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UNITED STATES BANKRUPTCY COURT

DISTRICT OF ARIZONA

In re:	Chapter 11
NORTH GATEWAY CORE ACREAGE INVESTORS, LLC,	Case No. 2:16-bk-07286-BKM
Debtor.	

DISCLOSURE STATEMENT ACCOMPANYING DEBTOR'S PLAN OF REORGANIZATION DATED SEPTEMBER 22, 2016

I. Introduction

Debtor-In-Possession North Gateway Core Acreage Investors, LLC, a Delaware limited liability company ("**Debtor**" or "**Proponent**") filed its voluntary petition under Chapter 11 of the United States Bankruptcy Code, 11 U.S.C. §§ 101 *et seq*. (the "**Code**") on June 27, 2016. This Disclosure Statement is submitted in support of Debtor's Plan of Reorganization dated September 22, 2016 (the "**Plan**"). A copy of the Plan is attached as Exhibit "A." Capitalized terms used in this Disclosure Statement have the meanings attributed to them in the Plan and/or in the Code.

II. OVERVIEW AND RECOMMENDATION OF PROPONENT

The Plan provides for the payment in full of all Allowed Claims, with interest, as follows: (A) The amounts owing to holders of priority claims, including priority tax claims, will be paid in full on the Effective Date; (B) the amounts owing to secured creditor Propst, if not paid in full on the Effective Date, will be paid

over a period of not more than five years, together with interest at 4.5% per annum, after an initial payment of not less than $100,000 on the Effective Date, followed by quarterly interest-only payments pending a sale or refinancing of Debtor's real property; (C) the amounts owing to general unsecured creditors will be paid in quarterly amortizing installments of principal and interest, at the rate of 4.5% per annum, over a period of one year, with the first such payment to be made on the first day of the first full calendar quarter after the Effective Date; (D) Debtor's members will retain their equity interests and their rights will not otherwise be altered.

The funding sources for the Plan are one or more of the following: (1) capital contributions or loans from Debtor's members; (2) refinancing the existing secured indebtedness; or (3) sale of Debtor's real property. All funds raised from any of these sources will be held by Debtor and used only for Plan payments, operating expenses, and expenses associated with Debtor's real property.

Debtor recommends that the Plan be accepted and approved because it provides for the payment in full of all claims, with interest, while preserving the rights and interests of Debtor's equity holders. The alternative to the plan is a forced liquidation of all or a portion of Debtor' real property, which could result in a reduced return to unsecured creditors and would result in a loss of all or a significant portion of the equity in Debtor's real property.

A. General Information Regarding the Plan and Disclosure Statement.

This Disclosure Statement is intended to provide you with sufficient information about Debtor and the Plan to make an informed decision about whether to vote to accept or reject the Plan. It will be used to solicit acceptances of the Plan only after the Bankruptcy Court has determined that it contains adequate information. Approval of the Disclosure Statement by the Bankruptcy Court is not an opinion or ruling on any issue other than whether it contains adequate

information. Approval of the Disclosure Statement does not mean that the Plan has been, or will be, approved by the Bankruptcy Court.

The Bankruptcy Court will conduct a hearing on the Plan on _____, 2016 at _____.m. (the "**Confirmation Hearing**") at the United States Bankruptcy Court, 230 North First Avenue, Courtroom 701, 7th floor, Phoenix, Arizona 85003. At the Confirmation Hearing, the Bankruptcy Court will consider whether the Plan satisfies the requirements of the Code. The Bankruptcy Court will also receive and consider a ballot report prepared by Debtor that will tally the votes accepting or rejecting the Plan. Accordingly, all votes properly and timely cast are important because they can determine whether the Plan will be confirmed. Once confirmed, the Plan is binding on all Creditors and other parties in interest in this case regardless of whether any particular Creditor or shareholder votes to accept the Plan.

> THIS DISCLOSURE STATEMENT IS NOT THE PLAN. FOR THE CONVENIENCE OF CREDITORS AND SHAREHOLDERS, THE PLAN IS SUMMARIZED IN THIS DISCLOSURE STATEMENT. THE SUMMARY IS QUALIFIED IN ITS ENTIRETY BY THE PLAN ITSELF. IF THERE IS ANY INCONSISTENCY BETWEEN THIS DISCLOSURE STATEMENT AND THE PLAN, THE PLAN CONTROLS.

