IN THE UNITED STATES BANKRUPTCY COURT
FOR THE DISTRICT OF COLORADO

In re:	)	
	)	
RIVER CANYON REAL ESTATE	)	Case No. 12-20763 EEB
INVESTMENTS, LLC	)	Chapter 11
	)	
Debtor.	)	

DISCLOSURE STATEMENT FOR FIRST AMENDED PLAN OF REORGANIZATION PROPOSED BY RIVER CANYON REAL ESTATE INVESTMENTS, LLC

I. INTRODUCTION

This is the disclosure statement (the "Disclosure Statement") in the chapter 11 bankruptcy case of River Canyon Real Estate Investments, LLC (referred to hereinafter as "River Canyon" or "Debtor"). This Disclosure Statement contains information about the Debtor and describes the First Amended Plan of Reorganization (the "Plan") filed by the Debtor on November 28, 2012. A full copy of the Plan is provided with this Disclosure Statement.

Pursuant to the terms of the United States Bankruptcy Code, this Disclosure Statement has been presented to and approved by the Bankruptcy Court [Language will be included upon receipt of Court approval]. Approval of the Bankruptcy Court is required by statute but does not constitute a judgment by the Court as to the desirability of the Plan or as to the value or suitability of any consideration offered under the Plan.

A. Purpose of this Document

The Debtor has prepared this Disclosure Statement to provide information sufficient to permit a creditor to make a reasonably informed decision in exercising the right to vote upon the Plan. The material here presented is intended solely for that purpose and solely for the use of known creditors of the Debtor, and, accordingly, may not be relied upon for any purpose other than determination of how to vote on the Plan.

This Disclosure Statement describes:

- The Debtor and significant events during the bankruptcy case;
- How the Plan proposes to treat claims or equity interests of the type you hold (i.e., what you will receive on your claim or equity interest if the Plan is confirmed);
- Who can vote on or object to the Plan;

- What factors the Bankruptcy Court (the "Court") will consider when deciding whether to confirm the Plan;

- Why the Debtor and Plan Proponent believe the Plan is feasible, and how the treatment of your claim or equity interest under the Plan compares to what you would receive on your claim or equity interest in liquidation; and,

- The effect of confirmation of the Plan.

Be sure to read the Plan as well as the Disclosure Statement. This Disclosure Statement describes the Plan, but it is the Plan itself that will, if confirmed, establish your rights.

B. Deadlines for Voting and Objecting; Date of Plan Confirmation Hearing

The Court has not yet confirmed the Plan described in this Disclosure Statement. This section describes the procedures pursuant to which the Plan will or will not be confirmed.

1. *Time and Place of the Hearing to Confirm the Plan*

The hearing at which the Court will determine whether to confirm the Plan will take place on _____, at _____, in Courtroom C-502, at the Byron Rogers Courthouse, 1929 Stout Street, Denver, Colorado.

2. *Deadline for Voting to Accept or Reject the Plan*

If you are entitled to vote to accept or reject the Plan, vote on the enclosed ballot and return the ballot in the enclosed envelope to Sender Wasserman Wadsworth, P.C., attn. David V. Wadsworth, Esq., 1660 Lincoln St., Suite 2200, Denver, CO 80264 (counsel for the Debtor). See section V.A. below for a discussion of voting eligibility requirements.

Your ballot must be received by _____ or it will not be counted.

3. *Deadline for Objecting to the Confirmation of the Plan*

Objections to the confirmation of the Plan must be filed with the Court and served upon counsel for the Debtor by _____.

4. *Identity of Person to Contact for More Information*

If you want additional information about the Plan, you should contact David V. Wadsworth, counsel for the Debtor, at (303) 296-1999 or dwadsworth@sww-legal.com.

II. DEFINITIONS

Unless otherwise defined herein, capitalized terms used herein have the meanings ascribed thereto in the Plan (see Article II of the Plan entitled "Definitions and Rules of Interpretation").

III. BACKGROUND

A. Description and History of the Debtor's Business

1. *Overview of the Ravenna and The Golf Club at Ravenna Project*

In January 2002, River Canyon purchased the property known today as Ravenna and The Golf Club at Ravenna. The property consisted of 649 acres, located approximately at Waterton Canyon Road and Wadsworth Boulevard in the southwest Denver metropolitan area. It is bordered to the south by the Roxborough Park subdivision, to the west by the Pike National Forest, and the Platte River to the north. River Canyon purchased the property to develop home sites and a private golf course.

Before and through August 2005, River Canyon pursued the various Douglas County approvals required to develop the property. In July of 2005, River Canyon began construction on the first filing of residential lots and the golf course. This portion of the construction was completed in November 2006, and lot sales for Filing 1 began around that time. The second and last phase of construction began in June of 2007 and was completed by January 2008.

Ravenna and The Golf Club at Ravenna, as conceived and ultimately constructed, was sufficiently complete to begin selling lots in December 2006. The golf course opened in June 2007, and River Canyon began selling lots in Filing 2 in February 2008.

The project consists of (i) 243 home sites that average slightly over one-half acre for a total of 143.9 acres, (ii) an 18-hole golf course, including 5 acres for clubhouse and recreation facilities, and 2 acres for a county park and various outbuildings, for a total of 163.7 acres, (iii) 324.2 acres of open space, and (iv) roads and rights of way of 16.2 acres.

As of the Petition Date, River Canyon had sold 77 of the 243 lots in the project. On the petition date, the real property and appurtenant interests owned River Canyon consisted of the following:

- 166 finished residential lots.
- Water tap certificates for 38 lots.
- 324.2 acres of dedicated open space designated as a wildlife preserve.
- 18-hole championship Jay Morrish signature golf course occupying 156.7 acres.
- Roads, rights of way and drainage facilities of 16.2 acres.
- Recreation areas of 7 acres (5 acres for clubhouse and recreation amenities and a 2 acre county park).

2. *The Golf Club at Ravenna*

The Ravenna project included the creation of "The Golf Club at Ravenna," a maximum 425-member club with private golf course marketed to prospective members and sold as a deposit club. At the beginning of the marketing, Club membership deposits were priced at $50,000. The membership deposits were later increased to $75,000. As of the Petition Date, The Golf Club at Ravenna has 43 fully paid members and 17 partially paid members. There were also 11 Certificate Members who pay no dues. In addition, River Canyon has created an annual membership, comprised on the Petition Date of 29 members who pay only monthly dues and the required food minimum of $100 per month. As of the Petition Date, there were 365 unsold full memberships.

River Canyon intended to construct a permanent clubhouse for The Golf Club at Ravenna, partially funded through membership deposits. The membership agreements with club members provided that 25% of the amount of membership deposits would be held by River Canyon until such time as the clubhouse was constructed. However, River Canyon did not sell enough memberships prior to the Petition Date to fund such construction. As of the Petition Date, the membership deposit account funded with this 25% holdback was held by Cordes & Company. This account and Cordes & Company's involvement in the project is discussed in more detail below.

3. *Ravenna Metropolitan District*

In 2004, the Ravenna Metropolitan District ("RMD") was formed as a special district pursuant to C.R.S. § 32-1-101 et seq. RMD provides various services to Ravenna residents, including sanitation, water, parks and recreation and street improvements. Attorney Dianne Miller advised River Canyon regarding the need for a metropolitan district. Ms. Miller was retained to assist in the creation of the RMD. She was also retained as RMD's general counsel upon its formation through 2011.

The Golf Club at Ravenna is *not* within the RMD.

4. *Ravenna Homeowners' Association*

In connection with the creation of the community, River Canyon formed The Ravenna Homeowners Association (the "HOA") to provide for the operation, administration, use and maintenance of certain common areas and other property described in the Declaration for Ravenna. River Canyon is the "Declarant" under the Declaration. The HOA is a not-for-profit corporation. To pay for its activities, the HOA assesses the sold Ravenna lots and owners of those purchased lots. The remaining lots owned by River Canyon are not in the HOA. Lots are subject to HOA fees as they are sold and subsequently annexed into the HOA. Governance of the HOA under the Declaration is by a board of directors.

The HOA was incorporated in August of 2005 and first began operations in December of 2006. It commenced assessing monthly dues in July of 2007. The dues are determined by an approved budget created and presented to the homeowners and lot owners before the end of the year. The total budget for 2009 was $257,062, and it remained the same in 2010. The budget for 2011 was $278,000. Since the inception of the HOA, River Canyon has contributed $50,000 to that

association. Seventy-seven lots within the Ravenna Subdivision pay HOA dues. Monthly dues are currently $265 per lot or home. This budget includes maintenance for landscaped areas at the front entry, electric costs for fountains and lights, maintenance of the front gate and guard house, and a security service to guard the facility.

5. *Employees and Benefits*

River Canyon, through a professional organization, has six full-time employees year round and an additional five to six part-time employees during the golf season, high season for which is from March 1 to October 30. For the full-time employees, all accounting, payroll, and benefits are provided by the professional employment organization. Benefits include health care/medical, life insurance (optional), vacation accrual, sick pay accrual, a 401(k) retirement plan (optional), and uniforms if required. Part-time staff is managed through PayChecks with unemployment insurance purchased directly by River Canyon.

Payroll for the full-time employees averages $30,000 per one month cycle and $20,000 for the part-time staff during the golf season. Total estimated costs for salary and benefits is $400,000 for the eight-month high season and $120,000 for the four-month off-season. The staff is engaged in golf course management and maintenance.

6. *Competition*

Ravenna is located on the southwest quadrant of the Denver Metropolitan area. There are 6 golf courses within a five-mile radius of the Ravenna course. Of these, 1 is public and 5 are private. All of the courses represent some form of competition.

7. *Members, Management and Related Entities*

a. Members and Managers

River Canyon is a Colorado limited liability company. Its sole manager is MLC Development, LLC, whose managing member is Glenn Jacks.

b. Obligations Owing to and From Managers and Members

River Canyon scheduled a prepetition debt owed to MLC Development for unpaid management fees in the amount of $612,000.

B. Project Funding

Public infrastructure improvements and construction costs for the project exceeded $70 million. Payment of project costs was funded by equity contributions, private debt, and sales of lots and golf club memberships. Some public infrastructure was funded by the RMD's issuance of or participation in bonded public debt. No lot or golf membership sales were made after 2010.

