects with U.S. Highway 281 on the east side of the subdivision.

These roads are maintained with public funds; you will not be individually assessed for maintenance of these roads. We are not aware of any proposed improvements to these access roads.

ACCESS WITHIN THE SUBDIVISION

Legal and physical access by conventional automobile to the lots is to be provided by rights-of-way dedicated to the public (except for the roads in the Horseshoe Bay Applehead and Horseshoe Bay Applehead Island sections of the subdivision, which are private). The roads in the subdivision are complete.

All roads in the subdivision are two lanes wide except for main entrance highways to Horseshoe Bay and Horseshoe Bay West which are four lanes wide. All roads are paved with a two course asphalt inverted penetration surface, except for Plat W30.1 in Horseshoe Bay Applehead, which is hot mix asphalt, and Horseshoe Bay Applehead Island, which are concrete.

All roads which have been platted within the subdivision and have been dedicated to Llano or Burnet County are 50 feet wide, except for certain easements for road-way purposes reserved on Plats 11.1, 12.1, and 33.1, which are a minimum of 30 feet wide. The County Commissioners of Llano County have stated that they will accept the dedicated roads for maintenance when proper county funds are available and the County Commissioner's Court feels it is timely to take on the maintenance of the streets and roads in the subdivision. An injunction was issued in 1971 prohibiting Burnet County from maintaining roads in subdivision. However, the County Commissioners' Court has issued a letter stating that the court will accept maintenance of the roads when proper funds are available and the County Commissioners' Court feels it is timely to do so. Until such time as Llano or Burnet County actually begins maintenance of the dedicated roads, the roads will be maintained from the subdivision maintenance funds of the Property Owners Associations.

No specific portion of the fees is set aside solely for maintenance of roads by the Horseshoe Bay Property Owners Association or any of the other Property Owners Associations. The roads will be maintained so as to provide access to your lot on a year round basis.

Because of the location of the building site on some lots, a longer driveway than is normal may be required, which we estimate could increase the cost of construction of a completed home by an amount ranging from \$2,000 to \$5,000.

The table below identifies the distance (in miles) from the center of the subdivision to nearby communities.

NEARBY COMMUNITIES

Nearby Communities	Population	Distance Over Paved Roads	Distance Over Unpaved Roads	Total
Burnet, TX (County Seat of Burnet County)	5,415	21	0	21
Marble Falls, TX	6,059	6	0	6
Llano, TX (County Seat of Llano County)	3,382	28	0	28
Austin, TX (State Capital)	681,804	55	0	55
San Antonio, TX	1,236,249	85	0	85

UTILITIES

Under this heading we will discuss the availability and cost of basic utilities.

WATER

The subdivision is served by a central water system. The water is supplied by the City of Horseshoe Bay, Post Office Box 7765, Horseshoe Bay, Texas 78657 (the "City") and is regulated by the Texas Commission on Environmental Quality ("TCEQ") which has issued the permit for the construction, use and operation of the central water system. The City is responsible for extending the water lines to your lot.

The City's policy is to provide your lot with water service provided the slab on the dwelling is at or above the 829 foot level. The contour level of the lake's edge is 825 feet.

The central water system is available to all lots in this offering.

The City is prepared to serve the anticipated population of this development. The policy of the City has been to maintain the capacity to furnish water to any property owner requesting service while meeting all requirements of the state agencies governing water quality.

The chemical and bacteriological content of the water system has been tested; the tests show that the water meets all standards for a public water supply.

Other than through the payment of user fees and the payment of taxes to the City, you will not bear any of the cost of having the main water lines extended to your property line. You will be required, however, to pay a one-time connection fee ranging from \$1,095 for a ¾" pipe to \$1,650 for a 2" pipe for residential uses, depending upon the type of connection. Size of the meter will be determined by the City. There is a \$34 standby charge per year per vacant Equivalent Single Family Connection which has water, wastewater, and drainage facilities and service available, and a \$25 standby charge per year per vacant Equivalent Single Family Connection which has only water and drainage facilities and service available until you tap into the main line and commence using water.

You will not be permitted to use an individual water system.

SEWER

Central System

The City of Horseshoe Bay (the "City"), is to provide central sewage service to some of the lots in the subdivision and is regulated by the Texas Commission on Environmental Quality ("TCEQ") which has issued the permit for the construction, use and operation of the central sewer system. Those not provided with such service will use septic tanks. The City constructed, owns, and operates the central treatment and collection system.

The central sewer system has been completed and has sufficient capacity to service the following lots:

4001	through 4006	9012	through 9118
4016	through 4054	10001	through 10112
4067	through 4151	11001	through 11018
5001	through 5041	12001	through 12069
5045	through 5059	13001	through 13019

Tract Y
7001 through 7084
8001 through 8095
9001
9002A through 9011A
9022B through 9011B
17001 through 17046
18001 through 18165
19001 through 19156
Excluding 19099
21081
23001 through 23191
23194 through 23237
Excluding 23133
24001 through 24005
24009 through 24012
24016 through 24019
24022 through 24026
24030 through 24033
24037 through 24063
24066 through 24069
24073 through 24074
24078 through 24082
24088 through 24107
24110 through 24139
25001 through 25089
27001 and 27024
28001 through 28057
Tract J
C32001 through C32020
Excluding C32008
33001 through 33008
34001 through 34057
35001 through 35018
37024 through 37060
39001 through 39041
40001A through 40035A
4003B through 4033B
40011C, 40012C, 40034B
4035B
41001 through 41066
41101 through 41131
43001 through 43028
44018B
44019A through 44032A
44019B through 44032B
44031B, 44032A, 44032B
44033 through 44036
44065 through 44097
44098A through 44109A & B
45001 through 45062
47092 through 47106

