

READ THIS PROPERTY REPORT BEFORE SIGNING ANYTHING

This Intrastate Property Report is prepared and issued by the developer of this subdivision. It is not prepared or issued by the Federal Government.

Name of Subdivision: Sunset Cove

Name of Developer: Sunbird Development, LP, a Texas Limited Partnership

Date of this Report: December 17, 2004

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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.

INTRASTATE PROPERTY REPORT

RISK OF BUYING LAND

The future value 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 complete.

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. The United States Army Corps of Engineers (USACE) permit 22607-1 has been issued for the property, this permit to dredge and maintain canals will be a covenant running with the land and will impose certain duties upon the Sunset Cove Galveston Homeowners Association, Inc..

In the purchase of real estate, many technical requirements must be met in order 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 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 172 lots constituting the Sunset Cove subdivision, located in the City of Galveston of Galveston County, Texas. A listing of these lots is available by viewing the final recorded plat at the Galveston County Clerk's office or the Sunset Cove Realty Sales Office. This subdivision will contain 172 lots.

We encourage any potential buyer to review the deed restrictions that govern areas such as construction (HOA), use restrictions, rights and responsibilities of Owners and the Home Owners Association and architectural concerns that will be filed and available for review at our office (address listed below). Also available for review at our office is the USACE Permit #22607-1

The developer of the Sunset Cove subdivision is:

Ross Novelli Jr., as president of Nature's Concepts, inc., the general partner for Sunbird Development, LP, a Texas Limited Liability Partnership
4171 Pirates Beach
Galveston, Texas 77554
409-737-9700

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

TITLE TO THE PROPERTY AND LAND USE

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 lot purchase agreement you will sign and the deed you will receive. We will also provide you with information about any land use restrictions and encumbrances, mortgages or liens affecting your lot and some important facts about payments, recording and title insurance.

METHODS OF SALE

Sales Contract and Delivery of Deed

In connection with a purchase of a lot, you will sign a lot purchase agreement in which you will agree to pay cash for a lot, or if financing, it has been arranged for purchasers through Texas Residential Lending (409-766-1100), and local banks, you will be responsible for applying for your own financing. Purchase of the lot is contingent upon you obtaining financing.

The deed to the property will be delivered to you on the date of closing. The closing will usually take place within 30-120 days after the date on which the lot purchase agreement is fully signed by both parties, and in any event, a deed must be delivered to you within 180 days after the date the lot purchase agreement is signed by you.

Type of Deed

The transfer of legal title to all lots will be free and clear of all monetary liens and encumbrances except for real property taxes not yet due and payable, and other permitted exceptions approved under the lot purchase agreement, and all title policy exceptions.

Oil, Gas and Mineral Rights

The oil, gas and mineral rights to the lots in this subdivision will not belong to you; these rights have been previously reserved. The exercise of these rights will not affect the use, enjoyment and value of your lot. There is a waiver of surface usage pertaining to these rights previously recorded.

ENCUMBRANCES, MORTGAGES AND LIENS

In General

No lots or common facilities which serve the subdivision are subject to a blanket encumbrance, mortgage or lien, with the exception of construction financing, which will be paid in full at finish of construction.

RECORDING THE CONTRACT AND DEED

Method or Purchase of Recording

The lot purchase agreement for the purchase of your lot does not contain acknowledgments and may not be recorded. Texas law does not require that lot purchase agreements be recorded, and since it is not a common practice in Texas, we will not record the lot purchase agreement. Under Texas law, recording a lot purchase agreement only places third parties on notice that the subject property is under contract for sale.

You, your attorney, or the Title Co will be responsible for recording the deed to your lot upon closing the sale. You will be responsible for the cost of recording the deed. Under Texas law, recording a deed protects you from a claim by a third person against us after the date of recording.

WARNING

UNLESS YOUR 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.

Title Insurance

We (Sunbird Development, L.P.) will provide a title insurance policy to purchases of the lot(s) that use Texas Residential Lending or pay cash. This title insurance policy will describe the rights of ownership which are being acquired in the lot. We recommend that an appropriate professional interpret the title policy.

PAYMENTS

Escrow

Your earnest money deposit will be held in escrow pending the closing by the escrow agent. An escrow agreement has been entered into with the following companies:

Chicago Title Company
Escrow Agent
13655 F.M. 3005, Suite B
Galveston, Texas 77551
409.632.0106

Southland Title
Escrow Agent
13701 FM 3005
Galveston, Texas 77554
409.737.4452

Stewart Title of Galveston, Texas
Escrow Agent
13680 FM 3005, Suite A
Galveston, Texas 77554
409.737.1488

The escrow agent is authorized by the escrow agreement to disburse to you all money you have paid prior to closing in the event of our failure to convey title or default of any other obligation which would otherwise result in the loss of your money. The escrow agreement directs the activities of the escrow agent in accordance with the terms of the lot purchase agreement, which you will execute if you purchase a lot.

Prepayments

If the purchase of your lot is financed by an independent financial institution, you will need to review the financing documents to determine whether there is any pre-payment penalty. Texas Residential Lending does not charge any pre-payment penalties on lot loans.

Financing

Texas Residential Lending provides an incentive for participation in the Lot Buyer's Program. Sunbird Development, L.P. will pay the 1% origination fee for all lot loans that it originates for all qualified buyers. In addition, Texas Residential Lending will pay \$ 750.00 towards closing costs for all permanent loan it closes for qualified purchasers.

