

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 lot 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 the 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:	Prospect at Mt. Crested Butte
Name of Developer:	Prospect Development Company, Inc.
Date of This Report:	June 1, 2012

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

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 44 lots in Prospect at Mt. Crested Butte (“**Subdivision**”) located in the Town of Mt. Crested Butte, Gunnison County, Colorado. See page 29 for a listing of these lots. It is estimated that, if developed as presently planned, the Prospect at Mt. Crested Butte Planned Unit Development, within which the Subdivision is located, may eventually contain 105 single family residential lots, 57 single family residential or multiple family residential lots, lots for 58 condominium units and a lot for 80 condominium/hotel units up to a maximum total of 350 residential units, of which approximately 52 units will be restricted as affordable housing units. Prospect at Mt. Crested Butte is located within the Prospect at Mt. Crested Butte Planned Unit Development.

The Developer of this Subdivision is:

Prospect Development Company, Inc.
12 Snowmass Road
Mt. Crested Butte, Colorado 81225
Telephone Number: (970)349-2202

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

EACH LOT WILL HAVE A DESIGNATED BUILDING ENVELOPE AND HOMESITE WITHIN WHICH THE DWELLING UNIT MUST BE LOCATED, AS SHOWN ON THE PLAT AND HOMESITE EXHIBIT MAP. SEE PAGE 7 FOR FURTHER INFORMATION.

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 doesn't give you legal title. You won't 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 sales contract 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.

METHOD OF SALE

Sales Contract and Delivery of Deed

We intend to use only the cash method of selling. You will be required to pay an initial deposit to Gunnison County Abstract Company at the time you execute your purchase agreement, and will be required to pay the balance of the purchase price in cash at closing. You will receive a general warranty deed for the lot at closing, which will occur within a period not to exceed 180 days from the date you execute your purchase agreement.

You will not have title to the lot until you receive a General Warranty Deed.

Type of Deed

The transfer of legal title will be accomplished by a General Warranty Deed, which is free and clear of any monetary liens and encumbrances.

ENCUMBRANCES, MORTGAGES AND LIENS

The lots in this Subdivision are subject to the following blanket liens:

TYPE OF LIEN	HOLDER OF LIEN	LOTS SUBJECT TO LIEN
Deed of Trust	Community Bank of Colorado - Crested Butte	D-1 through D-23, inclusive, E-1 through E-20, inclusive, and E-33
Deed of Trust	Crested Butte Land Holdings, LLC	D-1 through D-23, inclusive, E-1 through E-20, inclusive, and E-33

Release Provisions

The Deed of Trust in favor of Community Bank of Colorado - Crested Butte ("Community Bank Deed of Trust") and the Deed of Trust to Crested Butte Land Holdings, LLC ("CBLH Deed of Trust") are recorded in the Gunnison County Recorder's Office. The release provisions for the Community Bank Deed of Trust are contained in the loan agreement secured by such Deed of Trust and the release provisions for the CBLH Deed of Trust are contained in the promissory note secured by such Deed of Trust. Because the release provisions are not contained in the recorded Deeds of Trust, they may not be honored by any subsequent holders of the Deeds of Trust. If they are not honored, you may not be able to obtain clear title to a lot covered by the Deeds of Trust until we have paid such Deeds of Trust in full. The release provisions in the Deeds of Trust may be exercised only by us. Therefore, if we default on the Deeds of Trust before obtaining a release of your lot, you may not be able to complete the purchase of your lot. However, because all purchaser deposits are held in a third-party controlled escrow account until a deed is delivered, if we cannot convey a deed which is free and clear of the lien of the Deed of Trust, all deposit monies you have paid toward the purchase of your lot will be refunded to you.

Prior to closing, we will obtain a release of your lot from the Community Bank Deed of Trust and CBLH Deed of Trust. As of the time of closing, there will be no monetary lien on your lot other than liens for ad valorem taxes not yet due and payable.

Please refer to the heading "Property Owners Associations" in this Report for information regarding the assessments of the North Mt. Crested Butte Property Owners Association and of the Prospect Property Owners Association which may be levied against the lots in the Subdivision, which will constitute a continuing lien upon the lot against which each such assessment is made until paid.

RECORDING THE CONTRACT AND DEED

Method or Purpose of Recording

Your purchase agreement may not be recorded because the purchase agreement contains a provision prohibiting its recordation, as such recordation may be deemed a default by you under the purchase agreement. Colorado law does not require that purchase agreements be recorded and it is not a common practice to do so. Under Colorado law, recording a purchase agreement places third parties on notice that the subject property is under contract for sale. The restriction against recording your purchase agreement helps avoid a defect in title to your lot in the event the purchase agreement is voided or the sale cannot be completed for any reason.

The deed to your lot will be recorded. The closing agent will deliver the deed to your lot to the Office of the Clerk and Recorder of Gunnison County, Colorado for recording immediately following the closing. You will bear the cost of recording the deed, currently \$10.00 for the first page, \$5.00 per additional page and a \$1.00 surcharge, and will pay the documentary fee on the deed, which is currently \$1 per \$10,000 of the purchase price of the lot. Under Colorado law, recording the deed protects you from claims of subsequent purchasers or subsequent creditors of anyone having an interest in your lot.

UNLESS YOUR CONTRACT 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.

Title Insurance

At the time of transfer of title to your lot, we will arrange for you to be provided with a standard coverage owner's title insurance policy, at no cost to you. We will pay the premium for such a standard policy. We recommend that you obtain from an appropriate professional an explanation and interpretation of the policy to your satisfaction.

PAYMENTS

Escrow

Your earnest money deposit will be held in a third-party controlled escrow by Gunnison County Abstract Company, which has offices at 504 N. Main Street, Gunnison, Colorado 81230. You will be entitled to a full refund of your earnest money deposit in the event we fail to convey title to your lot to you or if we default on any obligation which would otherwise result in the loss of your earnest money deposit. We do not have any financial interest in and to, or any type of controlling interest over or with, the named third-party escrow agent.

Prepayment

All sales will be for cash, which means that you will make full payment of the balance of the purchase price of your lot at closing. Accordingly, there are no prepayment penalties or privileges.

Default

If you default in the performance of any obligation to be performed on or before closing (such as by failing to make the payments required by your contract), we have the right to terminate the agreement and to keep as liquidated damages the earnest money deposit. Because it would be difficult to ascertain actual damages likely to be suffered by us in the event of your default and as the earnest money deposit is a reasonable approximation of such damages, other than damages arising from any claims for mechanics' liens resulting from work or materials as ordered by you for the lot, we will be entitled to retain the earnest money deposit as liquidated damages.

RESTRICTIONS ON THE USE OF YOUR LOT

Restrictive Covenants

The Declaration of Covenants, Conditions and Restrictions for North Mt. Crested Butte ("Master Declaration") was recorded July 15, 2002 as Reception No. 521969 of the records of Gunnison County, Colorado, and the Declaration of Covenants, Conditions and Restrictions for Prospect at Mt. Crested Butte ("Prospect Declaration") was recorded July 15, 2002 as Reception

Number 521970 of the records of Gunnison County, Colorado, both of which contain restrictive covenants applicable to the Subdivision. An amendment to the Prospect Declaration was recorded March 30, 2005 as Reception No. 552220 of the records of Gunnison County. An additional amendment to the Prospect Declaration was recorded February 28, 2006 as Reception No. 563223 of the records of Gunnison County.