13032 through 13035
13048 through 13051
13075 through 13078
13086 through 13089
13091 through 13099
15001 through 15067
W4019, W4020, W4021
W4022, W4023 through W4034
W4034 through W4073
W5005 through W5025
W5064 through W5072
W5079 through W5084
W6001 through W6047
W7001 through W7073
W8001 through W8014
W9001 through W9017
W9023
W10001 through W10038
W11001 through W11022
W11050 through W11077
W11091 and W11092
W11111 through W11132
W11133 A & B through
W11138 A & B W11137C
W12001 through W12088
W13001 through W13008
W13028 through W13042
W14001 through W14027
W16001 through W16011
W16012 A & B
W16013 through W16059
W17001 through W17024
W17027 through W17036
W18001 through W18106
W19001 through W19072
W20001 through W20072
W21001 through W21060
W22001 through W22086
W23001 through W23085
W24001 through W24022
W25001 through W25082
W27001 through W27064
W28001 through W28099
W 29001 through W29052
W30001 through W30029
W32001 through W32009
W34001 through W34035
W35001 through W35106

Matern Island
1 through 30

48001 through 48012	Applehead 1009-A, 1010-A,
50001 through 50013	1028-A, 1011 through 0127
N5001 through N5015	1038-A through 1054-A
N6001 through N6031	1055 through 1072
N7001 through N7029	1073 through 1085
Tracts A, B, C, DD, E	
W1018 through W1055	Applehead 2001-A
W1063, W1064, W1065	2002 through 2020
W1074, W1079, W1080	
W1081, W1082	Applehead 301 through 3040
W3043, W3051, W3052	3046-A through 3057-A
W3053, W3069, W3070	
W3071, W3072, W3073	Applehead 4001 through 4003
W3086, W3087, W3088	4004-A through 4007-A
W3094, W3095	4008 through 4018
W4006, W4007, W4018	4019 through 4026
4019-A through 4024-A	
	Applehead Island Lots
Applehead 5001 through 5061	1D through 15D
	1T-1 through 18T-2
Applehead 6001 through 6027	1 through 154
Applehead 7001 through 7002	
Applehead 8001 through 8092	

You will not be required to pay for construction or maintenance of the sewer system. You will, however, be required to pay a one-time connection fee to tap onto the system of \$719 for a standard 1½ sewer connection for residential. In addition, you will be required to purchase a residential sewer pump, the make and supplier of which must be approved by the City, at an estimated cost of \$1,736 with a connection fee of \$1,219.

Individual Systems

If your lot is not listed above as a lot which has central sewer service available, you will be required to use a septic tank system.

All of the lots which will require the use of a septic tank system are located in Llano County, and Llano County requires issuance of an On-Site Sewage Facility Permit at a cost of \$200 which includes the final inspection. We are not aware of any hazards or unfavorable effects upon you or the availability of construction or permanent financing produced by the lack of local governmental permit requirements for your septic system.

Soil site evaluations in the general area of the subdivision have indicated that the soil conditions are adaptable and proper for the use of septic tanks. A soil site evaluation, however, has not been conducted on each lot in the subdivision. Thus, there is no assurance that each lot will be suited for septic tank use. If a septic tank system is not feasible, no refund of the purchase price of the lot will be made.

<p>THERE IS NO ASSURANCE PERMITS THAT YOUR LOT IS SUITABLE FOR THE INSTALLATION AND USE OF A SEPTIC TANK SYSTEM.</p>

It will cost you approximately \$200 to have a soil site evaluation done on your lot plus an additional \$700 if the lot is rocky and requires additional digging. The approximate cost of installing a septic tank ranges from \$5,000 to \$15,000. In addition, you will be taxed by the City which is responsible for installing the central sewer system, and the City may use the proceeds of such taxes to expand and maintain the central sewer system, even though your lot may not be served by central sewer lines. The annual tax rate for the City is currently \$0.60 per \$100 valuation.

YOU ARE ADVISED THAT EVEN THOUGH YOUR LOT MAY NOT BE SERVED BY CENTRAL SEWER LINES, YOU WILL BE TAXED BY THE CITY WHICH IS RESPONSIBLE FOR INSTALLING THE CENTRAL SEWER SYSTEM, AND THE CITY MAY USE THE PROCEEDS OF SUCH TAXES TO EXPAND AND MAINTAIN THE CENTRAL SEWER SYSTEM.

ELECTRICITY

Electrical service to the subdivision is provided by Pedernales Electric Cooperative, Inc., 201 South Avenue F, Johnson City, Texas 78636 (the "Co-op"). The Co-op is a publicly regulated utility which we do not control.

Electrical service is available to all lots in this offering.

The Co-op is responsible for extending primary electric service lines to the property lines of all lots in the subdivision. You are not assessed for the construction cost of extending the electrical lines to your property line. Effective January, 2007 the Co-op charges an Impact Fee of \$850 plus tax to extend service to a location with no prior electric service, plus a nonrefundable Establishment (connection) Fee in the amount of \$810, and a refundable Membership Fee of \$40. Some lots will have the option of wires being run below ground. You could incur extra cost for this which is dependent on each individual case.

TELEPHONE SERVICE

Telephone service to the subdivision is provided by Verizon Wireless, 1807 U.S. Highway #281, #A1, Marble Falls, Texas 78654 provides telephone service to the subdivision. We have no control over this company; it is a public utility regulated by the state. The telephone company is responsible for extending service lines to your property line, and you will not be responsible for any construction costs. Lines run both in front and/or adjacent to every lot. No deposit is required.

Telephone service is available to all lots in this offering.

FUEL OR OTHER ENERGY SOURCE

Propane is currently available from Hydrogas Corp., 1742 West Highway 29, Burnet, Texas 78611. The estimated cost of a 250 gallon tank delivered and installed above ground is \$1,250.80 including tax, a 500 gallon tank delivered and installed above ground is \$1,847.16 including tax. Tanks (250 gallons) are also available to lease. Two plans are available for leasing tanks depending on usage needs: if you are using propane as your heating source and for more than one appliance the annual rental charge is \$84 (installation charge is \$190.33), if you are using propane for heat and only one appliance the annual rental charge is \$125 (installation charge is \$235.31.) Current propane rates are \$2.25 per gallon. Average usage will vary depending on family size and other factors but may be from 50 to 100 gallons. Propane rates are subject to change. Please check with Hydrogas Corp. at 512-756-4285 for current rates.

