

## MONARCH HILLS - DISCLOSURE STATEMENT

As a material inducement to MONARCH BEACH VENTURE, a California limited partnership ("Seller"), to sell a condominium unit in the Monarch Hills condominium project ("Project") to the undersigned ("Buyer"), Buyer hereby acknowledges and agrees as follows:

1. Post-Tension Concrete System. Due to expansive soil conditions the buildings in the Project may have been built using a post-tension concrete system ("System"). The System involves placing steel cables under high tension in the concrete slab located beneath each building. Therefore, any attempt to alter or pierce the slab (e.g., sawing, cutting or drilling) could damage the integrity of the System and/or cause serious injury or damage to persons and personal property. Seller shall not be responsible for any damage or injury resulting or arising in connection with the alteration of the slab or foundation of any building in the Project.

2. Existing Structures. The Project is not new construction but rather a condominium development that has been rented as apartments and is at least four (4) years old. Condominium Units ("Units") within the Project have previously been rented to tenants. Buyer is acquiring a Unit "AS IS" as more fully provided in the Purchase Contract.

3. Tenant Use. As part of its development plan, Seller may continue to rent Units in the Project to tenants. Seller and the Monarch Hills Homeowners Association ("Association"), the homeowners association created for the Project, have entered into an agreement pursuant to which tenants in future phases of development are entitled to use the recreational and other facilities located in the Project. Owners will therefore, until all Units in the Project have been sold, share use of recreational and other facilities with tenants of Units in future phases of development of the Project.

4. Changes in Price and Incentives. Buyer understands and acknowledges that based upon market conditions or other factors deemed important by Seller in its sole and absolute discretion, Seller may decide at any time to reduce the prices of Units being offered for sale in the Project or to modify, alter or expand sales incentives offered. Seller is under no obligation to offer any such price reduction or additional incentive to Buyer.

5. Tax and Insurance Estimates. Buyer understands and agrees that any sum estimated for taxes or insurance affecting Buyer's Unit may increase or decrease depending on fluctuation of real property taxes or insurance rates.

6. View. Neither Seller nor any of its authorized agents, representatives or employees have made any representations, warranties or promises concerning any view, present or future, that may be enjoyed from all or any portion of any Unit or the Project. The view from any Unit, may change, be affected or obstructed by (a) construction or installation of improvements, structures, fences, walls and/or landscaping by Seller or other owners of property within or outside of the Project; and/or (b) the growth of trees, landscaping and/or other vegetation within or outside the Project. The Declaration does not contain any provisions intended to protect the view from any Unit or from any portion of the Project.

7. Homeowner Associations. The Project is subject to the jurisdiction of the Corniche Master Association ("Master Association") created pursuant to the Master Declaration of Covenants, Conditions, Restrictions and Reservation of Easements for Corniche ("Master Declaration") and the Monarch Hills Condominium Association ("Association") and the Declaration of Covenants, Conditions, Restrictions and Reservation of Easements for Monarch Hills ("Declaration"). The undersigned shall be responsible for paying homeowners association assessments to both the Master Association and Association in accordance with the Master Declaration and Declaration. Further information concerning homeowners association assessments is available at the sales office and Final Subdivision Public Report already received by Buyer.

8. Entry Gates. Vehicular entrances to the Corniche development have been equipped with mechanical entry gates. The entry gates are unmanned and Seller has provided no representations, warranties, promises or assurances that the Master Association will perpetually maintain the entry gates in operable condition or obtain any form of guard service. During the marketing program for the Project and the Corniche master development, the entry gates may be opened up to twenty-four (24) hours a day, seven (7) days per week. Seller has provided no assurances, representations or warranties with respect to the level of privacy, if any, which will be provided to owners as a result of the entry gates and has not provided any assurances that the entry gates will provide any form of security.

9. Architectural Standards and Guidelines. The Association has or will adopt architectural standards and guidelines ("Guidelines") governing the installation and alteration of improvements within the Project. The Guidelines and Declaration should be reviewed carefully before making plans to alter or install any improvement within any Unit. Since the Guidelines may be amended from time to time by the Architectural Control Committee ("ARC") created under the Declaration, each owner should request a current set of standards and Guidelines

prior to making plans to alter or construct any improvement within a Unit to determine which, if any, improvements require ARC approval.

10. Hard Surface Flooring. The Declaration prohibits the installation of hard surface flooring (wood, tile or marble, etc.) within any condominium Unit with the exception of Units located on the first floor of a building and the bathroom and kitchen areas of all of the Units (in which linoleum or vinyl flooring may be installed).