B. Representations Regarding this Disclosure Statement.

While Debtor has attempted to insure that all information in this Disclosure Statement is accurate, it has not been subjected to a certified audit or other independent review. Other than as stated in this Disclosure Statement, Debtor has not authorized any representations or assurances concerning its business or assets. In deciding whether to accept or reject the Plan, you should not rely on any information relating to Debtor or the Plan other than the information contained in this Disclosure Statement or the Plan. You should report any unauthorized

representations or inducements to counsel for Debtor, who may present such information to the Bankruptcy Court for such action as may be appropriate. This Disclosure Statement is a solicitation by Debtor only, and not by its Professionals.

C. Who is Entitled to Vote.

If you hold an Allowed Claim that is impaired by the Plan, you are entitled to vote to accept or reject the Plan. An Allowed Claim is one that has been allowed within the meaning of Section 502 of the Code or temporarily allowed within the meaning of Rule 3018(a), Federal Rules of Bankruptcy Procedure. An impaired Claim is one that is impaired within the meaning of Section 1124 of the Code. Holders of Equity Interests would also have voting rights if their interests were impaired by the Plan, but they are not.

1. Allowed Claims.

You have an Allowed Claim if: (a) You timely filed a proof of Claim and no one objected to it; or (b) you timely filed a proof of Claim, an objection was filed, but the Bankruptcy Court overruled the objection and allowed the Claim; or (c) your Claim was listed by Debtor in the schedules it filed with the Bankruptcy Court (including any amendments) as liquidated, non-contingent, and undisputed and no one objected to it; or (d) your Claim was listed by Debtor in the schedules it filed with the Bankruptcy Court (including any amendments) as liquidated, non-contingent, and undisputed, an objection was filed, and the Bankruptcy Court overruled the objection and allowed your Claim.

If your Claim is not an Allowed Claim, it is a Disputed Claim, and you will not be entitled to vote on the Plan unless and until the Bankruptcy Court temporarily or provisionally allows it for voting purposes pursuant to Rule 3018, Federal Rules of Bankruptcy Procedure. If you are uncertain about the status of your Claim, you should review the Bankruptcy Court records carefully, including the schedules and any amendments thereto. You should seek legal advice if you

have any dispute with Debtor about your Claim. Neither Debtor nor its professionals can advise you about such matters.

All creditors should be aware that their Claims are subject to objection by Debtor and other interested parties. The deadline for filing such objections is 90 days after the Effective Date. Debtor reserves all of its rights with respect to the allowance or disallowance of any and all Claims including, without limitation, the right to object to them, assert counterclaims, seek to subordinate them, and seek affirmative relief against creditors. In voting on the Plan, creditors may not rely on the absence of an objection to their proofs of claim as an indication that Debtor or other parties in interest will not object to them, assert counterclaims, seek to subordinate them, or seek affirmative recoveries against such creditors.

2. Impaired Claims and Equity Interests

An Allowed Claim or Equity Interest is deemed impaired if the holder's legal, equitable, or contractual rights are altered in any manner by the Plan or, in the case of an Allowed Claim, if it will not be paid in full under the Plan. The Plan states whether each Class of Claims or Equity Interests is impaired. Holders of Claims or Equity Interests that are not impaired are deemed to have accepted the Plan. Holders of Claims or Equity Interests that are not entitled to receive or retain any property under the Plan on account of such Claims or Equity Interests are deemed to have rejected it.