CABLE TELEVISION

Cable television service is delivered to partial areas of the subdivision by Northland Cable TV and High Speed Internet, 1101 Mission Hills Drive, Marble Falls, Texas. The installation charge is approximately \$40 - \$50. The monthly rate from basic service is \$39.99.

SATELLITE TELEVISION

Satellite television service is provided to the subdivision by DirectTV Group, Inc., 2230 East Imperial Highway, El Segundo, California. The installation charge is approximately \$19.95 - \$219.95 depending on credit approval. The monthly rate for basic service is \$39.99 with a one year contract.

FINANCIAL INFORMATION

A copy of our audited financial statements for fiscal years ending December 31, 2005 and 2004 and unaudited financial statements for the period ending December 31, 2006 is available from us upon request.

LOCAL SERVICES

In this section, we will discuss fire and police protection, schools, medical care, shopping facilities, mail service and public transportation

FIRE PROTECTION

Year-around fire protection is provided by the City of Horseshoe Bay Fire Department. Station #1 is located at #1 Community Drive and Station #2 is located at 601 Broken Hills with both locations within the Horseshoe Bay subdivision. Both stations are serviced by 911 emergency services.

POLICE PROTECTION

Police protection is provided by the City of Horseshoe Bay Police Department, located at #1 Community Drive within the subdivision. Emergency 911 service is available.

SCHOOLS

If your lot is located in Burnet County, you will be entitled to use the Marble Falls public schools (elementary, junior high and high school). School bus transportation is available from within the subdivision. If your lot is located in Llano County, you will be entitled to use the Llano public schools (elementary, junior high and high school). School bus transportation is available from within the subdivision. The Llano schools are approximately 28 miles from the center of the subdivision.

HOSPITAL

The nearest hospital available to residents of the subdivision is the Seton Highland Lakes Medical Center located in Burnet, Texas, 20 miles away from the center of the subdivision. Ambulance service will be provided by Horseshoe Bay Emergency Medical Services under the City of Horseshoe Bay.

PHYSICIANS AND DENTISTS

The Hoerster Lake Area Clinic is located in the Horseshoe Bay West portion of the subdivision. A dentist is located in the Horseshoe Bay portion of the subdivision. Additional physicians and dentists are available 6 miles away in Marble Falls, Texas.

SHOPPING FACILITIES

Two convenience stores, pro shops, a liquor store, two banks, a beauty shop, a laundry, and restaurants are available in the subdivision. Complete shopping facilities are available in and around Marble Falls, Texas, 6 miles away.

MAIL SERVICE

There is an office of the U.S. Postal Service located in the subdivision where mail boxes are available for a \$48 per year fee.

PUBLIC TRANSPORTATION

There is no public transportation from the subdivision to nearby towns and no public transportation within the subdivision. Continental Trailways buses serve Marble Falls, Texas, 6 miles away.

Horseshoe Bay Resort Airport, which is owned and privately operated by HSB Resort, Inc., is located within the subdivision. Lakeway Airpark is located approximately 37.7 miles from the subdivision and Burnet City of Municipal Airport is located approximately 12 miles from the subdivision.

RECREATIONAL AND OTHER FACILITIES

EXCEPT FOR THE QUAIL POINT CLUBHOUSE, THE CAMPGROUND, THE APPLEHEAD ISLAND PARK, THE APPLEHEAD PARK AND THE NATURAL PARKS, THE RECREATIONAL FACILITIES LISTED BELOW ARE OWNED BY HORSESHOE BAY RESORT, INC. AND ARE AVAILABLE ONLY TO DUES PAYING MEMBERS OF HORSESHOE BAY COUNTRY CLUB. SEE THE WARNING ON PAGE 4 OF THIS PROPERTY REPORT.

Facility	Percentage of Construction now complete	Estimated Date of Start of Construction	Estimated Date Available for Use	Financial Assurance of Completion	Buyer's Annual Costs or Assessments
Natural Parks	100%	N/A	Currently Available	N/A	Included in Horseshoe Bay, Horseshoe Bay West and South Maintenance Fee (\$219.50); Horseshoe Bay West Additional Maintenance Fee (\$307.40)
Campgrounds	100%	N/A	Currently Available	N/A	Included in Horseshoe Bay, Horseshoe Bay West and South Maintenance Fee (\$219.50); Horseshoe Bay West Additional Maintenance Fee (\$307.40)
Quail Point Clubhouse	100%	N/A	Currently Available	N/A	Included in Horseshoe Bay, Horseshoe Bay West and South Maintenance Fee (\$219.50); Horseshoe Bay West Additional Maintenance Fee (\$307.40)
Clubhouse (Yacht Club)	100%	N/A	Currently Available	N/A	Initiation fees, dues and user charges vary depending on type of membership.
18 hole golf /Pro Shop (Horseshoe Bay Slick Rock)	100%	N/A	Currently Available	N/A	Initiation fees, dues and user charges vary depending on type of membership
18 hole golf course (Horseshoe Bay West Ram Rock)	100%	N/A	Currently Available	N/A	Initiation fees, dues and user charges vary depending on type of membership
Tennis Courts (Horseshoe Bay)	100%	N/A	Currently Available	N/A	Initiation fees, dues and user charges vary depending on type of membership
18 Hole Golf Course/Pro Shop (Horseshoe Bay West Apple Rock)	100%	N/A	Currently Available	N/A	Initiation fees, dues and user charges vary depending on type of membership