Default

In the event you default in the performance of any obligation or covenant under the lot purchase agreement prior to closing or which prevents closing from taking place, you will be given notice as described in the lot purchase agreement and five (5) calendar days to correct any default other than a failure to close and one (1) business day within which to cure the default for failure to close. Upon your failure to cure, we may elect to terminate the lot purchase agreement and retain

all monies paid, including accrued interest, if any, as full and complete liquidated damages for such default. In the event you default for reasons other than failure to close, we may seek any and all remedies available at law or in equity.

RESTRICTIONS ON THE USE OF YOUR LOT

Restrictive Covenants

Restrictive covenants for the subdivision will be recorded in the public records of Galveston County, Texas prior to closing on your lot. The restrictive covenants contain provisions which require you to secure permissions, approvals or take other action prior to using or disposing of your lot. Certain provisions dealing with these types of restrictions are discussed in the paragraphs below. This discussion contains only highlights and should not be a substitute for your careful review of the applicable document.

The restrictive covenants set out a number of use restrictions in the subdivision. There are general restrictions against any activities which emit foul or obnoxious odors outside a lot and restrictions against any activities that create an unreasonable level of noise or other conditions or the pursuit of hobbies which may lead to unclean, unhealthy, or untidy conditions outside of enclosed structures on a lot. Prohibitions against the discharge of firearms, the storage of combustible liquids, construction of any exterior structures (except with permission as described below), obstruction or other interference with drainage and other water flows, and the subdivision of any lot are also set forth in the recorded restrictive covenants. The covenants also contain requirements with respect to leasing of any lot: a minimum of a one year lease is required and must be approved by HOA. No daily or short term rental terms will be allowed. The covenants also require all properties listed "for sale" to be listed with Sunset Cove Realty. This does not prohibit any owners from attempting to sell "For Sale by Owner". This is also discussed in much greater detail in the use restrictions.

The restrictive covenants also provides for an architectural review and approval process for all structures and improvements to be located on lots within the subdivision. No structure or improvements of any kind may be placed on a lot within the subdivision without approval of the Architectural Review Board ("ARB"), as defined in the restrictive covenants, and by the owners association. The ARB will have the authority to adopt and amend Architectural Guidelines as well as application and review procedures. In addition, all architects, builders and general contractors must be approved by the ARB prior to engaging in any activities in regards to design and construction of all structures and improvements to be located on lots within the subdivision.

The Architectural Guidelines adopted by the ARB set forth certain policies and procedures that you and your builder, contractor, and architect must follow in connection with the design and construction of structures and other improvements on your lot. The Architectural Guidelines will describe, among other things, the maximum height of your home, minimum setback requirements and restrictions on exterior design. Additional restrictions apply to mechanical systems, playground equipment, basketball goals, mailboxes, exterior lighting, antennas, pools

and spas, trash receptacles, and fences and walls. Upon submittal of plans and specifications for improvements to your lot, you will be required to pay certain fees and deposits set forth in the Architectural Guidelines. These fees include a review fee for single-family home construction, site modification review fee and an owner compliance deposit. At the time you submit your plans for approval, additional fees may be required. All construction shall be completed and a final review made within the time period prescribed by the Architectural Guidelines. You must ensure that your builder, contractor, and architect comply with the rules set forth in the Architectural Guidelines, including, but not limited to, construction hours, trash removal, project access, signage, fences, portable toilets, damage and construction vehicles. We encourage you to review the Architectural Guidelines thoroughly and to provide copies to your builder, contractor, and architect prior to commencing any improvements on your lot.

The restrictive covenants require you to notify the owners association in the event your lot is sold or title to the lot is otherwise transferred. You shall remain responsible for all obligations under the restrictive covenants until such notice is received.

A complete copy of the recorded Declaration of Covenants, Conditions, and Restrictions for Sunset Cove is available upon request, and online at www.sunsetcovegalveston.com.

Easements

There are easements which may affect your plans for building or using your lot, including drainage easements, sewer easements and utility easements as shown on the recorded plats for the subdivision, in restrictions placed in the deed to your lot and in the restrictive covenants.

PLATS, ZONING, SURVEYING, PERMITS AND ENVIRONMENT

Plats

The final plat for Sunset Cove has been approved by the regulatory authorities, including the City of Galveston of Galveston.

The final plat, covering all lots in this Report, has been recorded in the public records of Galveston County, Texas, located at the county courthouse in Galveston.

Zoning

The lots described in this Property Report may be used for residential purposes, and such use conforms to the local zoning regulations and the restrictive covenants.

Surveying

Each lot depicted on a recorded subdivision plat has been surveyed and marked for identification. If you would like an individual survey of your lot, the seller will provide one.

Permits

In order to begin construction on your lot, you must obtain a building permit from the City of Galveston of Galveston, Department of Planning and Community Development, located at City of Galveston Hall, 823 Rosenberg, Galveston, Texas 77550, 409.797.3660. In addition, your building plans and specifications must be approved by the Architectural Review Board (ARB) as set forth above in "Restrictions on the Use of Your Lot". The ARB is defined in the deed restrictions as:

"The board established in accordance with Article IV to review plans and specifications for the construction or modification of improvements and to administer and enforce the architectural controls described in Article IV."

Details of the review procedure, required building standards, and the review fee are set forth in the Architectural Guidelines.