The Prospect Declaration contains provisions which require you to secure permissions, approvals and the taking of other actions prior to using or disposing of your lot. The major provisions of the Prospect Declaration which require you to secure such approvals, permissions or take other action will be discussed in the paragraphs below. However, this discussion will only highlight certain areas of these restrictive covenants and should not be a substitute for a careful study of them by you. Unless otherwise indicated, capitalized terms are as defined in the Prospect Declaration or Master Declaration.

The Prospect Declaration provides that no building or other improvements may be constructed, erected, placed or installed on any lot, or any change or alteration of the materials or appearance of the exterior of a building or other structure made, or any change in the final grade of any lot be made until all approvals as may be required by the Association Documents and any governmental entity having jurisdiction have been obtained by such owner. No owner may perform any of the activities described above unless the Design Review Board has approved the plans and specifications for the project.

The Prospect Declaration provides that no signs or advertising devices of any nature shall be erected or maintained on any portion of the property in such a manner as to be visible outside any lot except signs approved by the Design Review Board, signs required by applicable law or legal proceedings, identification signs for work under construction (as approved by the Design Review Board), temporary signs to caution or warn of danger or the Association signs necessary or desirable to give directions or advise of Rules or Regulations.

Parking of vehicles on the property is permitted with respect to a lot only within parking spaces constructed with the prior approval of the Design Review Board.

No fences, walls or other barriers shall be permitted for the purpose of enclosing or demarcating any property boundaries without the prior written approval of the Design Review Board.

The Master Declaration provides that the North Mt. Crested Butte Property Owners Association may levy and impose a Real Estate Transfer Assessment upon the occurrence of any Real Estate Transfer as defined in such Declaration. The Real Estate Transfer Assessment will be due and payable by the transferee to the North Mt. Crested Butte Property Owners Association at the time of the Real Estate Transfer giving rise to the Real Estate Transfer Assessment. By contract, we have agreed to pay the Real Estate Transfer Assessment on the sale of the lot to you at the time of closing.

You should carefully review the restrictions applicable to your lot. A complete copy of the restrictions applicable to your lot is available upon request. We recommend that you also review the PUD III Guide for the Planned Unit Development Plan for Prospect at Mt. Crested

Butte and the Design Guidelines, which contain additional restrictions affecting land use, density and design.

Easements

Certain lots in the Subdivision are subject to easements as noted below:

AFFECTED LOTS	TYPE OF EASEMENT	WIDTH OF EASEMENT
Lots D-14, D-19, D-20, D-21	Utility easement	30 feet
Lots D-1, E-9	Utility easement	variable width (see plat)
Lot D-22	Driveway easement	25 feet
Lot D-23	Utility easement	variable width (see plat)
Lots D-1 through D-23, E-1 through E-20, E-33	Owner ski access, drainage and utility easements	Extends from the lot line internally to the greater of 10 feet or the Building Envelope
Lots D-1, D-3, D-4, D-11, D-12, D-13, D-16, E-1, E-2, E-3, E-5, E-6, E-11, E-16	Wetland easement	Variable width (see plat)
Lot E-13	Utility easement	20 feet
Lots E-12, E-13	Access easement	40 feet
Lot E-14	Utility easement	40 feet

EACH LOT WILL HAVE A DESIGNATED BUILDING ENVELOPE AND HOMESITE WITHIN WHICH THE DWELLING UNIT MUST BE LOCATED, AS SHOWN ON THE PLAT AND HOMESITE EXHIBIT MAP.

A dwelling unit or residence must be located within the designated Homesite of each lot, which is within the Building Envelope. The approved Homesite for each lot is shown on the Homesite Exhibit Map, HS1 and HS2, of the final plan for Prospect at Mt. Crested Butte, Phase 2 and the final plan for Prospect at Mt. Crested Butte, Phase 4 as approved by the Town. The location of the Homesite may only be changed with the approval of the Prospect at Mt. Crested Butte Design Review Board and the Town's Planning Commission.

You will not be allowed to construct a home or other permanent structure on the areas of your lot affected by easements; however, as all of the easements described in the chart above are located outside the allowable building area on the lots, they should not affect your building plans.

We recommend that you review the plat for the exact locations and widths of the easements described in the chart above.

Except for the wetlands areas identified above, the Subdivision is not subject to any flood control or flowage easements.

PLATS, ZONING, SURVEYING, PERMITS AND ENVIRONMENT

Plats

The final subdivision plat of Phase 2 was approved by the Town of Mt. Crested Butte and filed for record on March 30, 2005 as Reception No. 552219 of the records of Gunnison County, Colorado. The final subdivision plat of Phase 4 was approved by the Town of Mt. Crested Butte and filed for record on February 28, 2006 as Reception No. 563222 of the records of Gunnison County, Colorado.

Zoning

Pursuant to the Master Declaration and the Prospect Declaration, the lots in this offering may be used for single family residential purposes. This use conforms to the planned unit development zoning requirements of the Town of Mt. Crested Butte, Colorado applicable to the Subdivision and the PUD Guide.

Surveying

The lots included in this offering have been surveyed and the front corners of each lot, as well as the four corners of the building envelope on each lot, were staked or marked for identification. However, in the course of construction, some of the survey stakes may be removed. We will stake or mark the front corners of each lot for identification, as well as the four corners of the building envelope on each lot, at our expense, prior to conveyance of the lot to you.

Permits

Prior to the construction of a house or any other improvements on your lot, you must obtain a building permit from the Town of Mt. Crested Butte, P.O. Box 5800, 911 Gothic Road,

Mt. Crested Butte, Colorado 81225. The cost of the permit will vary depending on the value of the construction work according to the following table:

MT. CRESTED BUTTE BUILDING PERMIT FEES

TOTAL VALUATION	FEE
\$1.00 to \$500.00	\$23.50
\$501.00 to \$2,000.00	\$23.50 for the first \$500.00 plus \$3.05 for each additional \$100.00, or fraction thereof, to and including \$2,000.00
\$2,001.00 to \$25,000.00	\$69.25 for the first \$2,000.00 plus \$14.00 for each additional \$1,000.00, or fraction thereof, to and including \$25,000.00
\$25,001.00 to \$50,000.00	\$391.75 for the first \$25,000.00 plus \$10.10 for each additional \$1,000.00, or fraction thereof, to and including \$50,000.00
\$50,001.00 to \$100,000.00	\$643.75 for the first \$50,000.00 plus \$7.00 for each additional \$1,000.00, or fraction thereof, to and including \$100,000.00
\$100,001.00 to \$500,000.00	\$993.75 for the first \$100,000.00 plus \$5.60 for each additional \$1,000.00, or fraction thereof, to and including \$500,000.00
\$500,001.00 to \$1,000,000.00	\$3,233.75 for the first \$500,000.00 plus \$4.75 for each additional \$1,000.00, or fraction thereof, to and including \$1,000,000.00
\$1,000,001.00 and up	\$5,608.75 for the first \$1,000,000.00 plus \$3.65 for each additional \$1,000.00, or fraction thereof.