11. Soil Condition. The soil within the Project has "expansive" characteristics which is not unusual for many portions of Orange County. When the soil becomes wet it is prone to expand, and when it dries, it is prone to shrink. This expansion and contraction may cause damage to improvements built on the Project in the form of lifting and cracking. Special precautions should be taken in the design and construction of improvements such as patios, walls, slabs, planters, decking, landscaping, irrigation and the like. It is recommended that prior to any of the foregoing, that a professional soils engineer and structural engineer be employed to evaluate the soil conditions, and if necessary, to carefully design improvements to account for those conditions. Proper irrigation control and drainage can reduce the effects of expansive soils. However, even with proper irrigation and drainage, some soil movements may occur due to expansive soil. Buyer acknowledges that minor lifting and cracking can occur to improvements installed within the Project and Seller shall have no liability or responsibility in connection therewith. During the grading of the Project, professional geotechnical engineers were retained to monitor the grading and to prepare soils reports that document the work as applicable building codes. These reports are generally available from the City of Dana Point for public review. These reports show the results of soils testing, measures taken to accommodate landslides, surface slope failures or other problems that may have occurred during grading and other information pertaining to the soil.

12. Models. The model residences within the Project offer many ideas to help personalize the home. Special effects such as decorator paint colors, wallpaper, special wall textures, window treatments, mirrors and paneling, furniture and similar items found in the models, are not included in the purchase price for a Unit. If in doubt as to whether a particular amenity or improvement is included in a residence, Buyer should check with a sales representative.

13. Optional and Upgrade Items. There are specific cut-off dates for selecting optional and upgrade items. Buyer must select all optional and upgrade items prior to the prescribed cut-off dates. After the cut-off date, no upgrade or optional selections may be made. With the exception of optional

or upgrade items, if any, made available by Seller, no changes of any kind may be made to Buyer's Unit. Until the close of escrow for the Unit, Buyer shall not be entitled to perform any work to or within the Unit and any attempt to perform such work shall be considered a breach of the purchase agreement which will subject the sale to cancellation. From time to time certain materials become unavailable due to reasons beyond Seller's control. Seller reserves the right to substitute materials similar in quality for those materials that are unavailable.

14. Move-In/Closing Date. The date specified by Seller for move-in and/or closing of escrow is only an estimate. As Seller's sale program progresses, such date may be modified to take into consideration construction schedules, presale and other lender requirements and other development and sales issues.

15. Easements and Rights of Way. Recorded easements for utilities, storm drainage, sanitary sewers, right-of-way, landscape and other purposes are shown on a current title report and the recorded Subdivision Map for the Project. Buyer should review this information to determine whether any facilities or easements will, in any way, affect Buyer's new home.

16. Parking. Parking for owners of Units in the Project is to be within their assigned parking space. Parking for guests is in designated guest parking spaces throughout the Project. No parking for recreational vehicles is provided or allowed. Please review the Declaration and Master Declaration for further information regarding parking and other restrictions.

17. Affordable Units. Under an affordable housing agreement entered into between Seller and the City of Dana Point, a certain number of Units in the Project must be offered to low to moderate income individuals and families. More information concerning affordable units and the restrictions related thereto are available at the sales office.

18. Phases of Development. Seller intends to develop and sell the Project in two or more phases of development. Seller has provided Buyer with no assurances, promises or representations of any kind concerning the timing of the development process and Buyer acknowledges and understands that decisions as to when or if any particular phase of development of the Project will be developed or sold shall be within Seller's sole and absolute discretion.

19. Development of Surrounding Area. Neither Seller nor any of Seller's authorized agents or representatives have made any representations, promises or warranties to Buyer respecting improvements that may be constructed or uses that may

be conducted on property adjacent to or in the vicinity of the Project. If Buyer has any concerns respecting the use or improvement of real property adjacent to or in the vicinity of the Project or the impact thereof on the Project or Buyer's Unit, Buyer should inquire with the City of Dana Point as to any such uses or improvements.

20. Common Laundry Facilities. All Units in the Project have been constructed with hookups for a washing machine and dryer. The Project may currently have separate common laundry rooms with coin operated washers and dryers. It is Seller's intention that the common laundry facilities located in the laundry rooms will, over a period of time, be removed and that no common laundry facilities will be available in the Project. Seller has provided Buyer with no time frame regarding the removal of common laundry facilities and Buyer acknowledges and agrees that Buyer intends to procure and maintain a washing machine and dryer within Buyer's Unit.

By executing this Disclosure, Buyer acknowledges that Buyer has been informed, understands and agrees there are no collateral understandings, representations, agreements or warranties whether oral or written, other than those contained in the purchase contract executed by Buyer and Seller ("Purchase Contract"). No sales representative, employee or other agent of Seller has the authority to modify the terms of this disclosure or the Purchase Contract or make any agreements, representations or promises on behalf of Seller. Therefore, Buyer acknowledges, understands and agrees that although Buyer had and may in the future have conversations with sales representatives and other agents of Seller that none of the information contained in such conversations including, without limitation, representations, promises or statements of any kind whatsoever shall be binding upon Seller unless same are added by written agreement attached to the Purchase Contract and duly executed by Buyer and Seller.