1. *Equity Funding*

Approximately $7.6 million was raised from 13 individuals, whose equity contributions ranged from $80,000 to $2.5 million. These funds were contributed from 2001 through 2006.

2. *Private Debt Funding*

Additional project funding was provided through bank loans. River Canyon first obtained a loan from AmFirst Bank (Colorado) in the amount of $3.2 million. This loan was extinguished and a new loan for $7.8 million was obtained from Bank of the West. The Bank of the West loan was retired through a land development and construction loan obtained December 21, 2005 from BankFirst, a South Dakota state bank ("BankFirst").

The BankFirst loan was a $61.5 million revolving credit facility with a maximum outstanding loan balance cap of $32 million. This cap was revised to $36.5 million on December 1, 2007. Total loan proceeds advanced for the period from December 2005 through December 2007 under the BankFirst loan were approximately $57.6 million. River Canyon paid approximately $7 million in interest payments and made principal reduction payments of $26.8 million, reducing the loan amount to approximately $30.8 million.

The BankFirst loan matured on March 21, 2009 with an outstanding balance of $31.3 million. River Canyon and BankFirst entered into a forbearance agreement dated July 16, 2009, thereby extending the term of the loan by one year. On July 17, 2009, the South Dakota banking authorities closed BankFirst and appointed Federal Deposit Insurance Corporation ("FDIC") as receiver from BankFirst. On December 10, 2009, the FDIC, in its capacity as receiver for BankFirst, transferred to Beal Bank Nevada n/k/a Beal Bank USA ("Beal Bank"), for value, all right, title and interest of BankFirst and the receivership estate in and to the BankFirst loan and all security therefor.

On July 9, 2010, River Canyon and Beal Bank entered into a second forbearance agreement. Under the second forbearance agreement, the parties reduced the principal amount due to $12 million, provided the debt was retired within six months. River Canyon was unable to retire the debt by the deadline set in the modified forbearance agreement. During that six month period, additional principal payments of approximately $553,000 were made, however, reducing the loan balance to $30.8 million.

3. *Public Entity Funding of Public Infrastructure*

A portion of the funding for public infrastructure, including approximately 10% of the water lines within the project and facilities for delivery of water to the properties within the RMD (referred to as the "System" in the Bond Indentures), was provided by RMD.

In approximately 2002, the principals of River Canyon were introduced to Robert Lembke. Mr. Lembke is the president of the United Water and Sanitation District ("UWSD"), a special

district—like RMD—formed under C.R.S. § 32-1-101 et seq. UWSD claimed that it is authorized by the State of Colorado to acquire, construct and operate water lines and facilities.

UWSD represented that it could build the System and acquire water rights at a cost of $3,645,000. Despite UWSD's representations, the final cost was approximately $13.8 million.[1] UWSD formed the Ravenna Project Water Activity Enterprise (the "United Enterprise") as a means for UWSD to obtain funds for the cost of the System. Money was obtained through multiple bond issuances. All of the bonds were issued by, and the proceeds were received by, the United Enterprise.

River Canyon is not an obligor or otherwise a party to any of the Bond Indentures, Resolutions, or other documents evidencing the bond debt (collectively referred to as the "Bond Agreements"). River Canyon's property is not pledged as security for repayment of any of the bonds issued pursuant to the Bond Agreements. All of the Bond Agreements are agreements by and between UWSD (and the UWSD Enterprise) and RMD (and sometimes its enterprise entity, the Ravenna Water Enterprise).

There were four pre-petition bond issuances, described as follows: (i) Ravenna Project Water Activity Enterprise Capital Appreciation Revenue Bonds, Series 2006, principal issuance amount, $9,794.865.60 (the "2006 Bonds"); (ii) Capital Appreciation Revenue Bonds, Subordinate Series 2006B, principal issuance amount, $1,570,000.00 (the "2006B Bonds"); (iii) Ravenna Project Water Activity Enterprise Capital Appreciation Revenue Refunding Bonds Series 2009, principal issuance amount, $6,371,568.00 (the "2009 Refunding Bonds"); and, (iv) Convertible Capital Appreciation Special Utility Revenue Bonds Series 2007, principal issuance amount, $5,988,558.30 (the "2007 Bonds"). All of the bonds issued under the Bond Agreements were purchased by Colorado BondShares.

The first three bond issuances are related and generally provide funding for the acquisition of water rights[2] and construction of the System. The 2009 Refunding Bonds were issued to refund the 2006 Bonds. The 2006B Bonds are subordinate to the 2009 Refunding Bonds and were issued to provide additional revenue for the acquisition of water rights in 2006. The applicable Bond Agreements provide that the 2009 Refunding Bonds (and, after retiring said bonds, the 2006B Bonds) "are special, limited obligations of United Water & Sanitation District acting by and through its Ravenna Project Water Activity Enterprise, payable solely from and secured solely by the Trust

[1] UWSD is accused by another project developer in Colorado of having constructed a system that cost 10 times the amount required to provide the necessary service. In a September 18, 2012 article in The Denver Post, UWSD is described as a defendant in litigation pending in the Adams County District Court in which the "plaintiff contends Lembke and his associates used the land as collateral to borrow money to build a water-transport system with a capacity far exceeding the needs of the planned 2,300-home development. As result, the $14 million debt secured for the project was 10 times the cost of an adequate water system for the development." *See* The Denver Post, "Colorado Water Developer 'Looted' Development, Lawsuit Alleges," September 18, 2012, http://www.denverpost.com/investigations/ci_21566344.

[2] The water rights purchased under the Bond Agreements were purchased from Bromley District Water Providers, LLC ("BDWP"). Upon information and belief, Mr. Lembke is a principal of BDWP.

Estate."[3] "Trust Estate" is effectively defined as revenues derived from "Tap Fees" and "Water Resource Fees."[4]

Tap Fees and Water Resource Fees were imposed by resolutions made by both the UWSD and the RMD. Tap Fees were imposed on all property within the RMD[5] and, in connection with the 2009 Refunding Bonds, the seven lots comprising the golf course. Tap Fees were set at the initial rate of $42,000 per lot.[6] Water Resource Fees were set at the initial rate of $22.00 per month "for each residential lot for which a Tap Fee has been paid" and "a semi-annual fee of $32,500.00 for the golf course, clubhouse, and appurtenant facilities."[7] Upon payment of the Tap Fee and Water Resource Fees "and request by the party making the payment," any lien upon the lot "shall be released."[8]

The agreements between UWSD and RMD regarding the Tap Fees also included a "take down" schedule, whereby the Tap Fees would be due from property owners on the earlier of (a) the issuance of a building permit or (b) a pre-determined schedule, beginning in 2008. Under the schedule, Tap Fees were due for seven lots in 2008, seven lots in 2009, eight lots in 2010, twelve lots in 2011, twenty lots in 2012, twenty lots in 2013, twenty-four lots in 2014, twenty-eight lots in 2015, and thirty-two lots in 2016. The agreements further provided that if there was any default in the payment of Tap Fees on schedule described above, Tap Fees would be due from property owners on an accelerated schedule. Under the accelerated schedule, Tap Fees would be due for twenty-five lots in 2008, fifty lots in 2009, fifty lots in 2010, and the remaining thirty-two lots in 2011. The Debtor, and later the Receiver, paid Tap Fees pursuant to the schedule through November 2010. However, no fees were paid after November 2010. In the Bankruptcy Case, UWSD asserts all Tap Fees are due under the accelerated schedule.

The fourth bond issuance, the 2007 Bonds, purportedly provided additional funding for the completion of the System. The 2007 Bonds were obtained at Mr. Lembke's urging to provide additional funding to UWSD. The 2007 Bonds are payable from "Lease Payments" made for the use of the System. The "Lease Payments" are set forth in a Lease Purchase and Pledge Agreement (the "Lease Agreement") accompanying the 2007 Bonds Indenture and are generally referred to as the "Facilities Acquisition Fees". Under the Lease Agreement, UWSD leased the System to RMD. UWSD is required to convey title to the System to RMD upon payment of all Facilities Acquisition Fees. Pursuant to the Lease Agreement and applicable Bond Agreement, the source of Facilities Acquisition Fees is annual ad valorem property tax levies imposed by the RMD upon all taxable property in the RMD and collected by Douglas County. So long as RMD imposes the required mill levy each year, even if tax revenues are insufficient to pay the Facilities Acquisition Fees in full, such insufficiency does not constitute a default under the applicable agreements.

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[3] *See* Exhibit 10 to UWSD Proof of Claim No. 30, at p. 186.
[4] *See id.* at p. 185 and "Definitions", pp. 178-84. "Trust Estate" also includes "any and all other property, revenues or funds from time to time hereafter by delivery or by writing of any kind specially granted, assigned or pledged as and for additional security hereunder." Upon information and belief, no additional property was ever pledged as additional security under this agreement.
[5] *See* Exhibit 13 to UWSD Proof of Claim No. 30, at p. 250.
[6] *See id.*
[7] *See id.* at p. 252.
[8] *See id.* at p. 253.

As described in more detail below, claims asserted by UWSD and RMD against the Debtor arise from unpaid Tap Fees, Water Resource Fees, Facilities Acquisition Fees, Operations Fees[9] and, to a lesser extent, sewer fees.

C. Events Leading to Chapter 11 Filing

The Ravenna project was hit hard by the global financial collapse of 2008. The financial collapse led to an immediate collapse in lot values, and the inability of existing homebuilders to fulfill their contractual obligations to River Canyon to purchase property on a predetermined purchase schedule. In addition, lender defaults by both builders and homeowners created a rash of foreclosures and bankruptcies within the property. The changing lending market also became so restrictive that even well-qualified borrowers found it virtually impossible to obtain construction loans and mortgages. All of these factors resulted in an immediate decline in sales in 2008 and eliminated sales in 2009 and 2010.

River Canyon was left with no choice but to attempt to renegotiate its obligations to its lender. The construction and development loan obtained originally from BankFirst in 2005 and later transferred by the FDIC to Beal Bank was amended three times through amendments to the loan documents, and twice through forbearance agreements. By the summer of 2010, River Canyon's capital position had diminished to the point that it could not pay all operation and payroll costs. River Canyon continued to make payroll payments and to pay those costs necessary for preservation of the property. During the negotiations to procure a third forbearance agreement, River Canyon asked for certain modifications to allow River Canyon to continue to perform and to avoid a default. River Canyon and the bank were unable to reach agreement regarding further restructuring.