D. Procedures for Voting.

After this Disclosure Statement has been approved by the Bankruptcy Court, and except as otherwise ordered by the Bankruptcy Court, all Creditors and Equity Security holders who are entitled to vote on the Plan will be sent: (i) a ballot, together with instructions for voting (the "**Ballot**"); (ii) a copy of this Disclosure Statement as approved by the Bankruptcy Court; and (iii) a copy of the Plan. You should read the Ballot carefully and follow the instructions. Please use only the

Ballot sent with this Disclosure Statement. You should complete your Ballot and return it by mail, email, or telefax, to:

S. Cary Forrester, Esq.
FORRESTER & WORTH, PLLC
3636 North Central Avenue, Suite 700
Phoenix, Arizona 85012-1927
Fax No. (602) 271-4300
E-mail: scf@forresterandworth.com

TO BE COUNTED, YOUR BALLOT MUST BE RECEIVED AT THE ADDRESS LISTED ABOVE BY 11:59 P.M., MOUNTAIN STANDARD TIME, ON _____, 2016. IF YOUR BALLOT IS NOT TIMELY RECEIVED, IT MAY NOT BE COUNTED IN DETERMINING WHETHER THE PLAN HAS BEEN ACCEPTED OR REJECTED.

E. Summary of Voting Requirements.

In order for the Plan to be confirmed, the Plan must be accepted by at least one impaired Class of Claims. For a Class of Claims to accept the Plan, votes representing at least two-thirds in amount and a majority in number of the Claims voted in that Class (not including votes of insiders) must be cast to accept the Plan. Debtor is seeking acceptances from holders of Allowed Claims in the following Classes which are impaired under the Plan: 3 and 4.

For a Class of Equity Interests to accept the Plan, votes representing at least two-thirds in amount of Allowed Equity Interests voted in that Class must be cast to accept the Plan. The Proponents are not seeking acceptances from holders of Allowed Equity Interests in Class 5 because they are unimpaired under the Plan.

It is important that holders of Allowed Impaired Claims exercise their rights to vote to accept or reject the Plan. Debtor believes that the treatment of Creditors under the Plan is the best alternative for them and recommends that the holders of Allowed Claims vote in favor of the Plan.

III. GENERAL INFORMATION AND BACKGROUND

Debtor was formed as a limited liability company in Delaware in March of 2006 for the sole purpose of acquiring, holding for investment, and selling an undivided 85% interest in a 20 acre parcel of raw land (the "**Property**") located at 32201 North 31st Avenue, Phoenix, Arizona, which is approximately .3 miles southwest of the southwest corner of Dove Valley Road and North Valley Parkway. The Property, which is located within the "core" of the North Gateway Village urban hub in north Phoenix, was acquired from John E. Propst ("**Propst**") on April 6, 2006. Debtor acquired an 85% undivided interest in the Property, while the other 15% was acquired by Hare Investments, LP ("**Hare**"). The total price paid for the Property was $3.7 million, of which $2,220,000 was paid at close of escrow and the balance was carried back by Propst, as evidenced by a promissory note (the "**Note**") in the original principal amount of $1,480,000, which bore interest at 6% and had an original maturity date of May 30, 2010. The Note was secured by a deed of trust against the Property (the "**Deed of Trust**").

Although the first payment under the Note was not due until April 18, 2007, Propst approached Debtor shortly after closing and indicated that he was in need of cash. To accommodate Propst, in mid-July of 2006, Debtor prepaid the interest-only payments that were due in April and October of 2007, each in the amount of $44,400. In return, Propst extended the maturity of the Note for one year, until May 30, 2011. These modifications to the terms of the Note are reflected in the Amendment to Note Secured by Deed of Trust dated July 15, 2006 (the "**First Amendment**"). All further references to the Note refer to the Note as amended by the First Amendment.

Debtor made all required interest payments in a timely manner through April of 2010, but was only able to pay one-half of the $44,400 that came due on October 18, 2010. The parties eventually agreed that Debtor would pay the balance

of the defaulted interest payment, the entire interest payment due on April 18, 2011, and an extension fee of $42,000. In return, the interest rate on the Note was increased to 9%, interest-only payments were to be made three times per year on March 1, June 1 and September 1 (instead of two times per year), and the maturity date was extended to November 1, 2016. These modifications to the terms of the Note are reflected in the modification agreement dated April 27, 2011 (the "**Second Amendment**"). All further references to the Note refer to the Note as amended by the First and Second Amendments. Debtor made the required payments.