Environment

Through an approved delineation report prepared and conducted by us in close coordination with the USACE (for whom this subdivision affects), a determination has been made that the development for Sunset Cove has met all environmental concerns and regulations as expressed and required by the two aforementioned bodies and by all other local, state and federal government agencies. No adverse conclusions have been drawn in the preparation of this report. USACE Permit #22607-1 imposes numerous covenants running with the land for the Sunset Cove HOA, including, but not limited to: water quality monitoring, use restrictions on open space reserve and Spartina grass transplants success ratios. As such, an official Environmental Impact Statement was not prepared for this subdivision. The permit may be viewed at sunsetcovegalveston.com online.

ROADS

Here we 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 F.M. 3005, an asphalt, 2 to 4-lane, 48-foot public highway owned and maintained by the Texas Department of Transportation (TXDOT). Sunset Bay Drive is a 2-lane, 30' concrete paved private road and will serve as the main point of ingress/egress to F.M. 3005. This road widens to 54' for a distance of roughly 105' at its approach to the gate access and features a large median island for landscaping and security office. Additionally, Sunbird Beach Drive will provide an additional ingress/egress connection to F.M. 3005, located at the western portion of the subdivision. Sunbird Beach Drive is a 2-lane, 22' concrete public road as well. Both private roads are gate-controlled for authorized access only.

The owners association will be responsible for maintaining only the private roads. The cost to you is addressed and determined by the fees and assessments administered by the owners' association. Any improvements contemplated, including the private and public roads themselves, are to be constructed by us and we will bear all expenses related to the construction of such improvements. Construction for the private and public roads access is anticipated to begin in April/May 2005. Other improvements at the access point are anticipated to begin shortly after private road completion and expected to be completed by July-August of 2005.

ACCESS WITHIN THE SUBDIVISION

Legal and physical access within the subdivision, and to all lots, will be provided by way of concrete, 2-lane private roads.

We are responsible for the construction of the private roads at no cost to you and are contractually obligated to complete the road serving your lot. We have been required to submit a Letter of Credit to the City of Galveston of Galveston which financially assures completion of the roads within the subdivision.

The interior roads are 2-lane, undivided roads. The present percentage now complete is 0%. At construction, the final surface will be concrete with curbs.

The roads within the subdivision will be owned and maintained by the owners association so as to provide year-round access to the subdivision and the association's responsibility will begin at the time private road construction is completed. A one year guarantee from the contractor will be issued to the Developer for the concrete roads. Sunbird Beach Drive, a public road, is not a part of the Sunset Cove subdivision.

UTILITIES

In addition to the fees and rates described below for water and sewer service, Galveston County Municipal Utility District No. 30 (the "District") assesses a tax at the rate of \$.25 per \$100 valuation of the property owner's assessed value for debt service associated with the installation/construction costs for utilities in and connecting to the subdivision. Once all outstanding debt owed by the District is paid, all utility improvements are deeded to the City of Galveston and the City of Galveston is then responsible for the maintenance and service of these utilities. Also at this time, the District is dissolved and shall no longer exist.

In consideration of the obligations made by the District to provide utility improvements, the City of Galveston has agreed to pay the District, on an annual basis and after the sale of all bonds from the initial issue, 60% of all ad valorem taxes collected by the City of Galveston for all taxable properties within the District. The District encompasses the subdivisions of Sunset Cove, Sunbird Beach and Sandhill Shores.

The District is located temporarily at the following address/contact information:

Galveston County Municipal Utility District No. 30
c/o Mr. Peter Harding
Attorney
Schwartz, Page and Harding, LLP
1300 Post Oak Boulevard, Suite 1400
Houston, Texas 77056
713.623.4531

Developer for the District:
Sunbird Development, L.P.
4171 Pirates Beach
Galveston, Texas 77554
409.737.9700

WATER

Water will be supplied to the lots within the subdivision by a central water system. The District has contracted to buy water from the City of Galveston to serve the subdivision. The District is responsible for the cost of extending the water mains to the front of or adjacent to the boundary of each lot.

Underground cisterns are allowed for rainwater detention. You should be aware that water stored for extended periods tends to become stale and may acquire an unpleasant taste or odor.

Construction is anticipated to begin February, 2005. The present system percentage of completion of the water mains is 0% and the central supply plant is an existing system owned and operated by the City of Galveston. Service is anticipated to be available to roughly 40 individual lots by July, 2005. Service to the approximately 132 remaining lots is anticipated to be available by December, 2005. The City of Galveston has stated that it can supply the water for the anticipated population of the development and is under contractual negotiation with the District for the provision of this water supply.

The Developer is contractually obligated to complete the water system serving your lot, at which time it is sold to the District.

You will be responsible for the following estimated costs associated with connecting to the central water system: A water and sewer tap fee of \$750. A minimum water bill of \$36/month shall be billed to the lot owner with an additional \$10 fee for water usage up to 3,000 gallons/month. A minimum \$20/month fee is assessed for the service of an irrigation system.

Connection to the water system is mandatory. No water wells are allowed, other than for the HOA-2 windmills are located on the southernmost nature reserve.

The Developer and the City of Galveston have engaged in a conversation about an elevated water storage facility on the area of Sunbird Beach (being a roughly 58 acre tract located immediately adjacent and to and to the west of the Sunset Cove subdivision), to provide additional water pressure to the Sunset Cove, Sunbird Beach, Sea Isle, Terramar and Bay Harbor subdivisions. No agreements have been made verbally or in writing as of this date. This disclosure is merely intended to satisfy full disclosure requirements made by the Developer.