Facility	Percentage of Construction now complete	Estimated Date of Start of Construction	Estimated Date Available for Use	Financial Assurance of Completion	Buyer's Annual Costs or Assessments
Whitewater 18 Hole Putting Course (Horseshoe Bay)	100%	N/A	Currently Available	N/A	Initiation fees, dues and user charges vary depending on type of membership
La Bahia Restaurant (Horseshoe Bay)	100%	N/A	Currently Available	N/A	Initiation fees, dues and user charges vary depending on type of membership
Bayside Fitness Center (Horseshoe Bay)	100%	N/A	Currently Available	N/A	Initiation fees, dues and user charges vary depending on type of membership
Marina (282 slips) (Horseshoe Bay)	100%	N/A	Currently Available	N/A	Slips: Rentals and Purchases
Airport	100%	N/A	Currently Available	N/A	Initiation fees, dues and user charges vary depending on type of membership
Applehead Park (2 tennis courts & pool) (Private to Applehead Owners)	100%	N/A	Currently Available	N/A	Included in APOA Assessment, currently \$647.23
Applehead Island Park (2 tennis courts & pool) (Private to Applehead Island Owners)		N/A	Currently Available	N/A	Included in AIPOA Assessment, currently \$1,783.04 per year (R-2 x 2 and R-4 x 4)
Pecan Creek (recreation center, heated indoor lap pool, exercise room, kitchen and game room, tennis court, putting green) (Private to Pecan Creek Owners)					Included in POA Assessment; currently \$775/\$1,500
Bay Country (2 horse paths)					Included in POA Assessment; currently \$1,600

THE MARINA, THE CLUBHOUSE, LA BAHIA RESTAURANT, WHITEWATER 18-HOLE PUTTING COURSE, BAYSIDE FITNESS CENTER, GOLF COURSES, TENNIS COURTS AND AIRPORT ARE OWNED BY HORSESHOE BAY RESORT INC.; THEREFORE WE CANNOT ASSURE THE CONTINUED AVAILABILITY OF THESE FACILITIES.

Maintaining the Facilities

The Horseshoe Bay Property Owners' Association is responsible for the operation and maintenance of parks and roads in the Horseshoe Bay, Horseshoe Bay West and Horseshoe Bay South sections of the subdivision. The Horseshoe Bay Applehead Property Owners' Association is responsible for the maintenance of the roads in the Horseshoe Bay Applehead section of the subdivision. The Horseshoe Bay Applehead Island Property Owners' Association is responsible for the maintenance of the roads in the Horseshoe Bay Applehead Island section of the subdivision. The Matern Island Association is responsible for the maintenance of the road in the Matern Island section of the subdivision.

Horseshoe Bay Resort, LTD. is responsible for the operation and maintenance of clubhouse, Bayside Fitness Center, La Bahia Restaurant, Whitewater 18-hole Putting Course, golf courses, tennis courts, marina and the airport. Horseshoe Bay Resort, Inc. is a private corporation which is not owned or controlled by us.

Transfer of the Facilities

The original developer has no present intention of transferring the facilities owned by it.

THE MARINA, THE CLUBHOUSE, LA BAHIA RESTAURANT, WHITEWATER 18-HOLE PUTTING COURSE, BAYSIDE FITNESS CENTER, GOLF COURSES, TENNIS COURTS AND AIRPORT ARE OWNED BY HORSESHOE BAY RESORT INC.; THEREFORE WE CANNOT ASSURE THE CONTINUED AVAILABILITY OF THESE FACILITIES.

Who May Use the Facilities

The Clubhouse (Yacht Club), tennis facilities, and the golf courses are available only to dues paying members of the Horseshoe Bay Country Club, their guests, and to renters of the room units managed by the Horseshoe Bay Country Club or the Horseshoe Bay Management Company. Applications for membership may be refused or cancelled by the Club's membership committee. The Applehead Park and adjoining facilities are open only to lot owners of Applehead. The Applehead Island Park and adjoining facilities are open only to lot owners of Applehead Island. The Pecan Creek facilities are available only to lot owners of Pecan Creek.

SUBDIVISION CHARACTERISTICS AND CLIMATE

In this section, we will discuss the basic terrain of the subdivision, its climate and any nuisances or hazards in this area.

GENERAL TOPOGRAPHY

The subdivision is located next to Lake Lyndon B. Johnson, a constant level lake, 21 miles long, which was crated when the Alvin Wirtz Dam was constructed in 1950. The general topography is hilly, sloping to the waterfront edge. The soil is granite wash, alluvial granite wash, limestone and black soil. The vegetation is grass, brush and oak. The development contains many creeks. Certain lots are located in the hilly areas of the subdivision and may require significant preparatory work prior to construction of a residence, depending on its architectural design or special construction techniques used in the construction. Lots located in the following plats have a slope of 20% or more: 4.3, 13.1, 17.1, 18.1, 20.1, 22.1, 23.4, 24.1, 27.1, 37.3, 41.3, 41.8, 50.1, N1.1, N5.5, N5.1, N7.1, W1.2, W2.2, W3.1, W14.1, W14.2, W16.1, W16.5, W17.1, W17.3, W17.4, W19.1, W23.1, W24.1, W25.1, W27.1, W28.1, W32.1, W34.2, W34.3, K14.1, and Applehead Plats 3.1, 3.3, 4.1, 4.2, 4.4, 4.5, 4.6, 5.1, 5.4, 6.1, 6.3 and 8.1.

YOUR LOT MAY HAVE A SLOPE OF 20% OR MORE AND MAY REQUIRE SPECIAL CONSTRUCTION TECHNIQUES TO COMPENSATE FOR ITS HILLY TOPOGRAPHY. THIS MAY AFFECT THE TYPE AND COST OF CONSTRUCTION.

The special techniques which may be necessary for construction in these hilly areas include adding additional fill on the lot, increasing the depth of the foundation, and designing a multi-level house to conform to the slope of the lot. Special construction will vary depending on the topography of the particular lot and the design of the proposed residence; no estimate can be made for such cost, but it could amount to as much as several thousand dollars.