In early 2013, Propst again approached Debtor and asked for additional prepayments. After negotiations, the parties entered into an Agreement for Partial Prepayment of Secured Promissory Note (the "**Third Amendment**"), pursuant to which Propst agreed that, for each $29,600 paid by Debtor, he would credit $37,000 against the Note balance and release an undivided 2.5% interest in the Property from the Deed of Trust. All further references to the Note refer to the Note as amended by the First, Second, and Third Amendments

The Third Amendment presented Debtor and Hare with an opportunity to realize a 20% discount on the remaining principal payments under the Note. Debtor and Hare took advantage of this and prepaid a total of $651,000, which resulted in the release of 55% of the Property, including Hare's entire undivided 15% interest, and a reduction of $814,000 in the balance owing on the Note.

The Third Amendment also provided that Debtor would receive partial releases from the Deed of Trust for the $148,000 in principal that Debtor had paid on September 20, 2012. This should have resulted in the release of an additional 10% of the Property, for a total of 65%. However, while the principal balance of the Note was reduced to $518,000 ($1,480,000 - $962,000), the additional releases were not forthcoming.

When the next interest payment came due on March 1, 2014, Propst had still not delivered or recorded the releases, nor had he provided Debtor with a calculation of the amount of the new interest payments. For that and other reasons, the interest payments due on March 1 and June 1 of 2014 were not made and, on June 4, 2014, Propst, acting through counsel, declared a default. In the default letter, Propst incorrectly asserted that the tri-annual interest payments were in the amount of $43,000, even though the Note had been paid down from $1,480,000 to $518,000, thus reducing the interest payments to approximately $15,400 each.

On June 10, 2014, on Propst's instructions and in violation of the amended Note, Security Title, the trustee under the Deed of Trust, recorded a notice of trustee's sale against the entire Property, even though deeds of partial release had by that time been delivered to Debtor and Hare. On July 25, 2014, Debtor advised Propst that it would move forward with efforts to refinance the secured debt and requested that Security Title provide it with a payoff statement, as it was obligated to do under Arizona law. No payoff amount was ever provided but, after numerous communications among the parties and Security Title, the trustee's sale was cancelled on July 29, 2014.

After cancellation of the trustee's sale, Propst continued to demand the inflated interest payments, together with an unspecified amount for "dollar devaluation" and "tax increase" amounts. These demands flowed from a cryptic provision in the Second Amendment, which was drafted by Propst or his attorney, that provided: "If the federal capital gains and/or ordinary tax rates increase over the rates in effect in April 2011, or if the dollar has devalued since such date, then at the time of the balloon, an additional payment for the tax increase and/or dollar devaluation shall be due and payable." The method of calculating the "additional payment" was not specified, nor was it specified what foreign currency the dollar

was to be valued against (it is possible, for example, for the dollar to fall against the yen while rising against the euro).

To make matters worse, Propst refused to disclose the amounts he was demanding for the "dollar devaluation" or the "tax increase", saying only that they were large and eliminated any equity in the Property. And to make matters even worse, Propst demanded a penalty of $300 per day from the date of default, even though the Note provided that the penalty would apply only if the balloon payment were not paid on time, *i.e.*, when the Note matured on November 1, 2016. Accordingly, Debtor could not reinstate the Note, which it had a statutory right to do, because Propst was demanding much more than the legal cure amount. Similarly, it could not arrange for refinancing because the payoff amount had not been specified and the portion that had been specified was grossly inflated.

Following the cancelation of the trustee's sale, Propst, acting through counsel, again demanded payment and threatened a lawsuit. Debtor requested an accounting and an explanation of the monetary demands, which Propst refused. Nonetheless, on September 10, 2014, Propst filed a lawsuit in the Superior Court of Arizona, Maricopa County, Cause No. CV 2014-011739 (the "**Lawsuit**"), in which he sought to recover on the Note, together with certain alleged consequential damages. Debtor answered and filed counterclaims against Propst for breach of contract and declaratory relief as to their respective rights and duties under the Note and Deed of Trust, and also filed a third-party complaint against Security Title.