The District is to be relocated permanently on-site at the Sunset Cove subdivision at a future date to be determined.

Galveston County Municipal Utility District No. 30: *Disclosure Statement*

The Sunset Cove subdivision is located, in its entirety, within the Galveston County Municipal Utility District No. 30 (the "District"). As such, lot owners are subject to the rules and regulations prescribed by the District and most pertinently to the taxes and fees associated with water and sewer service. Prior to the issuance of any policy, Seller is to furnish a properly executed and acknowledged Notice in compliance with the provisions set forth in Section 49.452, V.T.C.A Water Code, which Notice must also be signed and acknowledged by the Purchaser and subsequently thereto same must be filed for record in the Official Public Records of Real Property of Galveston County, Texas. The most recent rate of taxes levied by the District on real property is \$.25 on each \$100.00 of assessed valuation. The total amount of voter approved bonds is \$5,500,000, and the aggregate principal amount of all bonds issued for specific facilities is -0-. The amount of the standby fee is not known. The above and foregoing amounts are taken from the most recent information available and must be confirmed or corrected by closer prior to closing the transaction.

SEWER

Sewage disposal will be supplied to the lots within the subdivision by a central sewer system. The District has contracted with the City of Galveston of Galveston for sewer service to be provided to the subdivision.

The District will be responsible for the cost of extension of sewer mains to the front of or adjacent to the boundary of each lot. Construction is anticipated to begin May/June, 2005. The present percentage of completion of the sewer mains is 0% and the sewer treatment plant is an existing plant owned and operated by the City of Galveston of Galveston. Service is anticipated

to be available to individual lots by September, 2005. The present capacity of Galveston of the central plant, in terms of the number of connections that can be supplied, is 177 to Sunset Cove. The City of Galveston of Galveston has stated that it can supply satisfactory sewer service for the anticipated population of the development.

You will be responsible for the following estimated costs associated with connecting to the central sewer system: A water and sewer tap fee of \$750. A minimum sewer bill of \$25/month shall be billed to the lot owner plus \$10/month for service using up to 3,000 gallons/month.

You may not install an individual system prior to the date central sewer service is available.

Connection to the sewer system is mandatory. No septic tanks are allowed.

Galveston County Municipal Utility District No. 30: *Disclosure Statement*

The Sunset Cove subdivision is located, in its entirety, within the Galveston County Municipal Utility District No. 30 (the "District"). As such, lot owners are subject to the rules and regulations prescribed by the District and most pertinently to the taxes and fees associated with water and sewer service. Prior to the issuance of any policy, Seller is to furnish a properly executed and acknowledged Notice in compliance with the provisions set forth in Section 49.452, V.T.C.A Water Code, which Notice must also be signed and acknowledged by the Purchaser and subsequently thereto same must be filed for record in the Official Public Records of Real Property of Galveston County, Texas. The most recent rate of taxes levied by the District on real property is \$.25 on each \$100.00 of assessed valuation. The total amount of voter approved bonds is \$5,500,000, and the aggregate principal amount of all bonds issued for specific facilities is -0-. The amount of the standby fee is not known. The above and foregoing amounts are taken from the most recent information available and must be confirmed or corrected by closer prior to closing the transaction.

STORM SEWER SYSTEM

As part of the overall utilities system, a storm sewer system shall be installed by the Developer and maintained by the District. The purpose of this system is two-fold: to reduce the potential for flooding by immediately removing rain and flood waters from principally streets and lots (to system capacity of Galveston) and relocating these waters to on-site freshwater retention ponds to reduce the negative impacts associated with flooding *and* to control pollution runoff into adjacent canals by directing (through grading) rain and flood waters into the storm sewer system.

Galveston County Municipal Utility District No. 30: *Disclosure Statement*

The Sunset Cove subdivision is located, in its entirety, within the Galveston County Municipal Utility District No. 30 (the "District"). As such, lot owners are subject to the rules and regulations prescribed by the District and most pertinently to the taxes and fees associated with water and sewer service. Prior to the issuance of any policy, Seller is to furnish a properly executed and acknowledged Notice in compliance with the provisions set forth in Section

49.452, V.T.C.A Water Code, which Notice must also be signed and acknowledged by the Purchaser and subsequently thereto same must be filed for record in the Official Public Records of Real Property of Galveston County, Texas. The most recent rate of taxes levied by the District on real property is \$.205 on each \$100.00 of assessed valuation. The total amount of voter approved bonds is \$5,500,000, and the aggregate principal amount of all bonds issued for specific facilities is -0-. The amount of the standby fee is not known. The above and foregoing amounts are taken from the most recent information available and must be confirmed or corrected by closer prior to closing the transaction.

PROPOSED PUBLIC IMPROVEMENT DISTRICT

The City of Galveston, along with all other relevant governmental bodies, allows for what is known as a Public Improvement District for the physical improvement of a development whereby certain improvements are deemed to be in the best interest of the public and, in this case, where certain appropriate improvements fall outside of what the Municipal Utility District may provide (its limits are water, sewer and drainage improvements).