You should personally inspect your lot and seek professional advice on what special construction techniques your lot will require, if any. With the exception of the inundated areas to be conveyed with Lots 35015 through 35018 (see Water Coverage section below), the lowest elevation on any portion of any lot is 825 feet and the highest is 1, 081 feet.

Approximately 5% of the property in the Horseshoe Bay section and none of the property in the Horseshoe Bay West and Horseshoe Bay Applehead sections of the subdivision will remain as natural open space and developed parkland.

WATER COVERAGE

The only lots in this offering any portion of which are covered by water at any time are Lots 35015, 35016, 35017 and 35018. The boundaries of these lots extend into Lake Lyndon B. Johnson at all times. This does not affect the use of the lots because there is more than enough area on which to build a residence. This condition cannot be altered.

The development contains many creeks. Although during periods of unusually heavy rains the creek width may increase, each of the lots through which the creeks pass contains sufficient area on which to build a home without danger of flooding from the creek.

DRAINAGE AND FILL

Your lot may be affected by natural drainage areas. Depending upon the design, type of construction and size of any improvements you intend to build, your lot may require fill to accommodate such improvements. In addition, the cost thereof, if any, will vary according to the type, location on the lot and size of the proposed improvements. Because you will bear such cost, you should investigate prior to purchase. In our opinion, none of the lots require any drainage of surface water prior to construction of a home on the lot. See, however, the discussion below under Flood Plain regarding the floor level or your residence.

FLOOD PLAIN

The following lots are located in an area designated by a governmental agency as being flood prone:

11004 through 11018	34001, 34019
12001 through 12069	35001 through 35018
15012 through 15031	W20051
15035 through 15040	W20062 through W20068
15042 through 15051	W20071 through W20072
15057 through 15061	W21019 through W21022
15063 through 15068	W21036 through W21041
17001 through 17031	W29001 through W29042
17034 through 17046	W29046 through W29052
18012 through 18017	W30011 through W30029
18020 through 18022	W34001, W34002, W34003,
18080 through 18082	W34004, W34005
18101	W34015 through W34020
18120 through 18135	W34028 through W34035
18144 through 18146	(The Anchorage)
18150 through 18159	
21001 through 21002	Matern Island Lots 1 through 30
21013 through 21014	
21054 through 21060	Applehead Island Lots 1T-1, 1T-2,
21081	5T-1, 5T-2, 7T-1, 7T-2, 9T-1, 9T-2,
25001	11T-1, 11T-2, 13T-1, 13T-2, 18T-1,
25003 through 25013	18T-2, 6, 11, 13, 14, 42, 53, 54, 55,
25017 through 25018	57, 61, 62, 63, 65, 69, 71, 72, 73, 74,
25021 through 25059	75, 76, 77, 78, 79, 84, 86, 87, 88, 89,
25063 through 25088	96, 98, 10, 106, 107, 108, 109, 113,
28001 through 28003	116, 117, 118, 119, 121, 123, 125, 127,
28006 through 28007	129, 131, 133, 135, 143, 144, 145, 147,
33001 through 33008	149, 152

The National Flood Insurance Program is available to residents of Llano County. The annual premium for house insurance varies based on elevation. The maximum policy amount is \$250,000. For example, the annual rate for a house at an elevation of 828 feet would be \$384 for a policy in the amount of \$250,000. The annual premium for content insurance also varies based on elevation. The maximum policy amount is \$100,000. For example, for content insurance coverage of \$100,000, the annual rate would be approximately \$200. Lenders may require you to obtain flood insurance prior to their financing of improvements on your lot. We, however, are not aware of any such practice. The Committees of Architecture do not currently require that you obtain flood insurance before issuing a building permit.

The City of Horseshoe Bay has adopted a policy whereby it will refuse to service structures where the slab is not at an elevation above 829 feet, which is the level chosen by Llano County for eligibility for Federal flood insurance.

To our knowledge, Llano County has not been designated as a special hazard area.

FLOODING AND SOIL EROSION

We do not have a comprehensive plan to control soil erosion, sedimentation, or periodic flooding which could result in property damage and create a possible safety and health hazard.

NUISANCES

There is a steam-powered generating plant on property belonging to the Lower Colorado River Authority (“LCRA”) immediately adjacent to the land covered by Plats 11.1 and 12.1, approximately 1/6 mile from the boundary line of the subdivision. Under normal operating conditions the plant creates no unusual or unpleasant noises, odors, pollutants, or other nuisances which affect the subdivision. The plant is visible to most lots in this offering.

The LCRA has an easement for utility transmission lines which runs along a portion of the northern and western boundaries of the subdivision and along the south side of FM 2147. The following lots are adjacent to this easement:

5040 through 5041	19117 through 19118
7001 through 7007	19129 through 19130
7068 through 7084	19148 through 19156
8001 through 8005	23086 through 23089
8009 through 8011	23095
8014 through 8022	23131 through 23132
8024 through 8027	32001 through 32007
8029 through 8036	32009
9093 through 9119	37042 through 37044
18001 through 18004	37058 through 37060
18007 through 18011	40016B through 40017A
18017 through 18020	41066
18026 through 18028	41101 through 41112
18035 through 18036	W1001 through W1002
18043 through 18051	W1014
18061	W1113 through W1117
18161 through 18165	W1121, W1126A
19094	W1127 through W1130
19105 through 19106	

Some buyers may feel that the presence of these lines adversely affects the view from their lot. We know of no other possible adverse effect from such power lines.

There is a sewage treatment facility situated above ground in the subdivision immediately off FM Road 2147. The noise factor associated with it is minimal. Although there is no odor problem under normal operating conditions, it is possible that this facility may at times emit odor nuisance. The facility is visible from the road and the adjoining lots which are Lots 2131, 23132 and 23134 of Plat 23.4.

We are unaware of any other land use which may adversely affect your lot.