In October 2010, Beal Bank commenced litigation against River Canyon in the Douglas County District Court (the "Receivership Case"). On October 15, 2010, at the bank's request, the state court appointed a receiver, Cordes & Company (the "Receiver"), to manage the project. The Receiver did not immediately resume operations. However, in the spring of 2011, the Receiver opened the golf course on a scaled-back level.

Following the appointment of the Receiver, River Canyon and Beal Bank continued to attempt to negotiate a resolution of their disputes regarding the debt owed the bank. In May 2012, River Canyon, in principal, accepted the offer in settlement proposed by the bank, which included the commencement of the bankruptcy case. Consistent with the terms of the bank's offer, and based upon its concerns about continued erosion in value of its assets, River Canyon made the decision in May 2012 to commence the Bankruptcy Case. The details of the agreement were finalized in September 2012 and a motion seeking approval of the parties' agreement is currently pending before the Court.

[9] Operations Fees are annual special assessments imposed by the RMD to make up for operating budget.

D. Appraised Value of Real Property and Water Taps

The amounts set forth herein are based upon an appraisal conducted by National Valuation Consultants, Inc. ("NVC") on January 5, 2011 (the "Appraisal"). NVC was retained in the Bankruptcy Case to prepare an updated appraisal.

NVC provided separate valuations for the golf course and the 166 finished lots. NVC valued the golf course in a negative amount—($1,900,000)—based primarily on the expected costs to complete the clubhouse as well as the negative operating income being generated by the paying members.

With respect to the 166 finished lots, NVC's "as is" market valuation was based upon numerous assumptions, including (a) that all 166 would be sold in one sale; (b) that the Tap Fee payments had been accelerated and would have to be paid in the first year after sale by a purchaser; and (c) that the per lot Tap Fee at the time of the Appraisal was $57,031 and the total of all Tap Fees was therefore $7.3 million. Using these assumptions, NVC calculated the "as is" market value of the 166 lots was $6.5 million.

In its proof of claim, UWSD asserts that the per lot Tap Fee owed on the Petition Date was $71,890.62 and the total of all Tap Fees was therefore $9,273,870. Using these amounts and the same formula, NVC calculates the "as is" market value of the 166 lots is $5 million. Under this formula, the per lot value is $30,120.

In the Appraisal, NVC also calculated a per lot value without an outstanding Tap Fee obligation in the amount of $71,500. It is undisputed that the Tap Fees have been paid for 38 of the 166 lots owned by the Debtor. Thus, the total value of the 38 lots (without accounting for the additional value of the purchased taps) is $2,717,000.

The estimated total value of the remaining 128 lots using the $5 million total value is $2,283,000. This amount is obtained by deducting the $2,717,000 value of the 38 lots from $5 million. If the remaining value of $2,283,000 is divided by the remaining 128 lots, the result is an average per lot value of $17,836.

This, however, does not complete the valuation analysis. The $71,500 per lot value given the lots for which Tap Fees were paid accounts only for the value of the land without accounting also for the purchased tap. NVC concludes in the appraisal that the market value for tap fees is $25,000. The value of each lot for which is a Tap Fee was paid is therefore $96,500, the total of $71,500 and $25,000. Thus, the total estimated value of these 38 lots is $3,667,000.

Under the appraisal therefore, the total value of the 166 lots together with the 38 taps is $5,950,000, the total of $2,283,000 and $3,667,000.

Upon receipt of its updated appraisal, the Debtor will amend its **Exhibit A** to include individual valuations for each of the 166 lots.

E. Taxes

Pre-petition, the Debtor retained 1st Net Real Estate Services to review Douglas County's tax assessments and to pursue recovery of excess taxes paid and assessed if 1st Net concluded that over-assessments were made. 1st Net successfully challenged the assessment for 2007 and 2008, resulting in a right to a refund of $580,000. Douglas County, for itself and the other taxing authorities for whom it collects taxes, applied $342,000 of this refund to the 2009 tax obligations. The 2009 tax protest for both the residential lots and the golf course parcels was completed prepetition and the Equalization Board determined that the taxes owed for 2009 would be reduced from $2.1 million down to $1.4 million. Preliminary work for protesting 2010 taxes was completed prepetition but the Receiver did not complete this process. 1st Net has not received compensation for its work for 2008 and 2009.

All real property taxes owed by River Canyon through tax year 2008 have been paid. Unpaid taxes for tax years 2009, 2010, 2011 and 2012 are treated in the Plan. Unpaid taxes for tax year 2009 and 2010 are discussed in detail in Section III.E.2, below (as well as in the section discussing Class 4 treatment under the Plan). Unpaid taxes for tax years 2011 and 2012 are treated as Administrative Claims and Tax Claims and discussed in the section herein regarding such claims.

Upon information and belief, Douglas County conducted tax lien sales for all unpaid taxes for tax years 2009 and 2010. The following tax lien certificate owners filed proofs of claims in the Bankruptcy Case: Matt Browne (Claim No. 5); William Brown (Claim No. 6); William Ewan (Claim Nos. 11 and 12); Clark Property Tax Investments, LLC (Claim No. 14); John Richardson (Claim No. 16); Gerald Bensema (Claim No. 19); Michael Ohlman (Claim Nos. 22, 23 and 24); INA Group (Claim No. 25); 777 South High Street, LLC (Claim No. 36); FRTL-C2009, LLLP (Claim No. 39); and FRHL, LLC (Claim No. 40) . However, because the redemption period for all such tax lien certificates had not expired prior to the Petition Date, Douglas County remains the holder of the claim for unpaid 2009 and 2010 real property taxes.

As set forth in the section herein regarding Class 4 treatment under the Plan, the Debtor intends to redeem all tax lien certificates through the Plan. The total amount due and owing this class is approximately $4.7 million.

F. Liens

One of the critical issues, if not *the* critical issue, in the case is the validity, priority and extent of the liens asserted by various parties against the Debtor's assets. As a result, the liens—contested and uncontested—require careful consideration and explanation.

Five parties assert liens against assets owned by the Debtor as follows:

Name	Amount Claimed Due
Douglas County – 2009 & 2010 taxes	$ 4,707,740.54
UWSD	$ 9,756,354.91
RMD	$ 947,155.43
Beal Bank	$36,091,723.62
1st Net Real Estate Services, Inc.	$ 154,528.77

To assist in analyzing the lien issues, the Debtor prepared a spreadsheet, a copy of which is attached hereto as **Exhibit A**, that includes a description of the liens asserted against each individual lot by Douglas County and RMD.

1. *Douglas County's Liens Against Individual Lots for Unpaid 2009 and 2010 Real Property Taxes*

The secured claims of Douglas County for unpaid 2009 and 2010 real property taxes are a first priority lien against each of the 166 lots owned by the Debtor. *See* C.R.S. § 39-1-107(2); *In re Western Pacific Airlines*, 273 F.3d 1288, 1291 (10th Cir. 2001). Based upon information provided by the Douglas County Treasurer and set forth on **Exhibit A**, the tax liens amounts differ for each lot. The lien amounts range from approximately $16,000 to $40,000.

As of February 28, 2013, the total redemption amount for the 166 lots will be $4,707,740.54. The average per lot redemption amount is $28,360. Thus, for each of the 128 lots valued at $17,836 for which Tap Fees have not been paid, Douglas County's claim for unpaid 2009 and 2010 taxes is secured to the extent of approximately $17,836 and unsecured to the extent of any redemption amount over and above $17,836. For each of the 38 lots valued at $71,500 for which Tap Fees have been paid, Douglas County's claim for unpaid 2009 and 2010 taxes is fully secured.

Upon receipt of its updated appraisal, the Debtor will amend its **Exhibit A** to include individual valuations for each of the 166 lots. With individual lot valuations, it will be possible to state with precision the deficiency, if any, with respect to each lot.

The total redemption amount for the golf course lots, as of February 28, 2013, will be $374,551.47.

2. *UWSD's Contested Blanket Lien Against 128 Lots and the Golf Course*

UWSD asserts a blanket lien against the 128 lots for which Tap Fees were not paid and the seven lots comprising the golf course.

To perfect its purported statutory lien against these lots, UWSD recorded both a blanket lien statement and individual lien statements against each lot. Both the blanket lien statement (the "Blanket Lien") and the most recent individual lien statements were recorded with the Douglas County Clerk and Recorder on November 23, 2011. UWSD appears to concede that the UWSD

Blanket Lien, if valid, is junior to the Douglas County liens for unpaid 2009 and 2010 real property taxes.

On November 5, 2012, the Debtor commenced an action in the Douglas County District Court against UWSD (the "Contested Lien Action"), Case No. 2012CV2440, seeking a determination that the Blanket Lien is invalid because there is no contractual or statutory basis for asserting such a lien. Further, the lots comprising the golf course are not even within the RMD or subject to the Tap Fee requirement. There is simply no basis for including these lots in the Blanket Lien. On November 2, 2012, UWSD commenced an adversary proceeding against the Debtor in the Bankruptcy Court (the "Claim Objection Proceeding"), Adv. Proc. No. 12-1692-EEB, seeking a determination as to the validity, priority and extent of the Blanket Lien. The Debtor has filed an answer to UWSD's complaint asserting the same bases for relief asserted in the Contested Lien Action. The Debtor has also asserted a formal objection to UWSD's claim as a counterclaim in the Claim Objection Proceeding.

The issue as to the validity of the Blanket Lien is critical because, so long as the Blanket Lien survives, the Debtor cannot sell any individual lot in the Ravenna project without paying the entire amount UWSD claims it is owed. Indeed, this issue impacted lot sales prior to the bankruptcy filing. On May 24, 2011, the Receiver entered a contract to sell Lots 52 and 54 to David Flinn but the sale contract could not be closed because of the existence of the Blanket Lien and UWSD's refusal to permit the sale without payment in full of its alleged claim of more than $8 million. Mr. Flinn brought an action against UWSD in the Douglas County District Court (Case No. 2012CV791) alleging intentional interference with contract and the matter is pending. As pointed out by Mr. Flinn in his action, the Blanket Lien is not only contrary to Colorado law, it is contrary to the language of the Bond Agreements which provides that the 2006B Bonds and 2009 Refunding Bonds are payable solely from Tap Fees. If the only source of payments is individual Tap Fees it is absurd to condition the sale of any individual lot on the payment of each and every anticipated fee that might come due at some unknown point in the future. UWSD is using the Blanket Lien to hold the Debtor hostage before USWD even provides water to most of the lots in the project.

