



**M3 EAGLE, L.L.C.**  
**FINANCIAL STATEMENTS**  
March 31, 2009

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The Members  
M3 Eagle, L.L.C.  
Prescott, Arizona

We have reviewed the accompanying balance sheet – income tax basis of M3 Eagle, L.L.C as of March 31, 2009, and the related statements of income – income tax basis and members' equity – income tax basis for the three months then ended, in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. All information included in these financial statements is the representation of the management of M3 Eagle, L.L.C.

A review consists principally of inquiries of the Company's management and analytical procedures applied to financial data. It is substantially less in scope than an audit in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion..

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with the income tax basis of accounting as described in Note 1.

*Simek & Company*

Phoenix, Arizona  
June 22, 2009

**M3 EAGLE, L.L.C.**  
**BALANCE SHEET – INCOME TAX BASIS**  
March 31, 2009

**ASSETS**

**CURRENT ASSETS**

Cash and Cash Equivalents (Notes 1 and 3)	\$ 3,250,918
Total Current Assets	<u>3,250,918</u>

**LAND AND CAPITALIZED COSTS (Notes 2, 4 and 8)**

Land Under Entitlement Phase	53,052,140
Land Held For Investment or Exchange	<u>23,101,970</u>
Total Land and Capitalized Costs	<u>76,154,110</u>

**OTHER ASSETS**

Escrow Deposit (Note 5)	100,000
Organization Costs - Net of Accumulated Amortization (Note 1)	<u>39,173</u>
Total Other Assets	<u>139,173</u>

<b>TOTAL ASSETS</b>	<b><u>\$ 79,544,201</u></b>
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**LIABILITIES AND MEMBERS' EQUITY**

**CURRENT LIABILITIES**

Accounts Payable	\$ 169,260
Note Payable - Member (Note 4)	15,000,000
Accrued Interest Payable (Note 4)	<u>90,293</u>
Total Current Liabilities	<u>15,259,553</u>

<b>TOTAL LIABILITIES</b>	<b>15,259,553</b>
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<b>MEMBERS' EQUITY (Note 4)</b>	<b><u>64,284,648</u></b>
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<b>TOTAL LIABILITIES AND MEMBERS' EQUITY</b>	<b><u>\$ 79,544,201</u></b>
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See Accompanying Notes and Accountants' Report.

**M3 EAGLE, L.L.C.**  
**STATEMENT OF INCOME – INCOME TAX BASIS**  
**For The Three Months Ended March 31, 2009**

<b>REVENUES</b>	
Interest Income	\$ 7,504
Rental Income	14,500
Total Revenues	<u>22,004</u>
<b>EXPENSES</b>	
Bank Charges	2,471
Amortization	867
Total Expenses	<u>3,338</u>
INCOME BEFORE INCOME TAXES	18,666
PROVISION FOR INCOME TAXES (Note 6)	<u>--</u>
NET INCOME	<u>\$ 18,666</u>

See Accompanying Notes and Accountants' Report.

**M3 EAGLE, L.L.C.**  
**STATEMENT OF MEMBERS' EQUITY – INCOME TAX BASIS**  
**For The Three Months Ended March 31, 2009**

MEMBERS' EQUITY, Beginning	\$ 64,265,982
Net Income	18,666
Member Distributions	<u>          --</u>
MEMBERS' EQUITY, Ending	<u>\$ 64,284,648</u>

See Accompanying Notes and Accountants' Report.

**M3 EAGLE, L.L.C.**  
**NOTES TO FINANCIAL STATEMENTS**  
March 31, 2009

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Basis of Accounting

The accompanying financial statements are presented on the basis of accounting used by the Company for federal income tax reporting. While the Company's income tax basis of accounting reflects accrual accounting, it differs from generally accepted accounting principles (GAAP) primarily in that certain costs capitalized pursuant to the Internal Revenue Code are required to be expensed as incurred under GAAP. Further, only under GAAP is loss recognition required relative to the carrying amount of property considered to be impaired. Accordingly, the accompanying financial statements are not intended to present financial position and results of operation in conformity with generally accepted accounting principles.