HAZARDS

The only hazard is that associated with aircraft landing and taking off from a private airplane landing strip located within the subdivision. The aircraft facility has a 6,000 foot long runway. The following lots included in this offering are located immediately adjacent to the airstrip:

1001 through 1021	29013 through 29014
2064 through 2904	29026 through 29027
4007 through 4010	29044 through 29060
4109	Tract D
4146 through 4151	Tract F
13090 through 13095	

Tornadoes have been sighted in the area on an infrequent basis. Private insurance against tornadoes is available.

We are unaware of any construction, either public or private, which would constitute a safety hazard to this subdivision.

The area in which the subdivision lies is not an area which has been officially identified by any federal, state or local agency as being subject to the frequent occurrence of natural hazards.

CLIMATE

The area has an average rainfall of 31.88 inches; there is no significant snowfall. The average temperatures for the warmest and coldest months of the year are contained in the table below.

	<u>Summer Months</u>	<u>Winter Months</u>
Mean High	93.7	61.3
Mean Low	73.1	40.6
Mean	83.7	51.5

OCCUPANCY

The subdivision has approximately 2,773 dwellings completed with approximately 6,000 residents on a full or part time basis. These dwellings include single family residences, condominiums, duplex, townhouse and mobile home units.

ADDITIONAL INFORMATION

In this section, we will discuss the following areas:

1. The Property Owners' Association
2. The Annual Real Estate Taxes
3. Resale or Exchange Program
4. Equal Opportunity in Lot Sales
5. Listing of Lots

THE PROPERTY OWNERS' ASSOCIATION

The subdivision has nine operating property owners' association:

The Horseshoe Bay Property Owners' Association, Inc. (the "POA") was incorporated as a Texas non-profit corporation on March 4, 1974. The Horseshoe Bay Applehead Property Owners' Association, Inc. (The "APOA") was incorporated as a Texas non-profit on March 8, 1984. The Horseshoe Bay Applehead Assessment Association, Inc. (the "AAA") was incorporated as a Texas non-profit corporation of March 8, 1984. The Horseshoe Bay Applehead Island Property Owners' Association, Inc., (the "AIPOA") was incorporated as a Texas Non-profit corporation on June 23, 1983. The Horseshoe Bay Applehead Island Assessment Association, Inc. (the "AIAA") was incorporated as a Texas Non-profit corporation on June 23, 1983. The Matern Island Association (the "MIA") was formed on March 10, 1986, which is applicable only to the 30 lots located on Matern Island. The Anchorage Owners' Association (the "TAOA") was formed on July 22, 1993 and is applicable only to Lots W34028 through W34034 in Plat W 34.4. There are no lots presently offered by this Developer in Matern Island and Anchorage. The Pecan Creek Association ("PCA") was formed on March 9, 1996 as a Texas non-profit corporation. The Bay Country Association ("BCA") was formed on March 9, 1996 as a Texas non-profit corporation.

Every owner of a lot or tract in the Horseshoe Bay, Horseshoe Bay West and Horseshoe Bay South sections is a member of the Horseshoe Bay Property Owners' Association, Inc. ("POA"). Every owner of a lot in the Horseshoe Bay Applehead section is a member of the Horseshoe Bay Applehead Property Owners' Association, Inc. ("APOA") and the Horseshoe Bay Applehead Assessment Association Inc. ("AAA"). Each owner of a lot in the Horseshoe Bay Applehead Island section is a member of the Horseshoe Bay Applehead Island Property Owners' Association, Inc. ("AIPOA") and the Horseshoe Bay Applehead Island Assessment Association, Inc. ("AIAA"). Each owner of a lot in Matern Island is a member of the Matern Island Association ("MIA") and the Horseshoe Bay Property Owners' Association, Inc. ("POA"). Each owner of a lot in Plat W34.4 (The Anchorage) is a member of the Anchorage Owners' Association ("TAOA") and the Horseshoe Bay Property Owners' Association, Inc. ("POA"). For association membership purposes only, you are deemed to be a lot owner if you have a general warranty deed to your lot, except that if your method of purchase was by note and deed of trust, you will not be deemed to be a lot owner for membership in the Horseshoe Bay Property Owners' Association, Inc. ("POA") until at least twenty-five percent (35%) of the purchase price has been paid, or fifty percent (50%) in the case of the Horseshoe Bay Applehead Property Owners' Association, Inc. ("APOA").

We, as owners of unsold lots and in the case of lots under note and deed of trust, in Horseshoe Bay and Horseshoe Bay West where less than 25% of other purchase price has been paid, are also members of the Horseshoe Bay Property Owners' Association, Inc. ("POA"), and as owners of unsold lots and of lots in Horseshoe Bay Applehead and Horseshoe Bay Applehead Island under contract or note where less than 50% of the purchase price has been paid, are also members of the Horseshoe Bay Applehead Property Owners' Association, Inc. ("APOA"), the Horseshoe Bay Applehead Assessment Association, Inc. (the "AAA") or Horseshoe Bay Applehead Island Property Owners' Association, Inc. ("AIPOA") or Horseshoe Bay Applehead Island Assessment Association, Inc. ("AIAA"). The original developer does

not have majority control of these associations (except for the Matern Island Association (“MIA”) and Anchorage Owners’ Association (“TAOA”).

The Property Owners’ Associations were formed to perform the following functions:

1. to increase but not reduce the dollar amount of the Maintenance Fees and
2. to levy special assessments for capital improvements.

The Horseshoe Bay Property Owners’ Association, Inc. (“POA”) and the Horseshoe Bay Applehead Property Owners’ Association, Inc. (“APOA”) use that part of the Maintenance Fees allocated to them to perform the following: to improve and maintain the roads until the counties begin maintenance; to improve and maintain the common areas and certain recreational facilities in the subdivision owned by them (see Recreational Facilities section above); and to own, maintain and operate land and improvements conveyed to it for the benefit of the lot owners. The Bay Applehead Island Property Owners’ Association, Inc. (“AIPOA”) uses its maintenance fees to improve and maintain the road and common areas in Applehead Island. The Matern Island Association (“MIA”) uses its maintenance fees to improve and maintain the roads and common areas in Matern Island. The Anchorage Owners’ Association (“TAOA”) uses the maintenance fees to improve and maintain the common areas in The Anchorage.