Additionally, there are Design Review Compliance and Clean-up Deposit (2% of total valuation), Plan Check Fees (65% of the Building Permit Fee), Use Taxes (3% of material) and Impact Fees for the Town (\$1,442.00), the Crested Butte Fire Protection District (\$388.79), and a Transportation Impact Fee for Prospect Lots (\$3,000.00). The Design Review Compliance and Clean-Up Deposit is refundable upon satisfactory clean up after completion of construction. A fire sprinkler system is required to be installed, unless the requirement is waived by the Crested Butte Fire Protection District.

In addition, prior to beginning any construction, repair or reconstruction of any improvement on your lot, you must secure approval from the Design Review Board, c/o Prospect Property Owners Association, P.O. Box 5700, Mt. Crested Butte, Colorado 81225. A design review fee must be submitted to the Design Review Board with the building plans and specifications. The amount of the design review fee is currently \$6,500. In addition, a compliance deposit of \$10,000 must be paid to the Design Review Board, which deposit is refundable if construction is completed in accordance with Design Review Board requirements.

The Reserve Metropolitan District No. 1, under its Service Plan, may impose a capital facilities fee averaging \$5,000 a residence to be paid by a lot owner at the time a building permit

is obtained. The Board of Directors of the District has advised us that they do not intend to charge a capital facilities fee at this time but may do so in the future.

Environment

An Environmental Assessment was prepared in March 1998 by the United States Department of Agriculture, U.S. Forest Service in connection with a land exchange involving the land in the Subdivision, which considered the effect of development of the Subdivision on the environment. A Decision Notice and Finding of No Significant Impact was issued by the Forest Service which concluded that there are no significant effects to the quality of the human environment from the development of the Subdivision and that application of the local regulations can be reasonably expected to mitigate most potential impacts resulting from development.

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 the road listed below:

NAME	TYPE OF SURFACE	WIDTH OF WEARING SURFACE	NUMBER OF LANES
Gothic Road	Asphalt to Winterset Drive; chip and seal sub-surface and temporary asphalt surface from Winterset Drive to Prospect Drive (approx. 1/2 mile)	22-24 feet	2

Gothic Road, which provides access to the Subdivision from outside the Subdivision, is complete except for final surfacing. Gothic Road is a public road maintained jointly by the Town of Mt. Crested Butte and Gunnison County through an agreement between the Town and Gunnison County. There is no cost to you for maintenance of this access road except through real property taxes you pay on your lot and levied by the Town of Mt. Crested Butte and/or Gunnison County, Colorado.

Pursuant to a Subdivision Improvement Agreement with the Town of Mt. Crested Butte, we are responsible for paving with an asphalt surface, the portion of existing Gothic Road from Winterset Road to the entrance to the Subdivision which currently has a chip and seal surface. Pursuant to the Annexation and Development Agreement with the Town, such paving is scheduled to commence before any building permits for development of any units or commercial/retail space in the amended North Village PUD are issued or before 150 lots in the East Trade Parcel are sold or conveyed, whichever comes first. Upon completion of such paving, the Town of Mt. Crested Butte and Gunnison County jointly will maintain the portion of Gothic Road from Winterset Road to the entrance to the Subdivision, as well as the remainder of Gothic Road. Other than paving of the chip and seal-surfaced portion of Gothic Road described above, and other road improvements required by the Annexation and Development Agreement, we are not aware of any proposed plans for improvements to Gothic Road.

ACCESS WITHIN THE SUBDIVISION

Access to the lots within the Subdivision will be provided by 22 to 24-foot wide, two-lane roads. Legal access will be provided by roads dedicated to the public.

We were responsible for construction of the roads within the Subdivision and have completed all roads with an asphalt surface.

The Subdivision is within Reserve Metropolitan District No. 2 and is subject to a consolidated Service Plan for Reserve Metropolitan District No. 1 and Reserve Metropolitan District No. 2 (“Service Plan”) for the two Districts that were organized to own, operate and maintain certain infrastructure improvements within the property included in the Districts, including the Subdivision and other property within the development already platted and known as North Mt. Crested Butte. Pursuant to the Service Plan, we conveyed the roads within Phase 2 and Phase 4 of the Subdivision to Reserve Metropolitan District No. 1 and, after Reserve Metropolitan District No. 2 determined that there was sufficient assessed valuation of property within the boundaries of the District, the District incurred debt with Compass Bank in 2008 in part to reimburse us for the cost of construction of the roads with a portion of the proceeds of such debt. The debt was issued on average of about two years after our expenditure of road construction funds. The debt will be repaid with interest over time by some portion of property taxes levied by Reserve Metropolitan District No. 2 against all property within Reserve Metropolitan District No. 2, including the Subdivision which includes your lot. A new service plan is in the process of being finalized that would exclude from Reserve Metropolitan District No. 2 the undeveloped areas within Reserve Metropolitan District No. 2, including undeveloped land within the Subdivision, and that would include such undeveloped areas in additional districts to be formed in the future. Infrastructure developed within these areas in the future will be financed by these additional districts.

Maintenance of the roads within the Subdivision will be the responsibility of Reserve Metropolitan District No. 1. The cost to you for maintenance will be included in the ad valorem taxes you pay to Reserve Metropolitan District No. 2 within which the Subdivision is located. Reserve Metropolitan District No. 2 is responsible for reimbursing Reserve Metropolitan District No. 1 for the road maintenance costs of the roads within the Subdivision. The roads are maintained by Reserve Metropolitan District No. 1 so as to provide access to the lots in the Subdivision on a year-round basis.

The table below identifies the approximate distances (in miles) from the Subdivision to nearby communities.

NEARBY COMMUNITIES	POPULATION	DISTANCE OVER PAVED ROADS	DISTANCE OVER UNPAVED ROADS	TOTAL
Mt. Crested Butte	500	0 mi.*	0 mi.*	0 mi.*
Crested Butte	1,500	3 mi.	0 mi.	3 mi.
Gunnison (County Seat)	8,000	31 mi.	0 mi.	31 mi.

*The Subdivision is located within the Town of Mt. Crested Butte.

UTILITIES

Here we will discuss the availability and cost of basic utilities. The areas covered will be water, sewer, electricity, telephone, and fuel or other energy sources.

WATER

All lots in the Subdivision will be served by a central water system supplying potable water.

Central Water System

Water will be supplied to the lots by a central water system operated by Mt. Crested Butte Water & Sanitation District, P. O. Box 5740, 100 Gothic Road, Mt. Crested Butte, Colorado 81225, a regulated governmental agency. Mt. Crested Butte Water & Sanitation District is regulated by the Colorado Department of Public Health and Environment. The Subdivision will be served by the central water system of the Mt. Crested Butte Water & Sanitation District.

