

Public Offering Statement

RIVER QUEST SUBDIVISION, PHASE 1

PART A. General Information.

The following information is provided in compliance with AS 34.08.530(a).

1. Declarant Name/Address. The Declarant (also referred to as “Seller”), is DENCO, INC., d.b.a. RIVER QUEST, mailing address: P.O. Box 3457, Soldotna, AK 99669, office (principal) address: 45846 Porter Road, Kenai, AK 99611, is the owner of real property located in the Kenai Peninsula Borough, Alaska:

Government Lots 5 and 6, Section 19, T5N, R10W, S.M., Kenai Recording District, Third Judicial District, State of Alaska.

2. Description of Project. The Declarant has established a general plan for development of a residential **planned community**, named River Quest Subdivision (“the Project”). Phase 1 of the Project is:

River Quest Subdivision, Phase 1, according to Plat No. KN-2004-39, recorded on 7/16/04 at Serial No. 2004-006959, Kenai Recording District, Third Judicial District, State of Alaska.

Phase 1 is located within River Quest RV Resort, formerly known as Porter’s Campground or Porter’s, a seasonal recreational resort, with annual leases and transient guests, a lodge, boat launch, and other facilities, south of Porter Road (formerly known as Ciechanski Road), between Kenai and Soldotna, Alaska, along the Kenai River. Structures were placed on portions of the Resort property by annual lessees, with the permission of former owners. The Declarant is selling only the real estate (land), with the right to use the Common Area -- land owned by, or easements granted to, the River Quest Lot Owners Association. The Project plan for existing structures is described in this Statement, Part A, Section 19.

Phase 1 contains one- or two-family seasonal residential lots, with public and private gravel roads, and boat launches (Lots 56-57, 85). Utilities are provided to each lot as follows: community water and septic system, electric, telephone, and natural gas (if approved, but not to Lots 32-38). Each lot has access to the Association’s Common Area, which includes one boat moorage space along the waterways described as the Canal, Kenai River or Slough on the River Quest Subdivision Plat, and other common areas and facilities described in the River Quest Subdivision CCRs. All boat moorage is subject to Kenai River water levels.

3. Number of Units. There are 87 individual Lots in Phase 1, plus Tract A, B, C and D. Lots 1-89 are for sale, or will be retained by Declarant, except for Lots 50 and 53, which do not exist. Tracts A and B are reserved by the Declarant. Tract C is the private right of way through Phase 1, which will be owned by the River Quest Lot Owner’s

Association. Tract D is the septic leach field, located on Government Lot 5, north of Porter Road. The Association's easements on Lots 56-57 and Lot 85 are restricted to use for boat launching and related activities.

PART A - GENERAL INFORMATION, cont.

4. Project Documents. The Project plan is described in several documents. A copy of each of these documents is part of the Public Offering Statement ("POS") packet. A brief description of these documents is below.

a. Subdivision Plat. The River Quest Subdivision Plat ("Plat") shows Lot and Tract boundaries, waterways (Canal, Kenai River, Slough), some of the easements in the Project, and contains "Notes," describing some restrictions on use of the property, which were required to be placed on the Plat by the Kenai Peninsula Borough.

b. Lot Owners Association Documents. The Articles and Bylaws of the River Quest Subdivision Lot Owners Association ("Association") establish the powers, duties and organizational structure of the Association, which is an Alaska nonprofit corporation, and the rights and duties of its Lot Owner members.

c. Declaration. The Declaration of Covenants, Conditions and Restrictions ("CCRs") establishes the planned community and describes the Common Area (Articles II and III); contains use, occupancy and alienation restrictions on Lots (Article IV); sets basic ground rules for the Association (Article V); describes certain rights of Association member/Lot Owners (Article VI); establishes a common or special expense assessment process (Article VII); contains provisions for insurance and taxes (Article VIII), maintenance and utilities (Article IX), building restrictions (Article X), annexation of additional property (Article XI), mortgage rights (Article XII), development rights retained and reserved by the Declarant (Article XIII), amendment of the Declaration (Article XIV), other general items (Article XV) and transition provisions (Article XVI). Exhibits A and B to the Declaration are summaries of easements for the Project. Exhibit C contains the Waterway Traffic Plan for the Canal, Kenai River and Slough .