As such, a PID is currently in consideration for the Sunset Cove subdivision and a decision is anticipated to be rendered no sooner than February 1, 2005. Should this PID, and associated developer agreements, be adopted an additional tax will be levied on your home site. The tax may be levied on a lot-by-lot basis or per square foot basis and may depend upon whether your lot is "wet" or "dry".

That person initiating your contract is able to provide you with a more accurate prediction of the PID tax you may incur, based on the specifics of your lot, and you are encouraged to inquire on this matter.

By acceptance of this conveyance, you are contractually agreeing to the creation of this PID and forego any challenges to this PID.

ELECTRICITY OF GALVESTON

Electricity of Galveston will be provided by CenterPoint Energy Houston, a publicly regulated utility. Electric service lines will be extended to the front of, or adjacent to, your lot by CenterPoint Energy Houston. The cost to you to extend the service line within the lot from the transformer located in the public right-of-way or utility easement to your home is currently \$12.00 per linear foot of service line. This cost is subject to change.

TELEPHONE

Telephone service will be provided by Southwestern Bell Telephone. Installation of the service lines is scheduled to begin in June/July, 2004, with service scheduled to be available in August 2005. The service lines will be extended to your home by Southwestern Bell Telephone at no cost to you.

FUEL OR OTHER ENERGY SOURCE

Natural gas is not presently available in the subdivision.. Alternative fuel sources such as propane or butane are available in the City of Galveston, Texas. The fuel is available from various commercial suppliers at commercial rates. In addition, storage facilities for a normal single family residence are available from commercial suppliers, not under our control. The name and address of a propane gas supplier is: Galveston Rentals, located at 2326 Skymaster Road, Galveston, Texas 77551.

CONSTRUCTION SPECIFICATIONS FOR BUILDERS

Below is a description of key points, or requirements, for building construction within the subdivision. The full requirements are as part of the overall deed restrictions, and are titled "Construction Rules and Regulations".

- A silt fence must be provided on perimeters of construction site to control for erosion and sand going into the storm sewer system;
- A construction fence must be provided on perimeters of construction site to control for construction debris;
- No clay fill shall be allowed; all sand fill shall be approved by the Architectural Review Board (ARB) and the Developer;
- No change in the grading or elevation of a lot shall be allowed;
- The maximum slab height over existing grade is 1';
- Dumpsters must be kept neat;
- Any and all job site music must be played at a volume so as not to present a nuisance to residents, the Developer, owners association or other contractors;
- No pile driving on Sunday unless written permission from the Developer, ARB or owners' association is obtained;
- The builder is responsible for the conduct of all sub-contractors he/she may employ, any nuisance or offensive behavior will result in a file of revocation of builder bond or deposit with the Developer/ARB/owners' association;
- All builders and their sub-contractors must have \$1,000,000 general liability insurance;
- No change in any plan approval without express written consent of the Developer/ARB/owners' association shall be allowed;
- No heavy machinery shall be unloaded onto streets;
- The builder will deposit a \$2,000 Performance Bond with the Developer/ARB/owners' association to ensure restrictive covenants are adhered to and cover any/all damages to the subdivision, its employees, agents, common areas, etc.; however, this \$2,000 bond does not limit the financial liability of the builder as it relates to conformance with the restrictive covenants. All or a portion of this bond shall be returned, based on compliance with the restrictive covenants.
- No sand/dirt shall be left in streets or the Developer/ARB/owners' association will clean the streets and deduct from the \$2,000 deposit;
- No contractor or sub-contractor shall use any of the common facilities.

FINANCIAL INFORMATION

Construction financing, as of Date of Preparation, is currently under review by various financial institutions and a formal proposal has not yet been extended or accepted by the Developer.

At lot closings, all lot buyers will be given a partial release from the construction lien, if any, thereby giving a first lien to their purchase money mortgage, in the case of financed lots, and on cash lots, no liens.

The construction financing, if any, will include all necessary monies for the construction of all roads, bulkheads, utilities, improvements to common areas as well as excavation, dredging and filling activities, thereby assuring the completion of all said improvements.

Upon completion of utilities construction, and acceptance by the District, these improvements will be deeded to the District and the initial established tax rate of \$.25/\$100 will be assessed on all property within the District.

LOCAL SERVICES

FIRE PROTECTION

Fire protection is provided year-round by the City of Galveston of Galveston Fire Department.

POLICE PROTECTION

Police protection is provided year-round by the City of Galveston of Galveston Police Department and the Galveston County Sheriff's Department.

SCHOOLS

Elementary, junior high, and senior high schools are available to residents of the subdivision. School bus transportation is available from within the subdivision at this time.

HOSPITAL

The nearest available hospital is the University of Texas Medical Branch at Galveston, located at 301 University Boulevard, Galveston, Texas 77550. Ambulance service is available.

PHYSICIANS AND DENTISTS

The nearest physicians' and dentists' offices are located in Galveston, Texas.

SHOPPING FACILITIES

The nearest shopping facilities are located in Galveston, Texas at F.M. 3005 and Sea Isle.

MAIL SERVICE

Mail service will be provided by the U.S. Postal Service with delivery to a central mail drop within the subdivision.

PUBLIC TRANSPORTATION

The City of Galveston of Galveston operates a full-service public transportation system with buses and electric trolleys serving Galveston. The nearest bus stop is approximately 12 miles from the subdivision.