Architectural control is exercised by the respective Committees of Architecture. The original developer controls the Architectural Committee governing the Horseshoe Bay, Horseshoe Bay West, and Horseshoe Bay South sections and, unless they relinquish or transfer this control sooner, their control may be terminated by amendment to the Declaration according to its terms. However, any further amendment to the Horseshoe Bay Declaration requires the approval of the Board of Directors of the Horseshoe Bay Property Owners’ Association.

The following are the associations’ dues and assessments:

Horseshoe Bay Maintenance Fee for lots in the Horseshoe Bay, Horseshoe Bay South, and Horseshoe Bay North Sections for 2007 is \$227.85 per lot or dwelling unit thereon per year.

The Horseshoe Bay West Maintenance fee for lots in the Horseshoe Bay West Section for 2007 is \$546.93/yr.

The Matern Island Maintenance Fee for 2007 for lots in that Section only is \$1,546.93/yr.

The Applehead Maintenance Fee for lots in the Horseshoe Bay Applehead section for 2007 is \$682.00/yr.

The Applehead Island maintenance fee for lots in that Section for 2007 is \$1,898.39/yr.

The Bay Country maintenance fee for lots in that Section for 2007 is \$1,600/yr.

The Pecan Creek Courtyard maintenance fee for lots in that Section for 2007 is \$1,950/yr.

The Pecan Creek Estate Lots maintenance fee for lots in that Section for 2007 is \$1,225/yr., for undeveloped properties only.

All fees are payable in advance January 1st.

Special Assessments for capital improvements to common properties may be imposed by the Horseshoe Bay Property Owners' Association, Inc. ("POA"), the Horseshoe Bay Applehead Property Owners' Association, Inc. ("APOA") and the Horseshoe Bay Applehead Island Property Owners' Association, Inc. ("AIPOA"). Lot owners are currently being assessed for capital improvements in certain subdivisions. We are not aware of any anticipated additional assessments on the part of the Horseshoe Bay Property Owners' Association, Inc. ("POA"), the Horseshoe Bay Applehead Property Owners' Association, Inc. ("APOA") and the Bay Applehead Island Property Owners' Association, Inc. ("AIPOA"), but these associations retain the right to make such special assessments in the future.

A lien is imposed on your lot for your obligation, if any, to pay the Horseshoe Bay Maintenance Fee, the Additional Base Maintenance Fee, Applehead Maintenance Fee, the Applehead Island Maintenance Fee and all assessments.

The current level of assessments will meet the expected operating expenses, including maintenance and replacement costs, of the Horseshoe Bay Property Owners' Association, Inc. ("POA"), the Horseshoe Bay Applehead Property Owners' Association, Inc. ("APOA") and the Horseshoe Bay Applehead Island Property Owners' Association, Inc. ("AIPOA"). Should, however, the fees and assessments at any time be insufficient to meet expenses, it may be anticipated that the assessments will be increased to cover the deficit.

The Horseshoe Bay Property Owners' Association has indemnified the original developer, including the obligation of reimbursement of attorney's fees, against any claim, action, suit, proceedings or judgment involving the enforcement, interpretation, construction, or validity of the Declaration or any provision thereof.

TAXES

You are responsible for payment of all taxes which become due and payable upon your lot after the Sale date.

If your lot is located in Llano County, you must pay Llano County, Llano School District and Llano County taxes which currently total approximately 2.32 mills per \$100 valuation for an improved lot. If your lot is located in Burnet County, you must pay Marble Falls School District and Burnet County taxes which currently total approximately 2.38 mills per \$100 of valuation for an unimproved lot.

The subdivision is encompassed within the City of Horseshoe Bay which is responsible for the construction of the central sewer, water and drainage facilities. These utilities are being financed by bond issue of the City; lot purchasers indirectly retire the debt of the City by paying taxes to the City of approximately \$125.00 per year for a \$25,000 unimproved lot.

In Burnet County, the owner of a less expensive vacant lot valued at \$34,900 should expect to pay approximately \$830.62 per year in property taxes and the owner of the most expensive, unimproved lot valued at \$399,000 should expect to pay approximately \$9,496.20 per year in property taxes. In Llano County, the owner of a less expensive vacant lot valued at \$34,900 should expect to pay approximately \$809.68 per year in property taxes and the owner of the most expensive, unimproved lot valued at \$399,000 should expect to pay approximately \$9,256.80 per year in property taxes. The assessed value of real property is determined by the City of Horseshoe Bay in accordance with the Texas Property Tax Code, based on the fair market value of the property

Tax bills are issued in October are payable without penalty until by February 1st. Taxes are paid to the Burnett Central Appraisal District, 223 S. Pierce, P.O. Box 908, Burnet, Texas 78611 (512) 756-8291 and

to the Llano County Texas Tax Collector, 100 W. Sandstone, P.O. Box 307, Llano, Texas 78643 (325) 247-4164, respectively.

THERE ARE NUMEROUS NEWLY ENACTED REPORTING REQUIREMENTS AND TAX LAWS WHICH MAY AFFECT YOUR PURCHASE OF PROPERTY IN THE SUBDIVISION IF YOU ARE A FOREIGN PURCHASER. YOU SHOULD CHECK WITH YOUR FINANCIAL ADVISOR WITH RESPECT TO THESE MATTERS.

RESALE OR EXCHANGE PROGRAM

We have no program to assist you in the resale of your lot. We do not have a policy to allow you to exchange one lot for another lot that we own if the lots are available.

Lots are being offered by us for future use in building a home and not as a business investment.