d. River Quest Subdivision Easements. Various right of way and use easements for the Project are established in the River Quest Subdivision Easements documents. Exhibits A and B to the Declaration contain brief summaries of these easements. A general map showing the location of these easements on the Project is available for review at the River Quest RV Resort office. A separate map showing easements for each particular Lot is included in that Lot's POS packet.

e. Association Rules. The Association Rules contain more detailed instructions and procedures for items in the Declaration.

f. Purchase Contracts. Blank forms of a Purchase and Sale Agreement, Promissory Note, and Deed of Trust to finance the purchase of a Lot in River Quest Subdivision is included in the POS packet. However, each Lot purchase and sale negotiation between the Declarant (Seller) and the Buyer is unique; therefore, the final version of these documents signed by Buyer at closing may differ from the forms.

g. Other Contracts or Leases. There are existing annual or seasonal leases for campsite spaces at River Quest RV Resort, LLC, which will terminate on 9/30/04, 12/31/04 or 12/31/05 (for one lot). Purchases of Subdivision Lots are subject to these leases. The Declarant has reserved the right to continue making these types of leases on property owned by Declarant, in the Declaration. There are no contracts or leases that can be cancelled by the Association under AS 34.08.360.

PART A - GENERAL INFORMATION, cont.

5. Current Balance Sheet/Projected Budget. A current balance sheet, and the the projected FY 2005 budget for the Association, are included in the POS packet.

6. Services/Expenses Not Reflected In the Budget. None.

7. Fees Due From Purchaser At Closing. \$500 for Association reserves; plus Buyer's standard closing costs and other related costs to purchase the real property, detailed in Purchase and Sale Agreement and closing statement. Costs will be higher for Seller-financed purchases.

8. Liens, Defects and Encumbrances. There is a first deed of trust by the Declarant's financing institution, and other encumbrances of record. The Subdivision is included in an oil drilling lease issued by the State of Alaska. A title report describing these encumbrances will be provided in the POS packet.

9. Financing. Cash or terms to be negotiated. Typically, if the purchase of a lot is to be Seller-financed, Declarant will require a 30% down payment, 5-year promissory note, 8%-9% compound interest, and deed of trust; however, all terms are subject to the credit-worthiness of Buyer. Seller will obtain a credit report on Buyer, at Buyer's expense, for Seller-financed purchases. Costs of setting up an escrow account for Seller-financed purchases are the responsibility of Buyer.

10. Warranties. There are NO warranties offered or made by the Declarant, that cover the purchase of a Subdivision Lot, other than the warranties contained in a statutory warranty deed, under Alaska law -- which all involve title, not the condition of the real property or any improvements. All Lots are sold "AS IS."

11. Purchaser's Right to Cancel. Notice to Potential Lot Purchasers:

a. Within 15 days after receipt of a this public offering statement, a purchaser, before conveyance, may cancel any contract for purchase of a Lot from Declarant.

b. If Declarant fails to provide a public offering statement to a purchaser before conveying a Lot, the purchaser may recover from the Declarant up to 10 percent of the sales price of the Lot plus 10 percent of the share, proportionate to the common expense liability of the Lot, of any indebtedness of the association secured by security interests encumbering the common interest community.

c. A purchaser who receives the public offering statement, or a preliminary version of the public offering statement that reasonably reflects the contents of the public offering statement that is subsequently delivered to a purchaser, more than 15 days before signing a contract to purchase a Lot cannot cancel the contract.

12. Judgments Or Pending Suits. There are no unsatisfied judgments or pending suits against the Association or the Declarant.

PART A - GENERAL INFORMATION, cont.

13. Escrow Accounts. Deposits (earnest money or down payments) made in connection with the purchase of a Lot will be held in an escrow account until closing. The deposit may be returned to the purchaser under certain conditions set forth in the Purchase and Sale Agreement, and will be returned to the purchaser if the purchaser cancels the contract as provided in AS 34.08.580. The name and address of the escrow agent is First American Title, 105 Trading Bay Rd., Ste. 103, Kenai, AK 99611.