In its third-party complaint, Debtor alleged that Security Title breached its account servicing agreement by, among other things, failing to accurately and timely account for the 2012 and 2013 payments, accepting the prepayments without requiring and recording the corresponding releases from Propst, wrongfully commencing the 2014 trustee's sale against the entire Property, and

failing to properly and timely document the Third Amendment. The Lawsuit remains pending but, on September 21, 2016, Debtor removed it to the Bankruptcy Court.

On March 29, 2016, while the Lawsuit was pending, the successor trustee under the Deed of Trust, acting on Propst's instructions, noticed a new trustee's sale of "[a]n undivided 18/40 interest in and to" the Property. Again, Propst and the Trustee failed to account for the additional 4/40 (10%) interest that should have been released under the terms of the Third Amendment. The trustee's sale was stayed by the filing of this bankruptcy.

Propst's continuing inability to provide Debtor with an accurate payoff number for his secured loan seems calculated to prevent Debtor from raising the funds necessary to satisfy it. For example, on August 10, 2015, Propst filed a Disclosure Statement in the Lawsuit, in which he provided a payoff number of **$987,302.55**, not including consequential damages in an undisclosed amount. Seven months later, in a letter dated April 11, 2016, the trustee under Propst's deed of trust provided a payoff number of **$827,180**. Five months after that, on September 14, 2016, Propst's attorney filed a sworn proof of claim in this case, in which he provided a payoff number of **$1,271,595.35** (which included no claim for consequential damages). Because of this inequitable conduct, Propst should be estopped from charging late fees, default interest, and collection charges.

IV. DEBTOR'S MANAGEMENT

Debtor's sole manager is NG Core Acreage Management, LLC, a Delaware limited liability company ("**NGCAM**"). The co-managers and only members of NGCAM are Patrick Evans and Gary White. Mr. Evans is a California real estate attorney and Mr. White is a licensed Arizona real estate agent. NGCAM receives $2,000 per year from the Debtor for its management services.

V. SIGNIFICANT EVENTS DURING THE BANKRUPTCY CASE

A. Employment of Professionals.

With the approval of the Bankruptcy Court, Debtor employed the law firm of Forrester & Worth, PLLC, to serve as general bankruptcy counsel. Forrester & Worth will be compensated for its services at the rates approved by the court and must obtain court approval before any payment is made for services rendered prior to the Effective Date. It will continue to represent the Reorganized Debtor after the Effective Date but will not be required to obtain court approval for payment of services rendered after the Effective Date.

Also with the approval of the Bankruptcy Court, Debtor employed Steven E. Nagy to appraise the Property and render an opinion on the damages flowing from the wrongful foreclosure by Propst and Security Title. Mr. Nagy will be available to render his valuation opinion if there is a dispute concerning the value of the Property, and will render his damages opinion if the litigation against Propst and Security Title is not resolved.

B. Deadline for Filing Proofs of Claim.

The Bankruptcy Court established September 14, 2016 as the deadline ("**Bar Date**") for filing proofs of claim. The deadline for filing Administrative Claims, other than Claims under 11 U.S.C. § 503(b)(9), is 30 days after the Effective Date, pursuant to Article IV(A) of the Plan. The Bar Date for filing claims arising from an Executory Contract or unexpired lease that is rejected under the Plan is 14 calendar days after the Confirmation Date, pursuant to Article VIII of the Plan.

VI. DESCRIPTION OF THE PLAN OF REORGANIZATION

The following description of the Plan is for informational purposes only and does not purport to change or supersede any of the language of the Plan. Each holder of a Claim or Equity Interest is urged to read the Plan carefully with respect to the proposed treatment of their Claim or Equity Interest, and, if necessary, to

consult with legal counsel. The Plan, if confirmed, will be binding upon Debtor, its Creditors, and its Equity Security Holders. **IF THERE IS ANY INCONSISTENCY BETWEEN THE TERMS OF THE PLAN AND THIS DISCLOSURE STATEMENT, THE TERMS OF THE PLAN CONTROL.**

A. Funding Sources. Funding for the Plan will come from three sources:

1. Additional contributions from Equity Holders. Debtor has eighteen members, some of whom are obligated to make additional capital contributions to Debtor. Debtor will attempt to collect these additional capital contributions for use in funding the Plan and may also obtain secured or unsecured loans from one or more of the Equity Holders.