We were responsible for completing the construction of the water distribution mains in front of or adjacent to the lot. As described below, we will be reimbursed for this cost through *ad valorem* taxes assessed by the Metro Districts. Final plat approval, which is the only permit necessary for construction of the water lines, has been obtained.

All water lines in Phase 2 (Parcel D) and Phase 4 (Parcel E) have been completed and the water lines in Phase 2 (Parcel D) and water lines in Phase 4 (Parcel E) have been conveyed to Mt. Crested Butte Water & Sanitation District for operation and maintenance.

The Subdivision is within Reserve Metropolitan District No. 2 and is subject to a consolidated Service Plan for Reserve Metropolitan District No. 1 and Reserve Metropolitan District No. 2 ("Service Plan") for the two Districts that were organized to own, operate and maintain certain infrastructure improvements, including the water system, within the property included in the Districts, including the Subdivision and other property within the development already platted and known as North Mt. Crested Butte. Pursuant to the Service Plan and an intergovernmental agreement between Mt. Crested Butte Water and Sanitation District ("Water & Sanitation District") and Reserve Metropolitan District No. 1 and Reserve Metropolitan District No. 2 (collectively "Metropolitan Districts"), the Metropolitan Districts are responsible for the financing of the water system and the Water & Sanitation District is responsible for operation and maintenance of such system. In accordance with the Service Plan and the intergovernmental agreement, we conveyed the water distribution system within Phase 2 and Phase 4 of the Subdivision to the Water & Sanitation District and, after Reserve Metropolitan District No. 2 determined that there was sufficient assessed valuation of property within the boundaries of the District, the District incurred debt with Compass Bank in 2008 in part to reimburse us for the cost of construction of the water distribution system with a portion of the proceeds of such debt. The debt was issued on average of about two years after our expenditure of construction funds. The debt will be repaid with interest over time by some portion of property taxes levied by Reserve Metropolitan District No. 2 against all property within Reserve Metropolitan District No. 2, including the Subdivision which includes your lot. A new service

plan is in the process of being finalized that would exclude from Reserve Metropolitan District No. 2 the undeveloped areas within Reserve Metropolitan District No. 2, including undeveloped land within the Subdivision, and that would include such undeveloped areas in additional districts to be formed in the future. Infrastructure developed within these areas in the future will be financed by these additional districts.

The current capacity of the Mt. Crested Butte Water & Sanitation District's water treatment plant is sufficient to serve all lots planned for this Subdivision. Water from the Water & Sanitation District's treatment plant is tested for purity and chemical content on a regular basis and the drinking water meets all drinking water treatment standards established by the U.S. Environmental Protection Agency and the State of Colorado.

In addition to user fees, you will be responsible for paying a one-time water connection fee to Mt. Crested Butte Water & Sanitation District, which is based on the square footage of the home according to the following schedule: For homes with 2,000 square feet or more of gross residential floor area, the connection fee is \$5,544 per unit for 2,000 square feet, plus \$2.74 per square foot thereafter. There is an additional charge of \$2.63 per square foot for surface area for a swimming pool. Based on this schedule, for a 4,000 square-foot home without a swimming pool, the connection fee will be \$11,024. In addition, you will be responsible for paying to the Water & Sanitation District an availability fee of \$45.30 per quarter until such time as you build a home on your lot.

You will not be permitted to install an individual water well on your lot and you will be required to connect to the central water system when you build a home on your lot. The central water system has been extended to all lots in the subdivision and water service is available to all lots.

SEWER

Lots in the Subdivision will use a central sewer system.

Central Sewer System

Sewage disposal service in the Subdivision will be provided by a connection of the sewage collection system within the Subdivision to the wastewater treatment facility of Mt. Crested Butte Water & Sanitation District. We were responsible for completing the construction of the sewage collection system within the Subdivision and the extension of the sewage collection lines to the front of or adjacent to your lot. As described below, we will be reimbursed for this cost through *ad valorem* taxes assessed by the Metro Districts. The sewer lines in Phase 2 (Parcel D) and the sewer lines in Phase 4 (Parcel E) have been completed and have been conveyed to Mt. Crested Butte Water & Sanitation District for operation and maintenance. The address of Mt. Crested Butte Water & Sanitation District is P. O. Box 5740, 100 Gothic Road, Mt. Crested Butte, Colorado 81225. Mt. Crested Butte Water & Sanitation District is a quasi-municipal governmental entity which is regulated by the Colorado Department of Public Health and Environment.

The Subdivision will be served by the central sewer system of the Mt. Crested Butte Water & Sanitation District.

Final plat approval, which is the only permit necessary for construction of the sewage collection system in the Subdivision, has been obtained.

We have completed all sewer lines in Phase 2 (Parcel D) and Phase 4 (Parcel E). Lots E-5, E-6, E-7 and E-8 will require a lift station in order to be served by the gravity sewer line adjacent to such lots. We have completed the construction of the lift station. Final plat approval, which is the only permit necessary for such construction, has been obtained. The lift station in Parcel E (Phase 4) has been conveyed to Mt. Crested Butte Water & Sanitation District.

Mt. Crested Butte Water & Sanitation District has obtained the necessary permits to expand the capacity of its sewage treatment plant to accommodate the sewage treatment requirements of the Subdivision and such expansion has been completed. The Water & Sanitation District has stated that its wastewater treatment facility has the capacity to serve the anticipated population of the Subdivision.

The Subdivision is within Reserve Metropolitan District No. 2 and is subject to a consolidated Service Plan for Reserve Metropolitan District No. 1 and Reserve Metropolitan District No. 2 (“Service Plan”) for the two Districts that were organized to own, operate and maintain certain infrastructure improvements, including the sanitary sewer system, within the property included in the Districts, including the Subdivision and other property within the development already platted and known as North Mt. Crested Butte. Pursuant to the Service Plan and an intergovernmental agreement between Mt. Crested Butte Water and Sanitation District (“Water & Sanitation District”) and Reserve Metropolitan District No. 1 and Reserve Metropolitan District No. 2 (collectively “Metropolitan Districts”), the Metropolitan Districts are responsible for the financing of the sanitary sewer system and the Water & Sanitation District is responsible for operation and maintenance of such system. In accordance with the Service Plan and the intergovernmental agreement, we conveyed the sewer system in Phase 2 and Phase 4 of the Subdivision to the Water & Sanitation District and, after Reserve Metropolitan District No. 2 determined that there was sufficient assessed valuation of property within the boundaries of the District, the District incurred debt with Compass Bank in 2008 in part to reimburse us for the cost of construction of the sanitary sewer system with a portion of the proceeds of such debt. The debt was issued on average of about two years after our expenditure of construction funds. The debt will be repaid with interest over time by some portion of property taxes levied by Reserve Metropolitan District No. 2 against all property within Reserve Metropolitan District No. 2, including the Subdivision which includes your lot. A new service plan is in the process of being finalized that would exclude from Reserve Metropolitan District No. 2 the undeveloped areas within Reserve Metropolitan District No. 2, including undeveloped land within the Subdivision, and that would include such undeveloped areas in additional districts to be formed in the future. Infrastructure developed within these areas in the future will be financed by these additional districts.