14. Restraints on Alienation. There are restraints on alienation of a Lot: no leasing or renting a Lot. There are restraints on alienation of the Common Area (including the Limited Common Area): no severance or assignment of rights. There are restrictions on use, occupancy and development of Lots and the Common Area. See, Project Documents, particularly, the Subdivision Plat ("Plat"), the CCRs, Easements, and Association Rules.

15. Insurance. Declarant has provided property and liability insurance for the Common Area, as defined in the CCRs, which cost will be transferred to the Association.

16. Fees and Charges for Use of Common Area. There are no fees or charges for use of the Common Area at this time. There are charges for using utilities such as community water and septic.

17. Improvements. Declarant has obtained a loan for the purposes of making the following improvements: upgrade to 100 amp electrical lines, a new water system, removal or relocation of septic and travelways to within rights of way where necessary.

18. Zoning and Other Land Use Requirements. The Project is located in the Kenai Peninsula Borough, which has minimal zoning. The Project is not located in any zone, but is subject to Borough ordinances restricting development along the Kenai River, such as the Anadromous Stream Habitat Protection Area ordinance, KPB 21.18, and the Floodplain Management Ordinance, KPB 21.06.

19. Other Features of Common Interest Community.

a. Existing Structures. Structures were placed on portions of the Resort property by seasonal or annual lessees, with the permission of former owners. The

Declarant is selling only the real estate (land), with the right to use the Common Area (including boat moorage spaces). The Project plan for existing structures is for all structures to be removed at the end of the existing lease period (see Section 4(g), above); unless the Buyer purchases the structure from the lessee, in which case the structure may remain, if it meets the conditions set forth in the Governing Documents. If the Buyer purchases an existing structure from a lessee, then the Buyer does so at Buyer's own risk. Declarant makes no warranties regarding such structures.

b. Existing Leases. There are existing leases on some Lots, which will terminate on 9/30/04, 12/31/04 or 12/31/05; a purchaser will take title subject to such leases, and may not take possession until such leases terminate.

PART A - GENERAL INFORMATION, Sec. 19, cont.

c. Permits. The Project, and some or all of the Lots, are subject to numerous permits required by law, including the following: (i) State of Alaska, DEC community water and domestic wastewater disposal system permits; (ii) U.S. Army Corp of Engineers dredging permit; (iii) KPB Conditional Use Permit(s); (iv) KPB floodplain permits; (v) State of Alaska DNR permit (dock). These permits contain restrictions on development and use of Lots. These permits are on file at the River Quest office and may be inspected during normal business hours, by request.

d. Transition Provisions. The CCRs, Article XVI contain Transition Provisions that apply to any person purchasing a Lot with frontage or area on or within the Canal, Kenai River or Slough. A summary of these provisions is as follows. There are existing roads and utilities in the Project: community water and septic system, and electric. Beginning in 2004, the Declarant will relocate existing road ways, and relocate, take over or upgrade the following utilities (and related facilities): water, electric and telephone. Until these projects are completed, existing road ways and utility easements may be used; afterwards, platted rights of way must be used, and utility easements will be extinguished and re-located to the new documented locations. All existing structures must be moved to outside the setbacks from the Canal, River or Slough, in compliance with the KPB Conditional Use Permit for that parcel, and above the Kenai River floodplain, according to standards set in KPB 21.06, by 8/31/06. Bank restoration must be performed in compliance with standards set by Kenai River ordinances or publications, or by the Association, by 8/31/06. A Waterway Traffic Plan is being developed by the Declarant, effective 5/1/05. See, CCRs, Exhibit C.

e. Special Declarant Rights. Declarant has reserved the right to continue prior existing activities on Lots and Tracts owned by Declarant, including (but not limited to) the following: (i) rental/leasing of campsites, recreational vehicle spaces, cabins, boat launch; (ii) guide services and booking services; (iii) lodging, restaurant; (iv) boat moorage along the Canal, River or Slough frontage. See, CCRs, Exhibit C.

f. Disclaimer. It is the position of Declarant that AS 34.08.560, covering so-called "conversion property," does not apply to the Project, because existing structures on the property, except those actually owned by Declarant, were constructed as temporary

personal property of lessees.