2. Refinancing. Debtor is exploring the possibility of refinancing its existing obligation to Propst to obtain additional funds for the Plan.

3. Sale of All or a Portion of the Property. Debtor has listed the Property for sale and will continue with its sales efforts until an acceptable offer is made.

B. Estimated Distributions. Debtor provides the following estimate of Claims and distributions:

Class/Nature of Claim	Treatment	Estimated Amount	Date Range of Distributions
Administrative Claims	N/A	$50,000.00	Effective Date
Class 1 Priority Claims	Unimpaired	35.00	Effective Date
Class 2 Priority Tax Claims	Unimpaired	35.00	Effective Date
Class 3 Propst Secured Claim	Impaired	659,561.93	$200,000 on ED and then quarterly over 5 years or less
Class 4 Unsecured Claims	Impaired	80,812.00	Quarterly over 1 year

C. Classification and Treatment of Claims and Interests.

The Plan classifies Claims and Equity Interests in various Classes and specifies the treatment afforded to each Class. As of the Confirmation Hearing, any Class that does not contain a Claim will be deemed deleted from the Plan. Similarly, any Class that does not contain any Allowed Claims (or Claims temporarily allowed for voting purposes) will be deemed deleted for voting purposes. The following is a summary of the treatment provided for each Class.

1. **Class 1 (Priority Claims)**. Each holder of an Allowed Class 1 Claim will be paid in cash in full upon the Effective Date. Class 1 is unimpaired under the Plan.

2. **Class 2 (Priority Tax Claims)**. Each holder of an Allowed Class 2 Claim will be paid in full on the Effective Date. Each holder of a secured Class 2 Claim will retain its lien or other security interest until the Claim has been paid in full. Class 2 is unimpaired under the Plan.

3. **Class 3 (Propst's Secured Claim)**. Propst's Allowed Secured Claim will be paid in full, together with interest at the rate of 4.5% per annum from and after the Petition Date. Propst has two options for his treatment under the Plan, and will choose between the two by marking the appropriate box on his Ballot. Under Option A, Propst will receive a larger distribution on the Effective Date in return for committing to resolve and dismiss the claims asserted by and against Debtor in the Lawsuit. Under Option B, Propst will receive a smaller distribution on the Effective Date, the Lawsuit will continue, and the amount of his Allowed Secured Claim will be determined in the Lawsuit or through the Claims estimation process of 11 U.S.C. § 502(c), if the Court deems that appropriate.

a. Option A (Settlement of Lawsuit).

i. If Propst chooses Option A, the amount of his Allowed Secured Claim will be fixed at $659,561.93 as of the Effective Date, comprised of

principal and interest accrued through that date, at the non-default rate of 9%, and $10,000 in settlement of the other claims asserted in the Lawsuit, which Debtor disputes. If Propst elects Option A, the Lawsuit will be dismissed promptly following the Effective Date and Debtor will be deemed to have released the counterclaims asserted in the Lawsuit.

ii. If Debtor is able to raise the necessary funds on or before the Effective Date, Propst will be paid $659,561.93 plus post-Petition Date interest at 4.5%, on the Effective Date, in full satisfaction of his Allowed Secured Claim.

iii. If Debtor is unable to fully satisfy Propst's Allowed Secured Claim on the Effective Date, then Propst will receive a payment of not less than $200,000 on the Effective Date. The payment will be applied first to interest accrued after the Petition Date, and then to the principal amount of Propst's Allowed Secured Claim. Thereafter, on the first day of each calendar quarter, beginning with the first day of the first full calendar quarter after the Effective Date, Propst will be paid an amount equal to the then accrued but unpaid interest on the remaining balance of his Allowed Secured Claim, at the rate of 4.5% per annum. The balance of Propst's Allowed Secured Claim will be paid from the proceeds of the sale of the Property or the refinancing of the secured indebtedness, with such amount to be paid at the close of escrow. Propst's Allowed Secured Claim will be paid in full no later than the fifth (5th) anniversary of the Effective Date.

If Propst chooses Option A and Debtor is able to make the cure payment described in Article IV(B)(3)(a)(ii) above, then Class 3 is unimpaired under the Plan.