Organization Costs

Organization costs in the amount of \$52,000 have been capitalized and are being amortized over fifteen years under the straight-line method.

Cash Equivalents

For purposes of the statement of cash flows, the Company considers all money market mutual funds to be cash equivalents.

Use of Estimates

The preparation of financial statements in conformity with the income tax basis of accounting requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**NOTE 2: COMPANY STRUCTURE, MANAGEMENT AND OPERATIONS**

The Company is a Texas limited liability company managed by M3 Builders, L.L.C., a related entity via common ownership. The members of the Company, which is currently on record to exist in perpetuity, have limited liability under state law.

The Company owns approximately 17,000 acres of undeveloped land north of Eagle, Idaho. Substantially all of the Company's operations are currently devoted to the entitlement process for approximately 6000 of those acres that are intended to become a master planned community. The remaining acreage is being held for investment or potential exchange.

**M3 EAGLE, L.L.C.**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**MARCH 31, 2009**

**NOTE 3: CASH AND CASH EQUIVALENTS**

Cash and cash equivalents consist of:

Checking Account	\$ (108,892)
Sweep Account (Money Market Mutual Fund)	<u>3,359,810</u>
<b>Total</b>	<b><u>\$ 3,250,918</u></b>

The Company maintains all of its cash and cash equivalent balances at one national banking institution and an affiliated national brokerage institution, respectively. These balances are insured under either the FDIC or the U.S. Treasury Department Temporary Guarantee Program. Following is a summary of total insured and uninsured amounts of cash and cash equivalents at March 31, 2009:

	<u>Banking Institution</u>	<u>Brokerage Institution</u>	<u>Total</u>
Institution Statement Balances	\$ 25,000	\$ 3,359,810	\$ 3,384,810
Less: Insured Amounts	<u>(25,000)</u>	<u>(3,359,810)</u>	<u>(3,384,810)</u>
<b>Uninsured Amounts</b>	<b><u>\$ --</u></b>	<b><u>\$ --</u></b>	<b><u>\$ --</u></b>

**NOTE 4: NOTE PAYABLE - MEMBER**

The Company is obligated to its majority equity member under a \$15 million unsecured promissory note which bears interest at the six-month LIBOR rate plus 5.40% adjusted semi-annually. The rate of interest, which is payable monthly, is subject to change by the lender based on changes in its cost of borrowing. Under the provisions of this note, the Company is precluded from making any distributions to its members prior to repayment in full of the related indebtedness. This note matured February 25, 2009. However, subsequent to March 31, 2009 the Company received notification of the lender's intent to extend the maturity date of the loan for at least one year beyond February 25, 2009.

During the three months ended March 31, 2009, the Company incurred \$297,000 of interest expense under the note, all of which is capitalized as part of the land under entitlement phase. At March 31, 2009, \$90,293 of this interest expense is reported as accrued interest payable.

**NOTE 5: ESCROW DEPOSIT**

The escrow deposit of \$100,000, which is nonrefundable, is related to a pending escrow agreement involving the acquisition of real estate on or before November 7, 2009 at a price of \$1,149,000. Under this agreement, the Company may elect to withdraw from closing the transaction subject to forfeiture of its deposit.

**M3 EAGLE, L.L.C.**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
March 31, 2009

**NOTE 6: INCOME TAXES**

The Company is a pass-through entity for income tax purposes. Therefore, no provision or liability for income taxes has been included in these financial statements.

**NOTE 7: CONCENTRATIONS**

Financing

The Company currently relies on its majority equity member for all equity and debt financing of its operations.

**NOTE 8: RELATED PARTY TRANSACTIONS**

To the entity serving as the Company's manager, the Company pays a monthly general and administrative fee all of which is capitalized as part of the land under entitlement phase.