RECREATIONAL FACILITIES

RECREATIONAL FACILITY CHART

| Facility | Percentage of Construction Now Complete | Estimated Start Date of Construction (month/year) | Estimated Date Available for Use (month/year) | Financial Assurance of Completion | Buyer's Annual Cost or Assessments* |
|---------------------|---|---|---|-----------------------------------|-------------------------------------|
| Community Parks | 0% | August 2005 | November, 2005 | None | |
| Community Trails | 0% | August, 2005 | November 2005 | None | |
| Recreational Center | 0% | August 2005 | December, 2005 | None | |
| Nature Reserve | 0% | September 2005 | September, 2005 | None | |

*For all facilities, the "Buyer's Annual Cost or Assessments" is subject to Regular Assessments and other Assessments and/or Fees by the owners association and as stated in the subdivision's deed restrictions.

Constructing the Facilities

The Developer, Sunbird Development, L.P., is responsible for construction of these recreational facilities. You are not responsible for any costs in connection with construction of the subdivision.

Maintaining the Facilities

The owners association, Sunset Cove Galveston Home Owners Association, Inc. is responsible for the maintenance of these recreational facilities. The costs of maintenance will be assessed against each owner in the subdivision.

Transfer of the Facilities

Following completion, the recreational facilities will be transferred by Sunbird Development, L.P. to the owners' association by warranty deed free and clear of all monetary liens. Thereafter, maintenance of the recreational facilities shall be the responsibility of the owners association and maintenance expenditures shall be funded through Assessments and Fees paid by the lot owners to the owners association.

Permits

Permits have not been obtained for any of the recreational facilities.

Who May Use the Facilities

Only lot owners within Sunset Cove and their guests will be permitted to use the recreational facilities within the subdivision. Use of all of the recreational facilities is subject to the rules and regulations adopted by the owners association.

Only guests whom are accompanied by a lot owner may use the facilities. To do so, a release form, furnished by the HOA, must be signed by the guest(s) and the accompanying lot owner.

SUBDIVISION CHARACTERISTICS AND CLIMATE

GENERAL TOPOGRAPHY

The general topography of the land in the subdivision is generally flat with much of the landscape featuring brush and natural grasslands and very few trees. The entire northern property bounds fronts the bay-side of the island. The northern portion of the subdivision may be characterized as wetlands area. Approximately 30 acres within the subdivision will remain as open space reserve and approximately 5 acres of the subdivision will consist of developed parklands. There are no steep slopes, rock outcroppings, unstable or expansive soil conditions, etc. which would otherwise necessitate the use of special construction techniques to build on or use any lot within the subdivision. No lots within the subdivision feature a slope of 20% or more, which is characteristic of rear lot lines.

WATER COVERAGE

There are portions of lots, that are covered by water, this being the 30' flow easement for boathouse construction. However, due to the subdivision's proximity to the Gulf of Mexico, all lots are subject to flooding from such natural occurrences as tropical storms and hurricanes. Natural elevations will be filled between 9'-11' to help minimize flooding. As such, all residential structures on lots, per the Architectural Guidelines, are required to be elevated above the storm surge (as determined by FEMA) by piers or pilings. This may increase the design and construction costs of your home. We strongly urge and may require all residents to build to an elevation of plus 4' above the required building elevation, thereby assuring uniformity throughout the subdivision. This will significantly reduce required flood insurance premiums.

DRAINAGE AND FILL

No lots, after the finished construction of the subdivision, will require fill or draining prior to being used for the purpose for which they are sold. Should any condition exist which inhibits the normal construction of a home on a lot due to improper drainage or fill, the owner shall be responsible for the correction of such problem, after receiving the approval of the Architectural Review Board.

FLOOD PLAIN

The entire subdivision, including all lots, is located in the V17 flood plain as determined by FEMA. Flood insurance is available through the National Flood Insurance Program. The estimated premium rate, based on the VE flood plain, is \$985.00 per \$100,000 of flood insurance coverage for a residential single family home. Flood insurance is required in connection with the financing of any improvements to the lot. The following website provides the most current flood insurance information: www.fema.gov/nfip/premium . All residents are required to build to an

elevation of plus 4' above the required building elevation. This will significantly reduce required flood insurance premiums and maintain uniformity in the elevations of all new homes.

FLOODING AND SOIL EROSION

We do have programs which will provide controls for soil erosion, sedimentation and periodic flooding throughout the subdivision. Seashore paspalum grass is required on all lots.

Soil erosion, pollution, and sedimentation are to be controlled as defined in the Texas Pollution Discharge Elimination System guidelines established by the TCEQ and the City of Galveston of Galveston, through a series of retention ponds and restrictions on fertilizer and a storm sewer system. We are required to obtain a Stormwater Quality Permit from the City of Galveston of Galveston. We have obtained a Stormwater Pollution Prevention Plan permit from Texas Commission on Environmental Quality (TCEQ). These measures have and will be implemented at the time the construction of all lots is complete (est. March, 2005). We are obligated to comply with the plans approved by the City of Galveston of Galveston and TCEQ. Currently, the City of Galveston of Galveston and TCEQ do not require any financial assurances for the completion of the plans.

NUISANCES

There are no known nuisances which affect the subdivision. However, rattlesnakes are a danger.

HAZARDS

There are no known existing or possible future hazards.

Due to the subdivision's close proximity to the coast and the Gulf of Mexico, the subdivision is subject to the frequent occurrence of natural hazards and particularly, hurricanes, tropical storms and flooding.