3. *UWSD's Contested Individual Liens Against 128 Lots and the Golf Course*

As stated above, in addition to the Blanket Lien, UWSD recorded individual statements of lien against 128 lots and the seven lots comprising the golf course. In its proof of claim, UWSD asserts that the amounts owing and secured by liens against these lots is comprised of the following charges: (i) unpaid Tap Fees in the amount of $9,273,869.98; (ii) unpaid Water Resources Fees in the amount of $82,022.40; and (iii) unpaid Facilities Acquisition Fees in the amount of $400,462.53.

UWSD asserts in its proof of claim that its claim arises out of the Bond Agreements and "is comprised of fees and related penalties, late charges, and interest that [UWSD], directly or indirectly, assessed the debtor prepetition and to which the creditor is otherwise entitled." *See* UWSD Proof of Claim No. 30 at p. 2. UWSD asserts its claim is secured by statute: "Pursuant to, *inter alia*, C.R.S. § 32-1-1001(j)(I), as it may be amended, the foregoing 'shall constitute a perpetual lien on and against the property served . . . .' That is, they are perpetually secured by at least the debtor's real property." *See id.*

The Debtor contests these individual lien statements in the Contested Lien Action and the Claim Objection Proceeding for numerous reasons. First, United does not provide any service to the lots as required by the statute. Second, the lots comprising the golf course are outside of both the UWSD *and* the RMD, and there is therefore no basis for asserting liens against these lots. Third, there is no contractual basis for the asserted liens, because the Debtor is not a party to any contract granting lien rights to UWSD. Fourth, the asserted unpaid Water Resource Fees and Facility Acquisition Fees are duplicative of identical amounts sought by RMD in its proof of claim. Fifth, the individual liens are avoidable statutory liens pursuant to 11 U.S.C. § 545(2) because the liens were not enforceable as of the Petition Date.

For all of these reasons, the Debtor asserts and believes that not only is UWSD not a secured creditor of this Debtor, UWSD is not even a creditor. However, given the possibility that the Contested Lien Action and Claim Objection Proceeding, in their entirety, will not be fully and finally determined prior to the Effective Date of the Plan, the Debtor has provided for treatment of UWSD's disputed claim in the Plan.

Finally, if it is determined that UWSD holds valid liens against individual lots, those liens would be in a second priority position, junior to the liens held by Douglas County for unpaid 2009 and 2010 real property taxes. However, as set forth above, the average value of the 128 lots securing the purported liens of UWSD is significantly less than the redemption amount due Douglas County. Accordingly, even if UWSD's claims are allowed, the claims are wholly unsecured.

4. *RMD's Liens Against Individual Lots and the Golf Course*

RMD filed a proof of claim in the Bankruptcy Case asserting a secured claim in the amount of $947,155.43. RMD's assertion that its claim is secured is based upon the same statute relied upon by UWSD: C.R.S. § 32-1-1001(j)(I).

The RMD claim is broken into four component parts: (a) $1,681.00 in unpaid sewer fees; (b) $462,989.50 in unpaid Operations Fees; (c) $82,022.40 in unpaid Water Resource Fees; and (d) $400,462.53 in unpaid Facility Acquisition Fees.

The Debtor does not generally object to the RMD claim to the extent that (a) the claim is only asserted against individual lots within the RMD and (b) the claim is based upon services provided to individual lots. The Debtor objects to any duplication between the RMD claim and the UWSD claim. The Debtor also reserves the right to object to the specific amounts asserted due against each lot because certain charges appear to have been incorrectly calculated.

As the RMD claim is junior to the liens held by Douglas County for unpaid 2009 and 2010 real property taxes, the claim is unsecured as to the 128 lots for which Tap Fees have not been paid. As to the 38 lots for which Tap Fees have been paid, the claim is fully secured, and with limited exceptions, RMD asserts the following per lot lien amounts: (i) $2,404.80 in unpaid Operations Fees; (ii) $363.52 in unpaid Water Resource Fees; and (iii) $2,376.00 in unpaid Facility Acquisition Fees. The total amount of the lien asserted against the 38 lots for which Tap Fees have been paid is $194,757.12. *See* **Exhibit A**.

In addition to the above per lot fees, the RMD claim includes a $56,700 charge for unpaid Operations Fees and $66,945 in charges for golf water resource fees that are not assessed against any individual lots. Accordingly, the Debtor asserts that these components of the RMD claim are not secured and will object to allowance of the entire RMD claim as secured if RMD does not amend its claim prior to the Confirmation hearing. If these components of the RMD claim are deemed secured by Colorado statute, they are nevertheless wholly unsecured by operation of 11 U.S.C. § 506(a) because the charges are junior to the liens held by Douglas County against the golf course lots for unpaid 2009 and 2010 real property taxes and the golf course property has a negative value.

5. *Beal Bank's Blanket Lien Against Real and Personal Property*

Beal Bank asserts liens against the following collateral as security for the $36,691,723.62 owed on the Petition Date: (i) a first deed of trust (the "Beal Deed of Trust") against all of the real property owned by the Debtor; and, (ii) a perfected lien interest against substantially all of the personal property owned by the Debtor.

The Beal Deed of Trust is junior to the liens held by Douglas County for unpaid 2009 and 2010 real property taxes, and the disputed liens held by USWD and RMD on the 128 lots for which Tap Fees have not been paid and the golf course lots. Given this priority, the Beal Deed of Trust is unsecured as to these 128 lots.

As to the 38 lots for which Tap Fees have been paid, the Beal Deed of Trust is in third priority position behind Douglas County and RMD. The average amount due Douglas County and RMD on each of these lots is approximately $33,504. At an average per lot value of $96,500, Beal Bank's claim is secured as to the 38 lots in the approximate amount of $2.4 million.

Beal Bank's lien as to River Canyon's personal property is the senior lien against such property. The personal property, consisting of personal property, equipment and inventory, is valued by the Debtor in the amount of $1,058,854.00.

Under the settlement agreement between the Debtor and Beal Bank, the parties agreed to allow Beal Bank's secured claim in the amount of $2,925,017. As this amount is far less than the total values of the real and personal property securing the claim, Beal Bank's claims is fully secured in the agreed upon amount of $2,925,017.

6. *1st Net Real Estate Services, Inc.'s Blanket Lien Against Real Property*

1st Net asserts a lien in the amount of $154,528.77 against all real property owned by the Debtor pursuant to an agreement recorded with the Douglas County at Reception No. 2010068436. 1st Net's lien is junior to all other liens asserted against the Debtor's real property. If UWSD's blanket lien or individual liens are allowed, 1st Net's claim will be unsecured in its entirety. Similarly, if UWSD's blanket lien is avoided pursuant to 11 U.S.C. § 545, it will automatically be preserved for the benefit of the estate pursuant to 11 U.S.C. § 551, resulting in the same net effect to 1st Net: the value of the collateral securing 1st Net's claim will be far less than the total amount of senior liens, resulting in a wholly unsecured claim.

G. Significant Events During the Bankruptcy Case

There have been two significant events during the Bankruptcy Case. First, the Debtor obtained debtor-in-possession funding from Lazarus Investments, LLC ("Lazarus"). This funding enabled the Debtor to operate while formulating and negotiating its Plan.

Second, the Debtor and Beal Bank reached an agreement resolving all claims between the parties, including all claims relating to the Receiver and the Receivership Case. The Debtor filed a motion to approve the settlement agreement on September 21, 2012. No creditors or interested parties filed objections to the motion. However, USWD, purporting to be a secured creditor, timely filed an objection to the motion, and the contested matter is pending.

Under the settlement agreement with Beal Bank, the parties agreed to fix Beal Bank's allowed claim in the amount of $36,091,723.62, treat the amount of $2,925,017 as an allowed secured claim in the Plan, and treat the remaining amount as an allowed unsecured claim in the Plan. In addition, the Debtor agreed to pay the allowed secured claim amount in full on or before the Effective Date of the Plan. The agreement further provides that Beal Bank shall pay any amounts it receives on account of its allowed unsecured claim to the guarantors of the Beal Bank obligation or their designee. It is anticipated that the guarantors will designate the person or entity that funds the $2,925,017 payment to Beal Bank.

The settlement agreement with Beal Bank also resolved disputes between the Debtor, Beal Bank, and the Receiver regarding the Receivership Case and the disputed account funded with deposits from members of The Golf Club at Ravenna. The membership agreements with club members provided that 25% of the amount of membership deposits would be held by the Debtor until such time as the clubhouse was constructed. At the time the Receivership Case was commenced, the total amount on deposit in the account created to hold these deposits was approximately $680,000. In the Receivership Case, Beal Bank asserted a perfect security interest in these funds and the Receiver used some of the funds to fund operations. However, two club members intervened in the Receivership Case and objected to the Receiver's use of these funds. On March 30, 2012, after taking evidence on the matter, the Douglas County District Court ruled that the funds were held by the Debtor originally and then the Receiver in an arrangement analogous to a bailment such that funds were not available to fund operations. The court ordered the Receiver and Beal Bank to replenish the account. The Receiver and Beal Bank appealed the court's ruling and the appeal was pending on the Petition Date.

During the Bankruptcy Case, disputes arose as to whether the state court ruled that the disputed funds (replenished by the Receiver and Beal Bank) were an asset of the Estate. Under the agreement with Beal Bank, Beal Bank agrees to release any claims as to the disputed funds upon payment in full of its agreed upon allowed secured claim.

H. Contingent Interests

1. *Litigation claims against High Country Engineering*

River Canyon and the Ravenna Metropolitan District are plaintiffs in a lawsuit against an engineering company and five of its principals, engineers and/or surveyors who were engaged to design and assist in obtaining County approval of a comprehensive, reliable water supply plan for the Ravenna project. The lawsuit is pending in Douglas County District Court as Case No. 2008CV2686. High Country Engineering, LLC was engaged to provide the engineering and survey services required to obtain Douglas County approval of the Ravenna project. Additionally, High Country was engaged to design a water system for the Ravenna project, which required water treatment facilities to support residential and commercial uses, water storage facilities, pressurized pumping systems, and onsite water systems needed for the golf course. The engagement began in mid-2004 and concluded in 2007.