You will be responsible for paying to Mt. Crested Butte Water & Sanitation District a one-time connection fee. The connection fee is based upon the square footage of the home to be constructed according to the following schedule: For homes with 2,000 square feet or more of gross residential floor area, the sewer connection fee is \$10,223 per unit for 2,000 square feet, plus \$4.65 per square foot thereafter. For a 4,000 square foot home, the connection fee is \$19,523. In addition, you will be responsible for paying to the Water & Sanitation District an

availability fee of \$51.15 per quarter until such time as you build a home on your lot. There are no other charges for sewer service other than recurring user fees payable to Mt. Crested Butte Water & Sanitation District.

You will not be permitted to install an individual sewage disposal system on your lot and you will be required to connect to the central sewer system when you build a home on your lot. The central sewer system has been extended to all lots in the subdivision and sewer service is available to all lots.

ELECTRICITY

Electrical service will be provided to the Subdivision by Gunnison County Electric Association, 37250 West U.S. Highway, P.O. Box 180, Gunnison, Colorado 81231-0180. Gunnison County Electric Association is a utility provider regulated by the Colorado Public Utilities Commission.

We were responsible for the extension of primary electrical service lines within the Subdivision to locations in front of or adjacent to the lot lines, and all electrical service lines have been completed and service is available.

You will not be responsible for any construction costs of extending electrical service lines to locations in front of or adjacent to your lot. You will be required to pay to Gunnison County Electric Association the usual, regulated connection fees to obtain service.

TELEPHONE

Qwest Communications, Inc. 602 North 1st Street, Montrose, Colorado 81401, a utility provider regulated by the Colorado Public Utilities Commission, will supply telephone service to the Subdivision. We were responsible for the construction of the telephone service lines to locations in front of or adjacent to the lots, and all telephone service lines have been completed and service is available.

You will not be required to pay any construction costs of extending telephone service lines to locations in front of or adjacent to your lot. You will be required to pay to Qwest Communications the usual, regulated connection fees to obtain service.

FUEL OR OTHER ENERGY SOURCE

Natural gas service will be provided by Atmos Energy, P. O. Box 69, Canyon City, Colorado 81215, a utility provider regulated by the Colorado Public Utilities Commission.

We were responsible for the extension of natural gas lines to locations in front of or adjacent to the lots within the Subdivision, and all natural gas lines have been completed and service is available.

You will not be responsible for the costs associated with extending natural gas lines in front of or adjacent to your lot. You will be required to pay to Atmos Energy the usual, regulated connection fees to obtain service.

FINANCIAL INFORMATION

The discussion in this section will focus on our financial position.

Copies of our unaudited financial statements for the fiscal year ended June 30, 2011 are available upon request. We experienced an operating loss during the last fiscal year. This will not affect our ability to complete promised subdivision facilities as all promised subdivision facilities have been completed; however, it could affect our ability to discharge other financial obligations.

<p>DUE TO CURRENT MARKET CONDITIONS, THERE IS NO CERTAINTY THAT THE REMAINING UNSOLD LOTS IN THE SUBDIVISION CAN BE SOLD BY US BY OUR PROJECTED DATE FOR COMPLETE SELL-OUT OF THE SUBDIVISION.</p>

LOCAL SERVICES

In this topic, we will discuss the availability of fire and police protection and the location of schools, medical care and shopping facilities.

FIRE PROTECTION

Year-round fire protection is afforded to the Subdivision by the Crested Butte Fire Protection District, P. O. Box 1009, Crested Butte, Colorado 81224, a volunteer organization. The tax levies of the Crested Butte Fire Protection District are included in the ad valorem real estate taxes you pay to the Gunnison County Treasurer.

POLICE PROTECTION

The Town of Mt. Crested Butte Police Department, P. O. Box 5800, 911 Gothic Road, Mt. Crested Butte, Colorado 81225-5800 exercises jurisdiction over and provides police protection for the Subdivision.

SCHOOLS

Your children will be entitled to attend public schools operated by Gunnison Watershed School District RE1J. The following school for elementary, middle and high school students is within this school district and available to school-age residents of the subdivision:

Crested Butte Community School (elementary, middle and high school)
818 Red Lady
Crested Butte, Colorado 81224

School bus transportation is not available from the Subdivision to this school; however, school bus transportation is available from Gold Link Subdivision, an adjacent subdivision located approximately two miles from the Subdivision.

HOSPITALS

Gunnison Valley Hospital, 711 North Taylor, Gunnison, Colorado 81230 is the nearest hospital to the Subdivision.

Ambulance service is available from Crested Butte Fire Protection District.

PHYSICIANS AND DENTISTS

The nearest physicians' and dentists' offices to the Subdivision are located in Crested Butte, Colorado, approximately six miles from the Subdivision at the following addresses:

Crested Butte Medical Center
12 Snowmass Road
Mt. Crested Butte, CO 81225

Don Brown DDS FAGD LLC
510 Elk Avenue
Suite 2
Crested Butte, CO 81224

During the winter ski season, physicians' offices in Mt. Crested Butte, Colorado, approximately three miles from the Subdivision, are open.

SHOPPING FACILITIES

No shopping facilities are located in the Subdivision. The nearest shopping facilities are available in the Town of Mt. Crested Butte, Colorado, within which the Subdivision is located. Additional shopping facilities are located in Crested Butte, which is approximately six miles from the Subdivision.

MAIL SERVICE

The U.S. Postal Service does not deliver mail to the Subdivision. The nearest location where you may pick up mail is at the U.S. Post Office in Crested Butte, Colorado, approximately six miles from the Subdivision.

PUBLIC TRANSPORTATION

There is no public transportation available from the Subdivision to nearby communities.

From mid-November through March and from June through September, shuttle bus transportation is available from approximately two miles from the most distant point in the Subdivision to the core of Mt. Crested Butte and to Crested Butte. The shuttle bus is operated by a consortium of public entities between Crested Butte and Mt. Crested Butte and selected stops within both towns. In addition, the Gunnison County Regional Transportation Authority operates public transportation between Mt. Crested Butte, Crested Butte, and the City of Gunnison.

RECREATIONAL FACILITIES

FACILITY	PERCENTAGE OF CONSTRUCTION NOW COMPLETE	ESTIMATED DATE OF START OF CONSTRUCTION (month/year)	ESTIMATED DATE AVAIL-ABLE FOR USE (month/year)	FINAN-CIAL ASSUR-ANCE OF COM-PLETION	BUYER'S ANNUAL COST OR ASSESS-MENTS
Crested Butte Mountain Resort	100%*	N/A	Available	N/A	Use fees
Prospect Ski Lift	100%*	N/A	Available	N/A	Use fees

*Existing facilities of Crested Butte Mountain Resort are complete and fully operational.