Otherwise it is impaired. Debtor will advise the Court at or before the confirmation hearing whether it is able to make the cure payment.

b. Option B (No Settlement of Lawsuit).

i. If Propst chooses Option B, the amount of his Allowed Secured Claim will be determined in the Lawsuit or through the Claims estimation process of 11 U.S.C. § 502(c), if the Court deems that appropriate.

ii. If Debtor is unable to fully satisfy Propst's Allowed Secured Claim on the Effective Date, then Propst will receive a payment of not less than $100,000 on the Effective Date. The payment will be applied first to interest accrued after the Petition Date, and then to the principal amount of Propst's Allowed Secured Claim. Thereafter, on the first day of each calendar quarter, beginning with the first day of the first full calendar quarter after the Effective Date, Propst will be paid an amount equal to the then accrued but unpaid interest on the remaining balance of his Allowed Secured Claim, at the rate of 4.5% per annum. The balance of Propst's Allowed Secured Claim will be paid from the proceeds of the sale of the Property or the refinancing of the secured indebtedness, with such amount to be paid at the close of escrow. Propst's Allowed Secured Claim will be paid no later than the fifth (5th) anniversary of the Effective Date.

If Propst chooses Option B, Class 3 is impaired under the Plan.

c. Provisions Applicable to Options A and B. Propst will retain his lien and security interest in the real and personal property collateral specified in his Deed of Trust until his Allowed Secured Claim is paid in full in accordance with the provisions of this Plan. His lien and security interest will continue to be controlled by the terms of his Deed of Trust, as modified by this Plan, with the following additional

exceptions: (a) all covenants relating to Debtor's financial condition or any minimum debt coverage ratio will be deemed to be deleted; and (b) for so long as Debtor is not in default under this Plan, Debtor will be deemed to be current and not delinquent for all purposes. Each sale of real property pursuant to the terms of this Plan will be made free and clear of all liens, claims, interests, and encumbrances, provided only that the amounts owing to Propst are paid at the close of escrow. To the extent necessary to facilitate the issuance of a title insurance policy to the buyer or to satisfy escrow closing requirements, Propst will execute a release of his Deed of Trust, in recordable form, and deliver it to the title insurer or escrow agent promptly upon request. All payments to Propst will be applied first to post-Effective Date interest that is accrued and unpaid as of the date of the payment, and then to principal. Propst will be entitled to foreclose upon or otherwise enforce his rights in the real and personal property collateral securing his Allowed Secured Claim only for a breach of an obligation under this Plan owing to him. If he does not receive any of the principal and interest payments described above in a timely manner, and if Debtor does not remedy such default(s) within 30 days after the provision of written notice to Debtor and its counsel, Propst may foreclose upon and otherwise enforce his rights in and to all real and personal property collateral securing his Allowed Secured Claim without further order of the Court or notice to Debtor, except as may be required by applicable non-bankruptcy law.

4. Class 4 (General Unsecured Claims). The Allowed Class 4 Claims will be paid in full, together with interest at the rate of 4.5% per annum from and

after the Petition Date, as follows: All Allowed Class 4 Claims will be paid in quarterly amortizing installments over a period of one year, with the first such payment to be made on the first day of the first full calendar quarter after the Effective Date and continuing on the first day of each calendar quarter thereafter until fully paid.

5. Class 5 (Interests). All of Debtor's members will retain their Equity Security interests. Class 5 is unimpaired under the Plan.

6. Disputed Claims will be treated as follows: At the time of any Distribution to holders of Allowed Claims in a particular Class, an amount sufficient to have paid each holder of a Disputed Claim in that Class its pro rata share of such Distribution, calculated as though such Disputed Claim were an Allowed Claim, will be reserved for the potential benefit of the holders of such Disputed Claims, and thereafter distributed in accordance with the terms and provisions of this Plan.