River Canyon alleges in the lawsuit that the High Country Defendants misrepresented their qualifications and failed to perform the professional engineering and surveying services with the requisite knowledge, skill, and judgment ordinarily possessed by members of the engineering and/or surveying profession in carrying out services for their clients. The claims against the High Country Defendants include negligence, negligent misrepresentation, fraud, negligent supervision, breach of contract, and breach of warranty. River Canyon and RMD have asserted damages of several million dollars.

River Canyon and RMD will continue the prosecution of this case and will propose that the Court approve the engagement of its prepetition counsel, who are handling the case on a contingent-fee basis. However, River Canyon is unable to predict the outcome of the case.

2. *Douglas County Pipeline interest*

The Douglas County Pipeline was constructed to facilitate the provision of water to the Ravenna project. The Douglas County Pipeline is generally described as those facilities and structures utilized in the collection, pumping and storage of raw water, including: (a) an infiltration gallery, diversion structure and pump station located in Section 15, T7S, R68W of the 6th P.M., Douglas County, Colorado; (b) easements for the pipeline, wells, and all other equipment and facilities that are necessary to construct, operate, maintain and repair the Douglas County Pipeline; (c) structures or equipment necessary to deliver water from storage into the Douglas County Pipeline; and (d) devices or structures necessary to measure the amount of water delivered into the Douglas County Pipeline, into storage, and into facilities at the Ravenna project.

Before the construction of the Douglas County Pipeline and its related facilities, River Canyon and CAW Equities, LLC ("CAW") entered into a business relationship for the creation and use of capacity in the Douglas County Pipeline in excess of that needed for the Ravenna Project (the "excess capacity"). Robert Lembke is the principal of CAW. Pursuant to that agreement, River Canyon paid for the engineering, design, and installation of a larger pipeline and facilities to accommodate the parties' agreement to create the excess capacity, to sell the excess capacity to third parties, and to share the revenues generated by the sale of such excess capacity. UWSD provided

services in conjunction with the procurement of water and the approval of the Douglas County Pipeline as part of the parties' business relationship.

As a result of this agreement, the Debtor asserts that the Debtor has a partnership interest with CAW in the pipeline, all appurtenant facilities, and any revenues generated from the use of the excess capacity. It is anticipated that CAW and/or United may dispute the agreement and Debtor's interest asserted herein. No revenues have been generated from the use of the excess capacity. However, the excess capacity remains available and may have substantial value at some future time.

I. Projected Recovery of Avoidable Transfers

For a period of approximately 18 months prior to the Petition Date, the Debtor was under the control of the Receiver. After analyzing records produced by the Receiver, the Debtor does not believe grounds exist to seek avoidance of any transfers made by the Receiver as preferential or fraudulent. The Debtor also does not believe that any fraudulent transfers were made in the period prior to the appointment of the Receiver. Accordingly, with the exception of the action described above to avoid USWD's purported statutory liens, the Debtor does not intend to pursue preference, fraudulent conveyance, or other avoidance actions.

J. Claims Objections

Except to the extent that a claim is already allowed pursuant to a final non-appealable order, the Debtor reserves the right to object to claims. Therefore, even if your claim is allowed for voting purposes, you may not be entitled to a distribution if an objection to your claim is later upheld. The procedures for resolving disputed claims are set forth in Article X of the Plan.

The Debtor reserves the right to object to any claims. For the reasons discussed above, the Debtor asserts that UWSD has no claim—secured or unsecured—against the bankruptcy estate and therefore is not a creditor and should not share in any distribution. The reasons for the objection are grounded entirely in Colorado state law. On November 5, 2012, the Debtor commenced the Contested Lien Action in the Douglas County District Court seeking a determination of the validity, priority and extent of UWSD's interest in property of the bankruptcy estate. Anticipating that filing (because the Debtor had described its intent to file the action in prior filings with the Bankruptcy Court), UWSD commenced the Claim Objection Proceeding on November 2, 2012.

Because the issues raised in both the Contested Lien Action and the Claim Objection Proceeding are based entirely upon Colorado state law and have far-reaching implications to property development in the State, the Debtor has filed a motion with Bankruptcy Court asking the Court to certify the questions raised in these matters to the Colorado Supreme Court pursuant to Colorado Appellate Rule 21.1. In the alternative, the Debtor has asked the Bankruptcy Court to hold the Claim Objection Proceeding in abeyance pending a determination by Douglas County District Court in the Contested Lien Action. The Debtor asserts and believes that pursuing the claim objection in this manner is a reasonable and prudent use of its and the courts' resources.

K. Current and Historical Financial Conditions

The identity and fair market value of the estate's assets are listed in **Exhibit A** (discussed above) and **Exhibit B** which is the Debtor's Schedules A and B filed with the Bankruptcy Court. The Debtor's most recent pre-petition financial information was set forth in the Report of Accounting by State Court-Appointed Receiver, a copy of which is included as **Exhibit C**. The most recent monthly operating report filed by the Debtor with the Bankruptcy Court is included as **Exhibit D**. The Debtor's five-year projections for income, expenses, payments, and distributions under the Plan are included as **Exhibit E**.

IV. SUMMARY OF THE PLAN OF REORGANIZATION AND TREATMENT OF CLAIMS AND EQUITY INTERESTS

A. What is the Purpose of the Plan of Reorganization?

As required by the Code, the Plan places claims and equity interests in various classes and describes the treatment each class will receive. The Plan also states whether each class of claims or equity interests is impaired or unimpaired. If the Plan is confirmed, your recovery will be limited to the amount provided by the Plan.

B. Classes of Claims and Equity Interests

The following are the classes set forth in the Plan, and the proposed treatment that they will receive under the Plan:

1. *Classes of Administrative, Tax and Priority Claims*

The Plan contains provisions that set forth the treatment of Administrative, Tax and Priority Claims. Such treatment is consistent with the requirements of Section 1129(a)(9) of the Bankruptcy Code, and the holders of such Claims are not entitled to vote on the Plan.[10]

a. Administrative Claims

Administrative expenses are costs or expenses of administering the Debtor's chapter 11 case which are allowed under § 507(a)(2) of the Code. Administrative expenses also include the value of any goods sold to the Debtor in the ordinary course of business and received within 20 days before the date of the bankruptcy petition. The Code requires that all administrative expenses be paid on the Effective Date of the Plan, unless a particular claimant agrees to a different treatment.

The following chart lists the Debtor's estimated administrative expenses and their proposed treatment under the Plan:

[10] Notwithstanding any other provision of the Plan, pursuant to Section 1123(a)(1) of the Bankruptcy Code, these claims are not designated as classes of Claims for purposes of the Plan and all references in the Plan to Class 1, Class 2 and/or Class 3 Claims are for organizational purposes and convenience of reference only.

Class 1		
Type	**Estimated Amount Owed**	**Proposed Treatment**
Expenses arising in the ordinary course of business after the Petition Date	None	Paid in full in the ordinary course of the Debtor's business
Value of goods received in the ordinary course of business within 20 days before the Petition Date	None	Paid in full on the Effective Date of the Plan, or according to terms of obligation if later.
2012 real property taxes to Douglas County Treasurer	$904,719.66	Paid in full on the Effective Date of the Plan.
2012 personal property taxes to Douglas County Treasurer	$3,618.00	Paid in full on the Effective Date of the Plan.
Sales tax to Colorado Department of Revenue	$9,459.00	Paid in full on the Effective Date of the Plan.
September 2012 Facilities Acquisition Fee to RMD	$173,225.00	Paid in full on the Effective Date of the Plan.
Professional fees, as approved by the Court	Sender & Wasserman, P.C. fees of approximately $50,000.00	Paid in full on the Effective Date of the Plan, or according to separate written agreement, or according to court order if such fees have not been approved by the Court on the Effective Date of the Plan
Professional fees, as approved by the Court	Seter, Vander & Wall, P.C. fees of approximately $50,000.00	Paid in full on the Effective Date of the Plan, or according to separate written agreement, or according to court order if such fees have not been approved by the Court on the Effective Date of the Plan
Professional fees, as approved by the Court	Dennis Hogan & Associates, P.C. fees of approximately $10,000.00	Paid in full on the Effective Date of the Plan, or according to separate written agreement, or according to court order if such fees have not been approved by the Court on the Effective Date of the Plan
Clerk's office fees	None	Paid in full on the Effective Date of the Plan
Other administrative expenses	None	Paid in full on the Effective Date of the Plan or according to separate written agreement
Office of the U.S. Trustee Fees	None	Paid in full on the Effective Date of the Plan
TOTAL	**$1,201,021.60**	

b. Tax Claims

Priority tax claims are income, employment, and other taxes described by § 507(a)(8) of the Code, whether secured or unsecured. Unless the holder of such a priority tax claim agrees otherwise, it must receive the present value of such claim, in regular installments paid over a period not exceeding 5 years from the Petition Date.

The following chart lists the Debtor's estimated priority tax claims and their proposed treatment under the Plan:

Class 2			
Description (name and type of tax)	**Estimated Amount Owed**	**Date of Assessment**	**Treatment**
2011 real property taxes to Douglas County Treasurer	$913,791.04	January 1, 2011	Paid in cash in full on the Effective Date of the Plan or as soon thereafter as is reasonably practicable, but in no event later than the end of five (5) years from the Petition Date. As to any Tax Claim not paid in full on the Effective Date, the holder of such Tax Claim shall be paid in regular quarterly installment payments with interest at the rate of 4.5% per annum in satisfaction of the Debtor's obligation to assure the holder of the Tax Claim the full value of the Tax Claim. Claims for penalties not related to actual pecuniary loss shall be treated under Class 9.

c. Priority Claims

Priority claims other than Administrative Expense Claims and Tax Claims are unsecured claims given special treatment under the Bankruptcy Code in § 507(a)(3), (4), (5), (6), (7), (9) and (10). Examples of priority claims include wage claims for wages earned immediately prior to the bankruptcy, claims for rental deposits, and claims for contributions to employee benefit plans.

The Debtor does not believe there are any priority claims in the Bankruptcy Case other than Administrative Expense Claims and Tax Claims. However, to the extent such claims are asserted and allowed, the claims will be treated under Class 3 and paid in full on the Effective Date of the Plan or as otherwise agreed to by the holder of the claim.