WE DO NOT OWN THE CRESTED BUTTE MOUNTAIN RESORT OR THE PROSPECT SKI LIFT SO WE CANNOT ASSURE THEIR CONTINUED AVAILABILITY.

Constructing the Facilities

Crested Butte Mountain Resort is a ski area in winter and hiking and biking area in summer. This facility is fully operational. Crested Butte, LLC, which operates Crested Butte Mountain Resort, has installed the Prospect ski lift as an expansion of the Crested Butte Mountain Resort. You will not bear any of the cost of construction of these facilities.

Maintaining the Facilities

Crested Butte, LLC is responsible for operating and maintaining the facilities of Crested Butte Mountain Resort. Crested Butte, LLC is the tenant under a long term lease and the Special Use Permit held by CNL Income Crested Butted, LLC with respect to a portion of the ground on which the ski area is located for operation of the ski area.

Transfer of the Facilities

The facilities of Crested Butte Mountain Resort are owned by CNL Income Crested Butte, LLC, and leased under a long term lease to Crested Butte, LLC, the operator of the ski area. To our knowledge, neither CNL nor Crested Butte, LLC have plans to transfer these facilities to a property owners association or other entity in the future and no guaranties can be made as to ownership or transfer.

Permits

The required approval from the U. S. Forest Service and Colorado Tramway Board for the construction and operation of the Prospect Ski Lift has been obtained.

Who May Use the Facilities

Crested Butte Mountain Resort, including the Prospect Ski Lift, are private facilities open to the general public. Crested Butte Mountain Resort and the Prospect Ski Lift are open to use by the general public and their use of the facilities may limit use of them by lot owners.

SUBDIVISION CHARACTERISTICS AND CLIMATE

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

GENERAL TOPOGRAPHY

The general topography of the Subdivision is mountainous. The Subdivision lies on the side of Crested Butte Mountain. Part of this mountain has been developed as a ski area operated by Crested Butte, LLC, and is subject to a Special Use Permit issued by the U.S. Forest Service.

Approximately 72.5% of the land in the Subdivision is to remain as natural open space. There is no developed parkland in the Subdivision.

All lots have some degree of slopes that may necessitate the use of special construction techniques. In addition, any lot may have unstable soil conditions or slopes in excess of 20% outside the building envelope. The construction techniques recommended will vary depending on the house design and location of the residence on the lot; however, recommended techniques include, but are not limited to, building foundations with special drainage installed and designed to withstand pressures and stresses consistent with mountainous terrain. In most cases, the marginal cost of having to install special drainage and to design/build a foundation to withstand pressures and stresses consistent with mountainous terrain is expected to be less than \$50,000. However, you are advised to have an architect examine the lot you are interested in purchasing with respect to building conditions before committing to purchase the lot.

ALTHOUGH ANY LOT IN THE SUBDIVISION MAY HAVE A SLOPE OF 20% OR MORE, NO BUILDING ENVELOPE WITHIN ANY LOT WILL HAVE A SLOPE OF 20% OR MORE. ANY LOT MAY HAVE UNSTABLE SOIL CONDITIONS. THIS MAY AFFECT THE TYPE AND COST OF IMPROVEMENTS WHICH CAN BE CONSTRUCTED ON THE LOT.
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WATER COVERAGE

The following lots contain areas outside the building envelope that are subject to water coverage as they contain areas designated as wetlands: Lots D-3, D-4, D-11, D-12, D-13, D-16, E-1, E-2, E-3, E-5, E-6, E-11 and E-16. All such areas designated as wetlands are clearly shown on the plat. These conditions should not have an effect on your building plans as such areas are outside the permissible building areas.

DRAINAGE AND FILL

Although we are not aware of any specific lots that will require fill prior to construction of a residence thereon, depending on the house design and location, fill may be needed. The estimated cost of fill is approximately \$20 per cubic yard plus transportation costs. Please refer to the subheading “**General Topography**” regarding special drainage that may be need to be installed for certain foundations.

FLOOD PLAIN

No portion of any lot in the Subdivision is located within a flood plain or in an area designated by any federal, state or local agency as being flood prone.

FLOODING AND SOIL EROSION

We have a soil erosion and storm water management plan which complies with the requirements of the Town of Mt. Crested Butte, as specified in the PUD III Guide and the Design Guidelines. The plan has been approved by the Town of Mt. Crested Butte as part of the final approval of the Subdivision. Failure to comply with the plan will result in municipal fines and/or municipal demands to cease and desist from further violations of the procedures outlined in the PUD III Guide and the Design Guidelines.

The plan represents a comprehensive approach to drainage, erosion and sediment control within the Subdivision. All areas disturbed by cuts, fills or other grading will be revegetated pursuant to the requirements of the Army Corps of Engineers and Town of Mt. Crested Butte. The plan is currently in operation and is perpetual. We are obligated to comply with the plan. Construction of the drainage and soil erosion control facilities for the soil erosion and storm water management plan, as well as other infrastructure improvements, in the Subdivision has been completed.

Lot owners are also required to comply with similar requirements as set forth in the PUD III Guide and the Design Guidelines and must submit an erosion control and storm water management plan as part of the design application to the Design Review Board. A failure to comply with the plan by a lot owner will be subject to the same penalties as set forth above in the first paragraph of this subheading.

NUISANCES

With the exception of matters related to snowmaking, ski trail grooming or other resort and ski-related activities and construction related activities near the lots in the Subdivision which may generate noise, dust, odors and other disturbances from time to time which may be considered a nuisance by certain purchasers, we are not aware of any land uses permitted within the Subdivision which would create a nuisance adversely affecting the Subdivision.

HAZARDS

Except as noted below, we are not aware of any unusual safety factors which affect the Subdivision. Portions of the lots in this offering which are forested are subject to a normal threat of forest fires. The Colorado State Forest Service has given the Subdivision a fire rating of "Moderate" in grassy areas and "High" in forest areas. The Colorado Forest Service's fire rating system uses a four-point scale: Low, Moderate, High and Extreme. Various mitigation measures will be employed which greatly reduce the risk of wildfire in the Subdivision and surrounding areas. Homes will be required to be constructed with perimeters containing landscaping that is resistant to fire and roofs will be required to be constructed with flame-resistant materials.

The Subdivision lies on a mountain and contains areas with steep slopes that may be a safety hazard.

Gunnison County, Colorado participated in the development of and is included in the Gunnison County All Hazard Mitigation Plan (“Mitigation Plan”). Through the hazard identification and risk assessment process, using probability and potential impacts for hazards posing the greatest possible risk, Gunnison County identified the following natural hazards as the hazards that pose the greatest risk within the County: wildland fire, drought, winterstorms and landslides. Dam breach and earthquakes were rated as medium risk and flash flooding or ice jam flooding were rated as low risk. The Mitigation Plan represents an effort to comply with guidance from the State of Colorado Office of Emergency Management and the Federal Emergency Management Agency to identify and mitigate the future impacts of natural and/or man-made hazard events. The Mitigation Plan is available for review at the following website: http://www.dola.state.co.us/dem/mitigation/gunnisonpdm_plan.pdf.