Neither we nor any of our sales representatives, employees or agents can make any representation that the property has appreciated in price or value in the past, or will appreciate in price or value in the future; that the property may be resold at a profit; that the purchase of the property will result in future rental income; or that the property has a particular value for the purposes of sale, resale, financing, refinancing or otherwise, or that you will have any equity in property.

No third party has approved or attested to the value of the property. However, you are free to seek an appraisal of the property or otherwise ascertain yourself the price of lots offered for sale by other sellers.

You are free to obtain financing for the property from sources other than us.

EQUAL OPPORTUNITY IN LOT SALES

We are in compliance with Title VIII of the Civil Rights Act of 1968. We have not, and will not, discriminate against you because of your race, color, religion, sex or national origin. Furthermore, we will not indicate a preference for or a rejection of any particular group in our advertising, rendering of lot services, or in any other manner based on race, color, religion, sex or national origin.

LOT LISTING

See Schedule "1" attached hereto

SCHEDULE 1 – LOT LISTING

This offering consists of the platted lots and tracts listed on Schedule "1". They are recorded in the Plat Records of Burnet County and Llano County, Texas.

Legend: Unit = **U**, Block = **B**, Lot = **L** (Listed by Serial Number)

Where applicable, following the lot serial number:

Lots subject to an Easement are denoted with the letter "E"

Lots located within a Flood Plain are denoted with the letter "F"

Lots identified as "Lakefront" lots are denoted with the letter "L"

Lots which are in a Mountainous area are denoted with the letter "M"

Lots identified as "Pipe Stem" or "flag" lots are denoted with the letter "P"

Lots identified as "Slope" lots are denoted with the letter "S"

The following 43 lots were registered on May 11, 2007:

Located in Burnet County:

HSB-HBS-K01021	HSB-HBS-K04024
HSB-HBS-K01022	HSB-HBS-K04046
HSB-HBS-K01023	HSB-HBS-K04049
HSB-HBS-K01024	HSB-HBS-K04072
HSB-HBS-K01025	HSB-HBS-K04076
HSB-HBS-K01027	HSB-HBS-K04096
HSB-HBS-K01028	HSB-HBS-K04116
HSB-HBS-K01030	HSB-HBS-K04119
HSB-HBS-K01034	HSB-HBS-K04122
HSB-HBS-K01036	HSB-HBS-K04125
HSB-HBS-K01040	HSB-HBS-K10107
HSB-HBS-K01042	HSB-HBS-K10109
HSB-HBS-K01048	HSB-HBS-K10112
HSB-HBS-K01068	HSB-HBS-K10113
HSB-HBS-K01071	HSB-HBS-K10119
HSB-HBS-K01077	HSB-HBS-K10216
HSB-HBS-K01078	HSB-HBS-K10225
HSB-HBS-K04020	

Located in Llano County:

HSB-HBS-K03001	HSB-HBS-K06095
HSB-HBS-K04019	HSB-HBS-K07245
HSB-HBS-K04071	HSB-HBS-K10104
HSB-HBS-K04113	HSB-HBS-K10172

COST SHEET

In addition to the purchase price of your lot, there are other expenditures which must be made. Listed below are the major costs. There may be other fees for use of the recreational facilities.

All costs are subject to change.

Sale Price of Lot

All Cash Price of Lot	-	or-	\$ _____
If Financed: Price:			\$ _____
Finance Rate:			\$ _____
Term: ___ years with ___% down			\$ _____
Finance Charge			\$ _____
Total			\$ _____

Estimated One-Time Charges*

*	1. Water Connection and Inspection Fee	\$ <u>2,650.00</u>
*	2. Sewer Hook-up Fee (**Not applicable to non-central sewer lots)	\$ <u>3,674.00**</u>
*	3. Telephone Installation Fee	\$ <u>0.00</u>
*	4. Electric Hook-up and Membership Fee	\$ <u>850.00</u>
	5. Other - Fixed Closing Costs	\$ _____

*These charges will not apply unless and until you build a house.

Total of estimated sales price and one time charges: \$ _____

Estimated annual charges, exclusive of utility use fees

1.	Taxes - Average unimproved after sale to purchaser @ \$ _____ per \$100 valuation	\$ _____
2.	Property Owners Association annual assessments **to be inserted according to appropriate Property Owner's Association	\$ <u> ** </u>

The information contained in this Property Report is an accurate description of our subdivision and development plan. This Cost Sheet must be completed before purchaser signs the Receipt, Agent Certification and Cancellation Page.

Joseph Joffrion, Chief Legal Officer
National Recreational Properties of Texas, LLC

RECEIPT, AGENT CERTIFICATION AND CANCELLATION PAGE

PURCHASER RECEIPT

IMPORTANT: READ CAREFULLY

NAME OF SUBDIVISION: **HORSESHOE BAY**

OILSR Number: **31992**

Date of Report: **May 11, 2007**

We must give you a copy of this Property Report and give you an opportunity to read it before you sign any contract or agreement. By signing this receipt, you acknowledge that you have received a copy of our Property Report.

Received by: _____ Date: _____
Street Address _____
City _____ State _____ Zip _____

If any representations are made to you which are contrary to those in this Report, please notify the:

Office of Interstate Land Sales Registration Division
HUD Building, 451 Seventh Street, S.W.
Washington, D.C. 20410

AGENT CERTIFICATION

I certify that I have made no representations to the person(s) receiving this Property Report which are contrary to the information contained in this Property Report.

Lot _____ Block _____ Unit _____

Name of Salesperson _____
Signature _____ Date _____

PURCHASER CANCELLATION

If you are entitled to cancel your purchase contract, and wish to do so, you may cancel by personal notice or in writing. If you cancel in person or by telephone, it is recommended that you immediately confirm the cancellation by certified mail. You may use the form below.

.....

Name of Subdivision: **HORSESHOE BAY**

Date of Contract _____

This will confirm that I/we wish to cancel our purchase contract.

Purchaser Signature _____ Date _____

Purchaser Signature _____ Date _____

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