2. *Classes of Secured Claims*

Allowed Secured Claims are claims secured by property of the Debtor's bankruptcy estate (or that are subject to setoff) to the extent the value of the collateral exceeds the creditor's claim as provided under § 506 of the Code. If the value of the collateral or setoffs securing the creditor's claim is less than the amount of the creditor's allowed claim, the deficiency will be classified as a general unsecured claim.

The following chart lists all classes containing Debtor's secured prepetition claims and their proposed treatment under the Plan:

Class 4	
Creditor:	Douglas County Treasurer
Collateral Description / Value:	166 Lots and Golf Course (*see* **Exhibit A**) / See below

	regarding value
Total Claim as of Petition Date:	$4,707,740.54
Allowed Secured Amount:	$4,707,740.54
Unsecured/Deficiency Amount:	$0.00
Priority of Lien:	First
Insider?	No
Impaired?	Yes

Treatment

Class 4 consists of the unpaid 2009 and 2010 real property taxes owed by the Debtor. Douglas County conducted tax lien sales for all of the liens securing the Class 4 Claim, but Douglas County remains the holder of the Class 4 Claim. The tax sale numbers for each such sale are listed on **Exhibit A** attached hereto.

The redemption period for all such tax lien certificates did not expire prior to the Petition Date. Accordingly, all such tax lien certificates are subsumed within the Class 4 Claim and shall be redeemed through the payments described herein to Douglas County. The redemption amounts for each individual lot are set forth in **Exhibit A**. Douglas County is the sole holder of the Class 4 Claim and the only party in the class entitled to vote on the Plan.

The average per lot redemption amount is $28,360. For each of the 128 lots valued at $17,836 for which Tap Fees have not been paid, the Class 4 Claim is secured to the extent of approximately $17,836 and unsecured to the extent of any redemption amount over and above $17,836. However, for purposes of the Plan, the Debtor is treating the Class 4 Claim as fully secured with respect to all of these lots. For each of the 38 lots valued at $71,500 for which Tap Fees have been paid, the Class 4 Claim is fully secured. The total redemption amount for the seven golf course lots, as of February 28, 2013, will be $374,551.47 and is fully secured.

The Class 4 Claim in the amount of $4,707,740.54 shall be amortized over ten (10) years at 4.5% interest per annum and paid in annual installment payments of $594,958.70 beginning on the one year anniversary of the Effective Date until paid in full. In addition, the Debtor may pay the portion of the Class 4 Claim attributable to an individual lot in connection with the sale of such lot. In such event, Douglas County shall release any liens for unpaid taxes against said lot and the payment received by Douglas County shall be credited against the total amount then due and owing on the Class 4 Claim. Any such payments shall also be credited against the annual payment then due and owing. For example, if the Effective Date is May 1, 2013 and the Debtor pays $250,000 to Douglas County between May 1, 2013 and April 30, 2014 in connection with lot sales, the annual payment due May 1, 2014 would be $344,958.70.

The Debtor may also pay the Class 4 Claim in full at any time prior to the conclusion of the ten (10) year term without penalty. In the event the Class 4 Claim is not paid in full on or before the conclusion of the ten (10) year term, the Debtor shall pay the unpaid balance due at the conclusion of such period in one balloon payment.

Class 5	
Creditor:	Ravenna Metropolitan District
Collateral Description / Value:	166 Lots and Golf Course (*see* **Exhibit A**) / See below regarding value
Priority of Lien:	Second
Total Claim as of Petition Date:	$947,155.53
Allowed Secured Amount:	$194,757.12
Unsecured/Deficiency Amount:	$752,398.31
Insider?	No
Impaired?	Yes

Treatment

RMD filed a proof of claim in the Bankruptcy Case asserting a secured claim in the amount of $947,155.43. RMD's claim consists of four component parts: (a) $1,681.00 in unpaid sewer fees; (b) $462,989.50 in unpaid Operations Fees; (c) $82,022.40 in unpaid Water Resource Fees; and (d) $400,462.53 in unpaid Facility Acquisition Fees.

As the RMD claim is junior to the liens held by Douglas County for unpaid 2009 and 2010 real property taxes, the claim is unsecured as to the 128 lots for which Tap Fees have not been paid. As to the 38 lots for which Tap Fees have been paid, the claim is fully secured. On a per lot basis and with limited exceptions, RMD asserts the following lien amounts: (i) $2,404.80 in unpaid Operations Fees; (ii) $363.52 in unpaid Water Resource Fees; and (iii) $2,376.00 in unpaid Facility Acquisition Fees. The total amount of the lien asserted against the 38 lots for which Tap Fees have been paid is $194,757.12.

In addition to the above per lot fees, the RMD claim includes a $56,700 charge for unpaid Operations Fees and $66,945 in charges for golf water resource fees that are not assessed any individual lots. Accordingly, the Debtor asserts that these components of the RMD claim are not secured and will object to allowance of the entire RMD claim as secured if RMD does not amend its claim prior to the Confirmation hearing. If these components of the RMD claim are deemed secured by Colorado statute, they are nevertheless wholly unsecured by operation of 11 U.S.C. § 506(a) because the charges are junior to the liens held by Douglas County against the golf course lots for unpaid 2009 and 2010 real property taxes and the golf course property has a negative value.

The secured portion of RMD's claim in the amount of $194,757.12 is treated as an Allowed Secured Claim under Class 5 and the unsecured portion of the claim is treated as an Allowed Unsecured Claim under Class 9.

The Class 5 Claim shall be amortized over three years (3) years at 4.5% interest per annum and paid in quarterly installment payments until paid in full. In addition, the Debtor may pay the portion of the Class 5 Claim attributable to an individual lot in connection with the sale of such lot. In such event, RMD shall release any liens against said lot and the payment received by RMD shall be credited against the total amount then due and owing on the Class 5 Claim.

The Debtor may pay the Class 5 Claim in full at any time prior to the conclusion of the ten (10) year term without penalty. In the event the Class 5 Claim is not paid in full on or before the conclusion of the ten (10) year term, the Debtor shall pay the unpaid balance due at the conclusion of such period in one balloon payment.

Class 6	
Creditor:	Beal Bank USA
Collateral Description / Value:	166 Lots and Golf Course (*see* **Exhibit A**) / $5,950,000; Personal Property/$1,058,854
Priority of Lien:	First/Third/Fourth
Total Claim as of Petition Date:	$36,091,723.62
Allowed Secured Amount:	$2,925,017.00
Unsecured/Deficiency Amount:	$33,166,706.62
Insider?	No
Impaired?	Yes

Treatment

Beal Bank's lien against personal property owned by the Debtor is a first priority lien. The value of the collateral securing the claim is $1,058,854.00. Beal Bank also asserts a lien against the approximately $680,000 in membership deposits. This lien was disputed by the Debtor and certain members in the Receivership Case.

Beal Bank's lien against real property is a third priority lien against the 38 lots owned by the Debtor for which Tap Fees have been paid. The average amount owed senior lienholders on these lots is approximately $33,504. At an average per lot value of $96,500, Beal Bank's claim is secured as to the 38 lots in the approximate amount of $2,393,848.

Under the settlement agreement between the Debtor and Beal Bank, the parties agreed to allow Beal Bank's secured claim in the amount of $2,925,017, which amount is less than the value of the personal property and real property securing the claim (without taking into account the membership accounts).

The secured portion of Beal Bank's claim is treated as Allowed Secured Claim under Class 6 and the unsecured portion of the claim is treated as an Allowed Unsecured Claim under Class 9. The Class 6 Claim in the amount of $2,925,017 shall be paid in cash in full by the earlier of the Effective Date or April 30, 2013.

Class 7	
Creditor:	United Water and Sanitation District
Collateral Description / Value:	128 Lots and Golf Course (*see* **Exhibit A**) / $2,283,000

Priority of Lien:	Second (disputed)
Total Claim as of Petition Date:	$9,756,354.91 (alleged and disputed)
Allowed Secured Amount:	$0
Unsecured/Deficiency Amount:	$0
Insider?	No
Impaired?	Yes
Treatment	

UWSD asserts a blanket lien against the 128 lots for which Tap Fees were not paid and the seven lots comprising the golf course. UWSD also recorded individual statements of lien against each of the same lots. In its proof of claim, UWSD asserts that the amounts owing and secured by liens against is comprised of the following charges: (i) unpaid Tap Fees in the amount of $9,273,869.98; (ii) unpaid Water Resources Fees in the amount of $82,022.40; and (iii) unpaid Facilities Acquisition Fees in the amount of $400,462.53.

The Debtor seeks entry of an order disallowing USWD's claim in its entirety. The Debtor also seeks entry of an order disallowing the portion of the claim in the amount of $482,484.93 that duplicates the RMD claim. If it is determined that UWSD holds valid liens against individual lots, those liens are junior to the liens held by Douglas County for unpaid 2009 and 2010 real property taxes. As the average value of the 128 lots is significantly less than the redemption amount due Douglas County, even if UWSD's claims are allowed, the claims are likely entirely unsecured.

Pursuant to Section 506(a) of the Bankruptcy Code, in the event USWD's Claim is determined by the Bankruptcy Court to be an Allowed Claim, the Claim shall be treated as an Allowed Secured Claim under Class 7 to the extent of the value of the collateral securing the Claim and as an Allowed Unsecured Claim under Class 9 to the extent the Claim amount exceeds the value of the collateral securing the Claim.

The Class 7 Claim, if any, shall be amortized over twenty (20) years at 4.5% interest per annum. The portion of the Class 7 Claim attributable to any individual lot shall be calculated by deducting the amount required to redeem the tax lien certificate of purchase attributable to the lot from the appraised value of the lot. The difference under this equation shall be referred to as the "Release Price."

The Class 7 Claim, if any, shall be paid primarily through the collection of Tap Fees from buyers of lots sold by the Debtor after the Effective Date. The Tap Fees shall be fixed in an amount determined by the mutual agreement of the Debtor and UWSD, the Douglas County District Court or the Bankruptcy Court. Upon receipt of the Release Price for any individual lot (which price shall be paid either exclusively from collected Tap Fees or, if such amount is less than the Release Price, such additional sale proceeds as needed to equal the Release Price), UWSD shall release its lien (blanket or otherwise) as to such lot.