CLIMATE

The average temperatures for summer and winter for the area in which the Subdivision is located are contained in the table below.

<u>Season</u>	<u>High</u>	<u>Low</u>	<u>Mean</u>
Summer	83 degrees	38 degrees	60 degrees
Winter	40 degrees	-20 degrees	30 degrees

The area has an average annual rainfall of 18 inches and an average annual snowfall of 250 inches.

OCCUPANCY

As of January 1, 2012, fifty-three (53) homes in the Subdivision are occupied on either a full-time or part-time basis. One home is under construction within the Subdivision.

ADDITIONAL INFORMATION

In this section, we will discuss the following areas:

- Property Owners Associations
- Taxes
- Resale and Exchange Program
- Equal Opportunity in Lot Sales
- Listing of Lots

PROPERTY OWNERS ASSOCIATIONS

The North Mt. Crested Butte Property Owners Association (“**Master Association**”) and Prospect Property Owners Association (“**Prospect Association**”) have been incorporated as nonprofit corporations under the laws of the State of Colorado for this Subdivision.

North Mt. Crested Butte Property Owners Association

Each owner of a lot in the Subdivision will automatically be a member of the Master Association by virtue of ownership of a lot. The Declarant has the right to control the Master Association during the Declarant Control Period, as defined in the Master Declaration, through its right to appoint and remove all directors of the Master Association. The Declarant Control Period will terminate on the first to occur of (i) 60 days after Declarant no longer owns any portion of the Property, or (ii) the date on which Declarant, in its sole discretion, voluntarily terminates the Declarant Control Period.

Each member of the Master Association will be required to pay to the Master Association such Common Assessments, Special Assessments, Specific Assessments and Real Estate Transfer Assessments as are established by the Master Association pursuant to the Master Declaration. The amount of the initial annual common assessment payable to the Master Association by the owners of lots in the Subdivision has not yet been determined but is expected to be in the range of \$100 per lot per year. Common Assessments will be calculated and paid in accordance with procedures and regulations adopted and promulgated by the Board of Directors from time to time.

In addition to the Common Assessments, the Board of Directors may levy from time to time Special Assessments to cover unexpected or unbudgeted expenses or expenses in excess of those budgeted. The Association also has the power to levy Specific Assessments against one or more particular lot(s) to cover costs of providing benefits, items or services to such lot or occupants thereof, to cover costs incurred as a consequence of the conduct of the owner or such owner’s guests in violation of the Master Declaration, the Bylaws or the Rules and Regulations, or to cover necessary costs or expenses incurred by the Master Association that solely benefit one or more lots but fewer than all lots. The Association also has the power to levy and is currently levying a Real Estate Transfer Assessment upon the occurrence of any Real Estate Transfer as defined in the Master Declaration.

Each Assessment, together with interest, late charges, costs and reasonable attorneys’ fees is a charge on the land and shall be a continuing lien upon the lot against which each such

Assessment is made until paid. Each such Assessment, together with interest, late charges, costs and reasonable attorneys' fees, shall also be the personal obligation of the owner of such lot at the time the assessment arose.

The functions and responsibilities of the Master Association are to administer the terms of the Master Declaration, and to promote the health, safety, and welfare of the owners and users within the planned community, to collect and enforce the assessments, charges and liens imposed under the Master Declaration, to provide services to the lots and the owners and to undertake any functions permitted by law that benefit the lots and/or the owners. The Master Association does not hold architectural control over the Subdivision.

The level of budgeted assessments to be established by the Board of Directors is anticipated to be sufficient to meet the expected operating expenses, including maintenance and replacement costs, of the Master Association. However, if such assessments prove to be insufficient to meet the Master Association's expenses, the Board of Directors of the Master Association has the right to levy special assessments to cover the deficit. At this time, lot owners that apply for design review to the Design Review Board pay a fee for the services of the experts who serve on the Design Review Board without charge to the Master Association. This expense may be assumed by the Master Association in the future and included in the budgeted assessments of the Master Association.

Prospect Property Owners Association

Each owner of a lot in the Subdivision will automatically be a member of the Prospect Association by virtue of ownership of a lot. The Declarant has the right to control the Prospect Association during the Declarant Control Period, as defined in the Prospect Declaration, through its right to appoint and remove all directors of the Prospect Association, subject to the conditions specified in Article 5.2 of the Prospect Declaration. The Declarant Control Period will terminate on the first to occur of (i) 60 days after 75% of the total number of lots to be created pursuant to the Prospect Declaration have been conveyed to owners other than Declarant, or (ii) two years after the last conveyance of a lot by Declarant in the ordinary course of business; (iii) two years after any right to create new units pursuant to the Prospect Declaration was last exercised, or (iv) the date on which Declarant, in its sole discretion, voluntarily terminates the Declarant Control Period.

Unless exempt pursuant to the provisions of the Prospect Declaration, each member of the Prospect Association will be required to pay to the Prospect Association such Common Assessments, Limited Common Elements Assessments, Special Assessments, and Specific Assessments as are established by the Prospect Association pursuant to the Prospect Declaration. The amount of the initial Common Assessment payable by the owners of lots in the Subdivision has not yet been determined but is expected to be in the range of \$100 per lot per year. Common Assessments will be established each fiscal year based on a budget adopted by the Board and ratified by the owners. If during any fiscal year, it becomes apparent that the Common Expenses and/or revenues of the Prospect Association upon which the Common Assessments were based were in error, the Board may amend the budget and increase or decrease the Common Assessments for the balance of the fiscal year upon prior notice to all lot owners. If such amendment would increase the total Common Assessments for a fiscal year by more than 10% of

the Common Assessments called for by the budget ratified by the owners, the Board must submit the amended budget for ratification by the owners.

In addition to the Common Assessments, the Prospect Association may levy from time to time Special Assessments to cover unexpected or unbudgeted expenses or expenses in excess of those budgeted. The Association also has the power to levy Specific Assessments against one or more particular lot(s) to cover costs of providing benefits, items or services to such lot or occupants thereof, to cover costs incurred in bringing the lot into compliance with the terms of the Association documents or as a consequence of the conduct of the owner or such owner's guests, or to cover necessary costs or expenses incurred by the Prospect Association that solely benefit one or more lots but fewer than all lots.

Each Assessment, together with interest, late charges, costs and reasonable attorneys' fees is a charge on the land and shall be a continuing lien upon the lot against which each such Assessment is made until paid. Each such Assessment, together with interest, late charges, costs and reasonable attorneys' fees, shall also be the personal obligation of the owner of such lot at the time the Assessment arose.

The functions and responsibilities of the Prospect Association are to hold, manage and maintain certain property for the common benefit of some or all owners and their guests, to administer and enforce the covenants, conditions, restrictions, reservations and easements created by the Prospect Declaration, to collect and enforce the Assessments, charges and liens imposed pursuant to the Prospect Declaration, and for all other purposes set forth in the Articles of Incorporation of the Prospect Association. Architectural control over the Subdivision is held by the Design Review Board, the members of which are appointed by the Declarant for so long as the Declarant owns any portion of the Property.