CLIMATE

The table below describes average temperature ranges for the summer and winter according to www.CityofGalveston-data.com.

| TEMPERATURE | WINTER | SUMMER |
|-------------|--------|--------|
| MEAN | 57 | 83 |
| HIGH | 64 | 88 |
| LOW | 50 | 77 |

OCCUPANCY

As of the date of submission, the subdivision is in an unimproved state and therefore there are no homes occupied on a full or part-time basis. As the subdivision is marketed toward the second home buyer, as well as buyers interested in permanent-resident housing, it is anticipated that the subdivision, at full occupancy, will contain a mix of homes occupied on a full and part-time basis.

ADDITIONAL INFORMATION

PROPERTY OWNERS' ASSOCIATION

There will be a property owners' association for this subdivision. The owners' association has not yet been formed though the deed restrictions prescribe its formation, duties, powers and responsibilities. It will be called the Sunset Cove Galveston Home Owners Association, Inc. We, as the developer, will be responsible for its formation, which will occur at the time that construction is being completed for the finished lots and the home building process begins.

We will maintain significant control over the association, including a higher level of voting power and the ability to appoint the Board of Directors and other officials. Much of this control will last under what is called the Development and Sales Period. This period is basically defined as the point when the association is formed until the last lot intended to be sold has been sold by us.

Membership in the association is mandatory, whereby the purchase of a lot includes you in the membership. The association dues are set and determined by the association itself through a voting system. As such, assessments can be increased. Members are subject to special assessments to cover unbudgeted expenses or expenses in excess of those budgeted. The anticipated first owners' association annual maintenance fee is \$750 of which \$250 is designated for a Catastrophe Fund, to aid in the repair of the subdivision and restore it to normal functioning conditions in the event of a natural disaster such as a hurricane. Any bulkhead repair required of this catastrophe fund will be assessed to the corresponding lot owner.

The functions and responsibilities of the association are principally to ensure that all physical improvements within the subdivision (ex. streets, recreational facilities) are maintained, kept in good working order and protected. To accomplish this, the association levies fees and assessments (which are voter-approved) from the lot owners and makes decisions regarding how best to go about ensuring all concerns of the subdivision are appropriately addressed. The association also oversees and ensures for general upkeep of residential lots, per the deed restrictions. The association will also hold architectural control over the subdivision. This is administered by the Architectural Review Board (ARB) and governed significantly by the Architectural Guidelines.

There are no functions or services that the developer will provide that the association will ultimately have to take over and which will cause additional assessments to be made.

The level of assessments and fees that will be levied by the association should meet the planned financial obligations including operating costs, maintenance and repair costs and reserves for replacement. Though it is not anticipated, should the level of assessment and fees not meet these obligations, they will be raised (or special assessments used), as determined by us and the association to a level deemed sufficient to cover obligations.

TAXES

The purchaser's obligation to pay taxes begins immediately after the actual purchase of the lot. The taxes are paid to the City of Galveston and the Galveston County Municipal Utility District No. 30 (the "District") described in the following paragraph. Applicable and regular taxes will also be paid to the state and federal government and any other applicable governmental agency. The annual taxes on an unimproved lot after the sale to a purchaser will be \$2.9369 per \$100 of assessed value.

The subdivision exists within the District. The purpose of the District is to provide water and sewer service to all lots and any recreational facilities requiring service. The District will assess taxes to finance these utilities. These taxes are anticipated to be assessed at \$.25 per \$100 of assessed value. These taxes are used for debt service toward a bond issuance in the amount of \$5,500,000 to finance the utility improvements made to the subdivision. Ultimately, it is the purchaser's obligation, collectively and with the assistance of dedicated ad valorem taxes from the City of Galveston (as described in the paragraph immediately following the heading "Utilities") to retire the debt. Once the debt is retired, the utility improvements are deeded to the City of Galveston and the District is dissolved.

RESALE OR EXCHANGE PROGRAM

There are prohibitions for posting signs for the purposes of reselling a lot and/or home: only those signs expressly permitted and issued by Sunset Cove Realty will be allowed. There are limitations on access to the subdivision by outside brokers and prospective buyers, other arrangements must be made with the association for granting gate access where a person is unaccompanied by a member (ex. home owner). Membership requirements are simply that you be a lot owner in the subdivision.

We have a program to assist you in the resale of your lot. Sunset Cove Realty, will be formed to handle all sales in Sunset Cove. Sunset Cove Realty will maintain a sales office on site on Lot 1, Block K for the purpose of protecting and maintaining property values and quality of life issues that are integral to the foundation of Sunset Cove Galveston.

We do not have a program which assures that you will be able to exchange your lot for another. Sunset Cove Realty will escort all prospective buyers onto the property.

UNUSUAL SITUATIONS

Memberships

The purchaser will receive legal title to the land on his/her lot(s) that have been purchased once they obtain a valid deed, most commonly from the financier of their lot, an arrangement that is made with no relationship to us or responsibility by us. The membership need not be renewed, and is constant as long as the lot is owned by the purchaser. The membership, in the event of

death by the member, shall pass to the person named as the legal inheritor of the lot and all improvements upon it. The lots are individually surveyed and the corners marked. The member is entitled to use all square footage available on the purchaser's lot(s) and may also use (in accordance with provisions dictated by the association and deed restrictions) approximately 100 acres , or 4,358,000 square feet, that constitute the common areas of the subdivision. There are two different classes of membership. All lot owners are "Class A" members of the association and as such are entitled to one (1) vote per lot owned in all matters up for vote by the association. We, as the developer, are the "Class B" members, and only for the duration of the Class B Control Period, previously described (and also known) as the Development and Sales Period. The Class B membership principally entitles us to three (3) votes per lot owned and the right to name the majority of the Board for the association. Other lesser entitlements of the Class B membership are defined throughout the deed restrictions. The Class B membership is terminated at the end of the Class B Control Period.