In the event the payments described herein are not sufficient to pay the Class 7 Claim in full on or before ten (10) years after the Effective Date, the Debtor shall pay the unpaid balance due at the

conclusion of such period in one balloon payment. Any amounts that come due hereunder prior to the determination of the validity, priority and extent of the UWSD Claim shall be placed in the Reserve pending such determination and UWSD's contested liens shall attach to such funds.

Class 8	
Creditor:	1st Net Real Estate Services, Inc.
Collateral Description / Value:	166 Lots and Golf Course (*see* **Exhibit A**) / $5,950,000
Priority of Lien:	Fourth/Fifth
Total Claim as of Petition Date:	$154,528.77
Allowed Secured Amount:	$0.00
Unsecured/Deficiency Amount:	$154,528.77
Insider?	No
Impaired?	Yes
Treatment	
1st Net's lien is junior to all other liens asserted against the Debtor's real property. If UWSD's blanket lien or individual liens are allowed, 1st Net's claim will be unsecured in its entirety. Similarly, if UWSD's blanket lien is avoided pursuant to 11 U.S.C. § 545, it will automatically be preserved for the benefit of the estate pursuant to 11 U.S.C. § 551, resulting in the same net effect to 1st Net: the value of the collateral securing 1st Net's Claim will be far less than the total amount of senior liens, resulting in a wholly unsecured claim. Accordingly, pursuant to 11 U.S.C. § 506(a), 1st Net's Claim is an Unsecured Claim and treated under Class 9.	

3. *Classes of General Unsecured Claims*

General unsecured claims are not secured by property of the estate and are not entitled to priority under § 507(a) of the Code.

The following chart identifies the Plan's proposed treatment of general unsecured claims against the Debtor:

Class 9	
Creditor:	General Unsecured Creditors
Description:	Unsecured
Impaired?	Yes
Treatment	
The Debtor scheduled undisputed, liquidated, non-contingent unsecured claims in the amount of $301,749.40. The unsecured Class 9 Claims of Ravenna Metropolitan District, Beal Bank and 1st	

Net Real Estate Services total approximately $34 million. In the event The Golf Club at Ravenna membership agreements are rejected, members may hold Class 9 Claims in the approximate aggregate amount of $2.5 million. It is anticipated that UWSD will not hold an Allowed Claim, but for purposes of disclosure, its asserted claim in the approximate amount of $10 million is included in this Class 9 calculation in an abundance of caution. Including all of these claims, the total amount of Class 9 Claims would total $46.8 million. Class 9 shall be comprised of holders of Unsecured Claims, including any allowed penalty Claims held by any taxing authority which are not related to actual pecuniary loss. Each holder of an Allowed Class 9 Claim shall receive a Pro Rata distribution in the amount of 5% of the holder's Allowed Class 9 Claim. Distributions to the Allowed Class 9 Claim holders shall be made in three equal annual installment payments beginning on the Effective Date. If the Allowed Class 9 Claims total $46.8 million, the 5% payment will equal $2,340,000 and the annual payments will be in the amount of $780,000.

4. *Classes of Equity Interest Holders*

Equity interest holders are parties who hold an ownership interest (*i.e.*, equity interest) in the Debtor. In a corporation, entities holding preferred or common stock are equity interest holders. In a partnership, equity interest holders include both general and limited partners. In a limited liability company ("LLC"), the equity interest holders are the members. Finally, with respect to an individual who is a debtor, the Debtor is the equity interest holder.

The following chart sets forth the Plan's proposed treatment of the class of equity interest holders:

Class 10	
Equity Interest Holders:	Alan Klein: 32.573290% Dan Hudick: 14.093381% Glenn Jacks: 12.790436% William Hudick: 12.138984% Strachan Exploration, Inc.: 9.771987% Andrew Veit: 3.257329% Patrick Owen Sharp: 3.257329% Patrick Sheehan: 3.257329% Rodney Hurlbut: 3.257329% Steven J. & Deborah Cohen: 3.257329% Joseph Cesare: 1.302932% Dr. Estelle Klein: 1.042345%
Description of Interest:	Membership Interests in LLC
Impaired?	Yes
Treatment	

All Interests in the Debtor shall be cancelled upon the Effective Date. On the Effective Date, 100% of the membership interests in the Reorganized Debtor shall be issued to Lazarus Investments, LLC in full satisfaction of the Debtor's repayment obligations under the debtor in possession financing agreement approved by the Bankruptcy Court.

C. Means of Implementing the Plan

To ensure feasibility and provide for payment of all Effective Date obligations under the Plan, the Debtor is actively pursuing exit financing opportunities. The Debtor shall provide proof of such financing and its ability to perform under the Plan, including funding all obligations that will come due on the Effective Date of the Plan, at least thirty (30) days prior to the Confirmation hearing.

In addition, future payments and distributions under the Plan will be funded by a combination of operating income and exit financing. The Debtor anticipates that operating income will increase after the Effective Date and the many issues that have been negatively impacting marketability of the lots are resolved.

The Debtor also anticipates the sale of The Golf Club at Ravenna and all attendant property, including the lots comprising the golf course. Finding a buyer for the golf club would likely result in the construction of a clubhouse much sooner than could be accomplished by the Debtor. In turn, a thriving club should increase the marketability of lots within the project, thereby leading to more sales and increased prices.

In the short term, the Debtor also intends to obtain approval of minor zoning modifications to the development to increase revenues. The project is currently zoned for 243 lots and a total of 249 dwelling units. However, 23 lots in one of the project neighborhoods—Corda Bella—are zoned for duplex construction. Because the Debtor only has the ability under the current zoning to sell six of these lots for duplex construction, the Debtor intends to seek authority from Douglas County to engage in "density swaps" and thereby increase the number of lots that could be sold for duplex construction. For example, the Debtor would seek authorization to designate ten individual lots in the Miramonte neighborhood as one lot, and thereby free up nine spaces for duplex construction in the Corda Bella neighborhood. In the long term, the Debtor intends to amend its master plan to allow for a density of 315 dwelling units. The Debtor believes that obtaining authority to sell duplex lots will be a win-win proposition because the price point is significantly lower, resulting in a much larger pool of potential purchasers, and because the increase in density will increase the tax base.

The Debtor has received a very favorable reception from Douglas County concerning the County's authorization of these density swaps provided the Debtor has paid its back due taxes. If the density swaps are made, Douglas County's liens for unpaid 2009 and 2010 real property taxes shall attach in the same priority to any re-designated lots. Provided the Plan is confirmed and it is current on its payment obligations to Douglas County under the Plan, the Debtor asserts that Douglas County shall have received the "indubitable equivalent" of its claims. Therefore, the

Debtor's confirmed Plan—provided the Debtor performs thereunder and satisfies its payment obligations to Douglas County—will satisfy its obligation to pay back due taxes.

With respect to the approximately $680,000 in membership deposits, the Debtor shall turnover such monies to any purchaser of The Golf Club at Ravenna provided the purchaser is bound to the same requirement of constructing a clubhouse. In the event The Golf Club at Ravenna is not sold, the Debtor shall hold the funds until a clubhouse is constructed.

D. Risk Factors

Parties in interest should read and carefully consider the following factors, as well as the other information set forth in this Disclosure Statement (and the documents delivered together herewith and/or incorporated by reference herein), including those items discussed in the exhibits attached hereto, before deciding whether to accept or reject the Plan.

Economic forces beyond the Debtor's control, including the general health of the economy and prolonged stagnation in the real estate market, among others, could have a material adverse effect upon the Debtor's operations.

If the Plan is not confirmed and consummated, there can be no assurance that the Bankruptcy Case will continue in chapter 11 rather than be converted to a chapter 7 liquidation. The Debtor has no reason to believe that such a process would yield a return to creditors higher than the Plan, as reflected in the Liquidation Analysis. It is possible that absent confirmation of the Plan, the result may be a lower purchase price for the Debtor's assets in chapter 7 liquidation proceedings, or alternatively, piecemeal liquidation of estate assets. If that were to occur, holders of Claims might see substantially lower recovery, or no recovery at all.

E. Executory Contracts and Unexpired Leases

All unexpired leases and executory contracts between the Debtor and any other Person (if any) which have not prior to the Effective Date of the Plan been affirmatively assumed by the Debtor, will be rejected.

The membership agreements with members of The Golf Club at Ravenna are executory. The Debtor intends to reject the membership agreements prior to the Confirmation hearing, unless a purchaser of the club, as part of any purchase agreement, requires the Debtor to assume and assign the agreements.

In addition, the Debtor intends to reject the contract entered by the Receiver with David Flinn for the sale of Lots 52 and 54 because the Debtor believes the lots may be sold at a higher price after the Effective Date of the Plan.

F. Tax Consequences of Plan

Creditors and Equity Interest Holders Concerned with How the Plan May Affect Their Tax Liability Should Consult with Their Own Accountants, Attorneys, and/or Advisors.

V. CONFIRMATION REQUIREMENTS AND PROCEDURES

To be confirmable, the Plan must meet the requirements listed in §§ 1129(a) or (b) of the Bankruptcy Code. These include the following requirements: (1) the Plan must be proposed in good faith; (2) at least one impaired class of claims must accept the plan, without counting votes of insiders; (3) the Plan must distribute to each creditor and equity interest holder at least as much as the creditor or equity interest holder would receive in a chapter 7 liquidation case, unless the creditor or equity interest holder votes to accept the Plan; and (4) the Plan must be feasible. These requirements are not the only requirements listed in § 1129, and they are not the only requirements for confirmation.

A. Who May Vote or Object

Any party in interest may object to the confirmation of the Plan if the party believes that the requirements for confirmation are not met.

Many parties in interest, however, are not entitled to vote to accept or reject the Plan. A creditor or equity interest holder has a right to vote for or against the Plan only if that creditor or equity interest holder has a claim or equity interest that is both (1) allowed or allowed for voting purposes and (2) impaired.

In this case, the Plan Proponent believes that classes **4, 5, 6, 7, 8, 9 and 10** are impaired and that holders of claims in each of these classes are therefore entitled to vote to accept or reject the Plan.