Part B. Development Rights.

The following information is provided in compliance with AS 34.08.540.

In the CCRs, Article XIII, the Declarant has reserved the right to further develop the River Quest Subdivision Project. It is contemplated that further development shall occur in two additional phases, as described below.

1. Number of Units. For Phase 2, the portion (approximately 27 acres) of Government Lot 5, Section 19, T5N, R10W, S.M, Kenai Recording District, north of Porter Road, the Declarant has reserved the right to create a maximum of 100 Lots. For Phase 3, further subdivision of Tract A (3.61 acres), River Quest Subdivision, Declarant has reserved the right to create a maximum of 20 Lots.

PART B - DEVELOPMENT RIGHTS, cont.

2. Use Restrictions. Declarant makes (and has made) no representations as to the number or the percentage of the units that may be created that will be restricted exclusively to residential use.

3. Non-Residential Use. Declarant makes (and has made) no representations as to the number or the percentage of the units that may be created that may be used for non-residential purposes.

4. Description of Development Rights. Declarant has reserved the right to develop lots in Phase 1 as year-round residential lots. Declarant has reserved the right to develop lots in Phase 2 and Phase 3, as stated above, in Part B, Section 1, as residential or year-round lots, including the right to enter lots in Phase 1 to install roads, utilities or other facilities for these additional phases. Declarant may use any lot or tract owned by Declarant for sales, management, models, and construction related to developing, improving and selling lots, tracts or parcels in the Project. Lots in Phase 2 and Phase 3 are intended to have the right to use the boat launches on Lots 56-57 and 85, and may be assigned boat moorage spaces within the Project. These Phase 2 and Phase 3 lots will be brought into the Project through annexation pursuant to amendment to the CCRs. However, CCR provisions for Phase 2 and Phase 3 lots may be different from Phase 1 lots. Declarant is not required to develop Phase 2 or Phase 3.

5. Change In Allocated Interests. Each Phase 2 and Phase 3 lot will have one vote as an Association member; and therefore, allocated interests in Phase 1 will be decreased accordingly, up to the maximum number of lots reserved for Phases 2 and 3, as set forth in Part B, Section 1, above.

6. Building Restrictions. Declarant makes (and has made) no assurances, regarding the extent to which a building or other improvement that may be erected under a development right in any part of the common interest community will be compatible with

existing buildings and improvements in the common interest community in terms of architectural style, quality of construction, and size.

7. Improvements/Limited Common Elements. Declarant makes (and has made) no assurances regarding a general description of improvements that may be made and limited common elements that may be created within a part of the common interest community under a development right reserved by the Declarant.

8. Building Location Restrictions. Declarant makes (and has made) no assurances as to the location of any building or other improvement that may be made within a part of the common interest community under a development right reserved by Declarant.

9. Restrictions on Limited Common Elements. Declarant makes (and has made) no assurances that the limited common elements created under a development right reserved by the Declarant will be of the same general type and size as the limited common elements within other parts of the common interest community, or regarding the type and size planned.

PART B - DEVELOPMENT RIGHTS, cont.

10. Proportion of Limited Common Elements. Declarant makes (and has made) no assurances that the proportion of limited common elements to units created under a development right reserved by the declarant will be approximately equal to the proportion existing within other parts of the common interest community.

11. Use, Occupancy, Alienation Restrictions. Declarant makes (and has made) no assurances that each restriction in the Phase 1 CCRs affecting use, occupancy, and alienation of a unit will apply to each unit created under a development right reserved by the Declarant, or makes (and has made) no statement regarding any differentiation that may be made as to the units, except as provided in Part B, Section 4, above.

12. Application of Development Rights. Statements made in Part B apply if a development right is exercised by the Declarant, and may not apply if a development right is not exercised by Declarant.