EQUAL OPPORTUNITY IN LOT SALES

We are in compliance with Title VIII of the Civil Rights Act of 1968 by not directly or indirectly discriminating on the basis of race, religion, sex or national origin in any of the following general areas: Lot marketing and advertising, rendering of lot services, and in requiring terms and conditions on lot sales and leases.

LISTING OF LOTS

The following is an accurate listing, by block and lot number, of lots contained within Sunset Cove, Galveston County, Texas:

Lots 1-17, Block A; Lots 1-65, Block B; Lots 1-15, Block C; Lots 1-7, Block D; Lots 1-11, Block E; Lots 1-13, Block F; Lots 1-10, Block G; Lots 1-8, Block H; Lots 1-25, Block J; Lot 1, Block K.

LIENS

All the lots in Sunset Cove Galveston sold to a buyer will be sold free and clear of all liens, except the lien, which may be created by the Buyer in conjunction with the sale.

RESTRICTIONS

Deed restrictions are frequently referred to in numerous sections and paragraphs herein, as they affect the subdivision. Sunset Cove Galveston is governed by these deed restrictions, as set out in the Declaration of Covenants, Conditions and Restrictions For Sunset Cove, a Subdivision in Galveston County, Texas. This Declaration is also commonly referred to as the Governing Documents of the subdivision and a copy of the Declaration will be made available to you at contract signing. This Declaration has been filed in the Official Records of Galveston County, Texas.

The Governing Documents require every lot owner to use an approved custom builder (a list of approved builders is provided in that document). The Governing Documents provide for an Architectural Review Board (ARB), which has full authority to approve or disapprove plans for the construction of houses in Sunset Cove. Additional lots, at a maximum of 25 lots and in a manner that is conducive to the original spirit of Sunset Cove, may be annexed to the Sunset Cove subdivision in the future by the Developer. Other builders may be approved for building in Sunset Cove, subject to a 3% sales commission to Sunset Cove Realty.

COMMERCIAL RESERVE

There is a Commercial Reserve shown on the final plat. The Developer makes no warranty or representation on what may be built or put on the Commercial Reserve in the future. The Commercial Reserve is not subject to the HOA Restrictions.

BUILDING PERMITS

In addition to the requirements of the owners' association and the ARB, as defined in the Governing Documents, you are hereby notified that you must meet the requirements of the City of Galveston before you can obtain a building permit to construct any house or other structure in Sunset Cove.

LEGAL CONCERNS

INDEMNIFICATION

EVERY MEMBER DOES HEREBY AGREE TO DEFEND, INDEMNIFY AND HOLD HARMLESS THE DEVELOPER, THE ASSOCIATION AND ITS BOARD OF DIRECTORS FROM AND AGAINST ANY SUCH CLAIM OR INJURY OR DAMAGE TO THE MEMBER, HIS PROPERTY, TENANTS, EMPLOYEES, AGENTS OR GUESTS WHETHER THE INJURY OR DAMAGE RESULTS OR IS CLAIMED TO HAVE RESULTED FROM ANY NEGLIGENCE OF THE DEVELOPER, ASSOCIATION, OR ITS BOARD OF DIRECTORS.

ARBITRATION CLAUSE

If for any reason a claim against the Developer, owners' association, Board of Directors, or Sunbird Development, L.P. arises, the Buyers agree to resolve the dispute with binding arbitration in lieu of a lawsuit.

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. All costs are subject to change.

Sale Price

Cash Price of lot.....\$ actual cost
Finance Charge.....\$ ex.1% of loan amount
Total.....\$ _____

Estimated one-time charges

Water connection fee..... \$ 750.00
Sewer connection fee/.....\$ 750.00
Construction costs to extend electric and/or telephone services.....\$12.00/ linear ft.
Other (Identify).....\$ _____

Estimated monthly/annual charges, exclusive of utility use fees

Taxes-Average unimproved lot after sale to purchaser (one-time)..... \$ \$ 2,500.00
District Taxes-Average unimproved lot after sale to purchaser.....\$ \$ 225.00
HOA Dues and assessments..... \$ \$750.00

RECEIPT

I acknowledge that I have received an Intrastate Property Report dated September 22, 2004 listing all liens, reservations, taxes, assessments, restrictions, and estimates of utility costs applicable to Lot(s)_____, Block(s)_____ from Sunbird Development, L.P. I waive the right to a personal on-the-lot inspection, due to on-going construction of the subdivision and to avoid inherent risks associated with inspection during construction, of Lot(s)_____, Block(s)_____, which is the lot(s) I am interested in buying or leasing.

Date

Date

Seller

Purchaser

Seller

Purchaser

PURCHASE CANCELLATION

You are entitled to cancel your purchase contract by personal notice, or in writing by midnight of the 7th day from the date of contract execution. 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: Sunset Cove

Date of Contract: _____

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

Purchaser(s) signature _____ Date _____