1. *What Is an Allowed Claim or an Allowed Equity Interest?*

Only a creditor or equity interest holder with an allowed claim or an allowed equity interest has the right to vote on the Plan. Generally, a claim or equity interest is allowed if either (1) the Debtor has scheduled the claim on the Debtor's schedules, unless the claim has been scheduled as disputed, contingent, or unliquidated, or (2) the creditor has filed a proof of claim or equity interest, unless an objection has been filed to such proof of claim or equity interest. When a claim or equity interest is not allowed, the creditor or equity interest holder holding the claim or equity interest cannot vote unless the Court, after notice and hearing, either overrules the objection or allows the claim or equity interest for voting purposes pursuant to Rule 3018(a) of the Federal Rules of Bankruptcy Procedure.

The deadline for filing a proof of claim in this case was August 16, 2012.

2. *What Is an Impaired Claim or Impaired Equity Interest?*

As noted above, the holder of an allowed claim or equity interest has the right to vote only if it is in a class that is *impaired* under the Plan. As provided in § 1124 of the Bankruptcy Code, a

class is considered impaired if the Plan alters the legal, equitable, or contractual rights of the members of that class.

3. *Who is **Not** Entitled to Vote*

The holders of the following five types of claims and equity interests are *not* entitled to vote:

- holders of claims and equity interests that have been disallowed by an order of the Court;

- holders of other claims or equity interests that are not "allowed claims" or "allowed equity interests" (as discussed above), unless they have been "allowed" for voting purposes.

- holders of claims or equity interests in unimpaired classes;

- holders of claims entitled to priority pursuant to §§ 507(a)(2), (a)(3), and (a)(8) of the Code;

- holders of claims or equity interests in classes that do not receive or retain any value under the Plan; and,

- administrative expenses.

Even If You Are Not Entitled to Vote on the Plan, You Have a Right to Object to the Confirmation of the Plan.

4. *Who Can Vote in More Than One Class*

A creditor whose claim has been allowed in part as a secured claim and in part as an unsecured claim, or who otherwise hold claims in multiple classes, is entitled to accept or reject a Plan in each capacity, and should cast one ballot for each claim.

B. Votes Necessary to Confirm the Plan

If impaired classes exist, the Court cannot confirm the Plan unless (1) at least one impaired class of creditors has accepted the Plan without counting the votes of any insiders within that class, and (2) all impaired classes have voted to accept the Plan, unless the Plan is eligible to be confirmed by "cram down" on non-accepting classes, as discussed in Section V.B.2, below.

1. *Votes Necessary for a Class to Accept the Plan*

A class of claims accepts the Plan if both of the following occur: (1) the holders of more than one-half (1/2) of the allowed claims in the class, who vote, cast their votes to accept the Plan, and (2)

the holders of at least two-thirds (2/3) in dollar amount of the allowed claims in the class, who vote, cast their votes to accept the Plan.

A class of equity interests accepts the Plan if the holders of at least two-thirds (2/3) in amount of the allowed equity interests in the class, who vote, cast their votes to accept the Plan.

2. *Treatment of Nonaccepting Classes*

Even if one or more impaired classes reject the Plan, the Court may nonetheless confirm the Plan if the nonaccepting classes are treated in the manner prescribed by § 1129(b) of the Code. A plan that binds nonaccepting classes is commonly referred to as a "cram down" plan. The Code allows the Plan to bind nonaccepting classes of claims or equity interests if it meets all the requirements for consensual confirmation except the voting requirements of § 1129(a)(8) of the Code, does not "discriminate unfairly," and is "fair and equitable" toward each impaired class that has not voted to accept the Plan.

You should consult your own attorney if a "cram down" confirmation will affect your claim or equity interest, as the variations on this general rule are numerous and complex.

C. Liquidation Analysis

To confirm the Plan, the Court must find that all creditors and equity interest holders who do not accept the Plan will receive at least as much under the Plan as such claim and equity interest holders would receive in a chapter 7 liquidation. A liquidation analysis is included in Section VII of this Disclosure Statement.

D. Feasibility

The Court must find that confirmation of the Plan is not likely to be followed by the liquidation, or the need for further financial reorganization, of the Debtor or any successor to the Debtor, unless such liquidation or reorganization is proposed in the Plan.

1. *Ability to Initially Fund Plan*

The Plan Proponent believes that the Debtor will have enough cash on hand on the Effective Date of the Plan to pay all the claims and expenses that are entitled to be paid on that date.

2. *Ability to Make Future Plan Payments And Operate Without Further Reorganization*

The Plan Proponent must also show that it will have enough cash over the life of the Plan to make the required Plan payments.

As shown in **Exhibit E,** the Debtor will have sufficient cash from its operating revenue and exit financing to pay its secured and unsecured creditors as set forth in the Plan.

VI. EFFECT OF CONFIRMATION OF PLAN

A. Discharge of Debtor

On the Effective Date of the Plan, the Debtor shall be discharged from any debt that arose before confirmation of the Plan, subject to the occurrence of the Effective Date, to the extent specified in § 1141(d)(1)(A) of the Code, except that the Debtor shall not be discharged of any debt (i) imposed by the Plan, (ii) of a kind specified in § 1141(d)(6)(A) if a timely complaint was filed in accordance with Rule 4007(c) of the Federal Rules of Bankruptcy Procedure, or (iii) of a kind specified in § 1141(d)(6)(B). After the Effective Date of the Plan your claims against the Debtor will be limited to the debts described in clauses (i) through (iii) of the preceding sentence.

B. Modification of Plan

The Plan Proponent may modify the Plan at any time before confirmation of the Plan. However, the Court may require a new disclosure statement and/or revoting on the Plan.

The Plan Proponent may also seek to modify the Plan at any time after confirmation only if (1) the Plan has not been substantially consummated *and* (2) the Court authorizes the proposed modifications after notice and a hearing.

C. Prosecution of Litigation Claims After Confirmation

In accordance with § 1123(b) of the Bankruptcy Code, the Reorganized Debtor shall become vested with and may enforce, sue on, settle or compromise (or decline to do any of the foregoing) any cause of action or litigation claim, including Avoidance and Recovery Actions under Chapter 5 of the Bankruptcy Code. River Canyon shall be the owner of all such actions and claims and shall have standing and the exclusive right and authority to prosecute, defend, compromise, settle and otherwise deal with all such actions and claims, whether commenced before or after Confirmation. Settlements or compromises of any claims or causes of action asserted in the amount of $50,000 or more shall be subject to notice and opportunity for hearing in compliance with Fed.R.Bankr.P. 9019.

D. Final Decree

Once the estate has been fully administered, as provided in Rule 3022 of the Federal Rules of Bankruptcy Procedure, the Plan Proponent, or such other party as the Court shall designate in the Plan Confirmation Order, shall file a motion with the Court to obtain a final decree to close the case. Alternatively, the Court may enter such a final decree on its own motion.

VII. LIQUIDATION ANALYSIS

Plan Proponent's Estimated Liquidation Value of Assets

Assets	Scheduled Value	Liquidation Value
Cash on hand	$0.00	$0.00
Real Property	$11,000,000	$2,975,000[11]
Membership Deposits	$680,000	$0.00–$680,000
Interest in Advance and Reimbursement Agreement for Capital Advances By and Between Ravenna Metropolitan District and RCRE, and the promissory note issued pursuant thereto and designated as the "Ravenna Metropolitan District General Obligation Subordinate Promissory Note, Series 2009A"	$7,000,000	$0.00
Lender Liability Claim against Beal Bank	Unknown	$0.00
Professional malpractice and fraud claim against High Country Engineering, Inc. et al.	Unknown	Unknown
Douglas County Pipeline partnership interest	Unknown	Unknown
Personal Property, Equipment and Inventory	$1,058,854	$1,058,854
Total Assets at Liquidation Value		$4,033,854–$4,713,854

The Debtor believes that confirmation of the Plan is in the best interests of creditors as a liquidation would not result in any return to unsecured creditors. Any cash or funds on account will be subject to the DIP lien of Lazarus. The disposition of the membership deposit accounts is uncertain given the various disputes as to the funds and the pending appeal. The reimbursement agreement with RMD is contingent upon the sale of a majority of lots in the project which would trigger a bond issuance by RMD to reimburse the Debtor for development costs advanced in connection with the project. In a liquidation, the necessary lots sales could not be achieved and therefore the repayment obligation would not be triggered. As stated previously, the Debtor is unable to predict or estimate a value for either the High County Engineering claims or the Douglas County pipeline interest. In any event, if the case converted to a case under chapter 7, the settlement agreement with Beal Bank would be void. The amount due Beal Bank dwarfs the value of all of the Debtor's assets. Even assuming a Trustee could find an attorney willing to pursue lender liability litigation against the Bank, any recovery would likely be nothing more than an offset against the $36 million debt owed Beal Bank. The Plan proposed herein is the only means of ensuring that all secured and unsecured creditors receive a return on their claims.

Another alternative to conversion is dismissal of the bankruptcy case. Again, the Debtor does not believe that dismissal is in the best interests of creditors. A dismissal of the case would also void the Beal Bank settlement and result in the loss of the benefits of that compromise. Prior to filing, a receivership of the property had been commenced. If the reorganization is dismissed, a

[11] NVC liquidation value set forth in the Appraisal.

receivership and foreclosure would certainly result in a lower return (or, more likely, no return) to unsecured creditors than the distribution proposed by the Debtor.

VIII. MANDATORY DISCLOSURES

The Bankruptcy Code requires disclosure of certain facts:

(a) There are no payments made or promises of the kind specified in Section 1129(a)(4)(A) of the Bankruptcy Code which have not been disclosed to the Court.

(b) The Reorganized Debtor will remain in control of the assets after confirmation of the Plan for the purpose of operating the business of the Reorganized Debtor. The current management of the Debtor will remain in control of the Reorganized Debtor. The Debtor believes that their continued control is in the best interest of all creditors as described in Section 1129(a)(5) of the Bankruptcy Code.

IX. CONCLUSION

The materials provided in this Disclosure Statement are intended to assist you in voting on the Plan of Reorganization in an informed fashion. Since, if the Plan is confirmed, you will be bound by its terms, you are urged to review this material and make such further inquiries as you may deem appropriate and then cast an informed vote on the Plan.

DATED the 28th day of November, 2012.

RIVER CANYON REAL ESTATE INVESTMENTS, LLC
a Colorado limited liability corporation

By: _____
Glenn Jacks, Managing Member of MLC Development, LLC as Managing Member

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