The level of budgeted assessments to be established by the Board of Directors is anticipated to be sufficient to meet the expected operating expenses, including maintenance and replacement costs, of the Prospect Association. However, if such assessments prove to be insufficient to meet the Prospect Association's expenses, the Board of Directors of the Prospect Association has the right to amend the Assessments for the balance of the fiscal year or to levy special assessments to cover the deficit, as described above. At this time, lot owners that apply for design review to the Design Review Board pay a fee for the services of the experts who serve on the Design Review Board without charge to the Prospect Association. This expense may be assumed by the Prospect Association in the future and included in the budgeted assessments of the Prospect Association.

TAXES

Your obligation to pay property taxes for your lot begins upon transfer of title to your lot. Your property taxes are payable to Gunnison County which collects the ad valorem real estate taxes on behalf of all taxing authorities. Such taxing authorities include Gunnison County, Mt. Crested Butte Water & Sanitation District, Gunnison County Metropolitan Recreation District, Gunnison Watershed School District RE1J, Upper Gunnison River Water Conservancy District, Crested Butte Fire Protection District, Town of Mt. Crested Butte, Colorado River Water Conservation District and Reserve Metropolitan District No. 2. The 2011 tax rate is 108.047

mills, which is \$108.047 per \$1000 of assessed valuation. Under Colorado law, prior to building a residence on your lot, the assessed valuation of your lot will be approximately 29% (residential assessment ratio) of its actual value. Therefore, for unimproved lots ranging in value from \$850,000 to \$1,295,000, the property taxes are estimated to range between \$26,633.59 to \$40,577.05. After a residence is built on your lot, the residential assessment ratio will decrease and, as a result, the assessed valuation of your home will be 7.96% of its actual value. For example, for a lot improved with a home having an actual value of \$2,300,000.00, the property tax for the current full tax year of 2011 is estimated to be \$19,781.24 each year.

The Subdivision, which is located within the Town of Mt. Crested Butte and Gunnison County, is encompassed within the Mt. Crested Butte Water & Sanitation District, Gunnison County Metropolitan Recreation District, Gunnison Watershed School District RE1J, Upper Gunnison River Water Conservancy District, Crested Butte Fire Protection District, Colorado River Water Conservation District and Reserve Metropolitan District No. 2, the purposes of which are to reimburse for construction of water and sewage lines and treatment facilities and to operate and maintain said facilities in certain respects, and to provide County parks, trails and recreation activities, public schools, preservation and protection of water resources within the Upper Gunnison Basin, fire fighting and prevention, preservation, protection and regulation advocacy of water resources within the Colorado River Basin, reimbursement for road construction, roadway maintenance and snowplowing, and park and recreation activities, among other services and facilities. The tax levies of these authorities are included in the property taxes paid to Gunnison County.

RESALE OR EXCHANGE PROGRAM

The following restrictions contained in the Master Declaration or the Prospect Declaration may affect the resale of lots:

The Master Declaration provides that upon a Real Estate Transfer, as defined in the Master Declaration, which includes any conveyance of the lot, the transferee must pay a Real Estate Transfer Assessment equal to 2% of the fair market value of the transferred lot. By contract, we have agreed to pay the Real Estate Transfer Assessment on the sale of the lot to you at the time of closing.

The Prospect Declaration provides that you may not display signs or advertising devices of any kind in such a manner as to be visible outside any lot except signs approved by the Design Review Board.

We have no program to assist you in the resale of your lot nor do we have any provision to allow you to exchange one lot for another.

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, handicap, familial status 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.

LISTING OF LOTS

The lots included in this offering consist of 44 lots described below.

Lots D-1 through D-23, inclusive, Prospect at Mt. Crested Butte, Phase 2, according to the Plat filed March 30, 2005, as Reception No. 552219 of the records of Gunnison County, Colorado.

23 Lots in Phase 2

Lots E-1 through E-20, inclusive, and E-33, Prospect at Mt. Crested Butte, Phase 4, according to the Plat filed February 28, 2006, as Reception No. 563222 of the records of Gunnison County, Colorado.

21 Lots in Phase 4

Total Number of Lots in this Report: 44 Lots

COST SHEET, SIGNATURE OF SENIOR EXECUTIVE OFFICER

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.

Sales Price of Lot for Lot _____	\$ _____	
Cash Price of Lot _____	\$ _____	
Finance Charge _____	\$0 (no seller financing)	
Total _____		\$ _____

Estimated One-Time Charges (all estimates based upon a 4,000 sq. ft. home without a swimming pool with 600 sq. ft. garage and fire sprinkler system valued at \$1,000,000.00)

1.	Water connection fee	\$11,024.00	(based on \$5,544 for 2,000 sq. ft., plus \$2.74 per sq. ft. thereafter)
2.	Sewer connection fee	\$19,523.00	(based on \$10,223 for 2,000 sq. ft, plus \$4.65 per sq. ft thereafter)
3.	Construction costs to extend electric, gas and/or telephone services to lot line	None	
4.	Other (Identify):		
	Design Review Fees	\$6,500.00	
	Refundable compliance deposit to Design Review Board	\$10,000.00	
	Building permit fee	\$5,608.75	
	Refundable clean-up deposit to Town	\$20,000.00	
	Transportation impact fee	\$3,000.00	
	Fee for inspections and related items	\$5,476.48	
	Total		<u>\$81,132.23</u>
	Total of estimated sales price and one-time charges		\$ _____

Estimated annual charges, exclusive of utility use fees

1.	Taxes - Average unimproved lot after sale to purchaser	\$26,633.59 to \$40,577.05
2.	North Mt. Crested Butte Property Owners Association Common Assessments	\$100.00
3.	Prospect at Mt. Crested Butte Property Owners Association Common Assessments	\$100.00

The information contained in this Property Report is an accurate description of our subdivision and development plans.

PROSPECT DEVELOPMENT COMPANY, INC.
a Colorado corporation

By: _____
Title: Michael Kraatz, Vice President Real Estate & Development - Crested Butte

RECEIPT, AGENT CERTIFICATION AND CANCELLATION PAGE

PURCHASER RECEIPT

IMPORTANT: READ CAREFULLY

Name of Subdivision: PROSPECT AT MT. CRESTED BUTTE

ILSRP Number: 31294

Date of Report: June 1, 2012

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:

Bureau of Consumer Financial Protection
1700 G Street NW
Washington, DC 20552

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 _____ Section _____
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: PROSPECT AT MT. CRESTED BUTTE

Date of Contract: _____

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

Purchaser(s) signature _____ Date _____

RECEIPT, AGENT CERTIFICATION AND CANCELLATION PAGE

PURCHASER RECEIPT

IMPORTANT: READ CAREFULLY

Name of Subdivision: PROSPECT AT MT. CRESTED BUTTE

ILSRP Number: 31294

Date of Report: June 1, 2012

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:

Bureau of Consumer Financial Protection
1700 G Street NW
Washington, D.C. 20552

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 _____ Section _____
Name of Salesperson _____
Signature _____ Date _____

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