7. Unclassified Claims. Each holder of an Allowed Administrative Claim will be paid in cash in full on the Effective Date, unless such holder agrees in writing to other treatment or the amount of such Claim is not due on the Effective Date, in which case it will be paid when it is due. Professionals employed at the expense of the estate on or before the Effective Date, and any entities that may be entitled to reimbursement or allowance of fees and expenses pursuant Section 503(b) of the Bankruptcy Code, will receive cash in the amount awarded to them at such time as an order is entered pursuant to Sections 330, 331 or 503(b) of the Bankruptcy Code. Ordinary post-petition operating expenses incurred before or after the Effective Date, such as taxes, salaries, fees, and insurance, that do not require Court approval, will be paid in the ordinary course of business as and when due.

D. **Summary of Other Plan Provisions**.

1. **Cash Reserves**. All cash that is not paid to Creditors on the Effective Date will be held by Debtor and used only for future Plan payments, operating expenses, and expenses associated with the Property.

2. **Disbursing Agent**. The Reorganized Debtor will function as disbursing agent under the Plan and will not be compensated for its services.

3. **Authority to Settle and Assign**. In accordance with Bankruptcy Code §1123(b)(3), the Reorganized Debtor will own and retain, and may prosecute, enforce, compromise, settle, release, or otherwise dispose of, any and all claims, defenses, counterclaims, setoffs, and recoupments belonging to the Debtor or the Estate, without further order of the Court. Without limiting the generality of the foregoing, all claims, actions, causes of action, defenses, setoffs, counterclaims, and third-party claims asserted, or which may yet be asserted by the Debtor in the Lawsuit are preserved for the benefit of the Estate and the Reorganized Debtor.

4. **Location of Claimants**. If the Reorganized Debtor is unable to locate a Claimant, it will hold the amount of any Distribution to such Claimant as though such Claim were a Disputed Claim. It will hold that amount for 120 days and, if the address of the Claimant is then still unknown, the amount will be distributed to other Claimants. The Reorganized Debtor will have fulfilled any duty that it may have to locate the holder of a Claim by mailing any Distribution to the address for that Claimant set forth in the Master Mailing List or in any Proof of Claim or Notice of Appearance filed with the Court. The Reorganized Debtor will be under no obligation to undertake further efforts to locate the holder of a Claim if the Distribution is returned "addressee unknown," and the Reorganized Debtor may delete any such Claimant from its mailing list.

5. **Uncashed Distribution Checks.** Any Distribution check that has not been returned by the U.S. Post Office but which has not been cashed within 60

days after it is mailed, will be deemed undeliverable. The Reorganized Debtor will be authorized to stop payment on such check and the payee will thereafter be treated in the manner set forth above for Claimants whose addresses are unknown.

6. **Notices**. In order to minimize the expense of providing notices after the Confirmation Date, only Special Notice Creditors will receive notice of matters brought before the court after the Confirmation Date. The failure of a creditor to become a Special Notice Creditor by filing a Notice of Appearance and/or Request for Notice after the Confirmation Date will not affect such creditor's right to receive any Distributions provided for under the Plan.

7. **Effective Date/Condition to Confirmation**. The Effective Date is thirty calendar days after the Confirmation Order has been entered by the Clerk of the Bankruptcy Court.

8. **Discharge**. Except as otherwise specifically provided in the Plan, confirmation of the Plan will discharge the Debtor from any debt that arose prior to the Confirmation Date and any debt of a kind specified in §§ 502(g) through (i) of the Code, whether or not a proof of claim based upon such debt is filed or deemed filed under § 501 of the Code, whether or not such Claim is allowed under § 502 of the Code and whether or not the holder of such Claim has accepted the Plan. The provisions of this Article are not intended to, nor shall they be construed as, limiting the scope of the discharge provided by § 1141 of the Code.

9. **Automatic Stay and Post-Confirmation Injunction**. Not-withstanding any other provisions of the Plan, the automatic stay will terminate on the Effective Date, but all holders of Claims dealt with by the Plan, and all creditors who received notice of the Case, will be enjoined from pursuing collection of their Claims from the assets of the Debtor, the estate, and the Reorganized Debtor.

10. **Release and Extinguishment of Liens, Claims and Encumbrances**. Except as otherwise provided in the Plan, all property dealt with by the Plan is free and clear of all liens, claims and interests of creditors and Equity Security holders from and after the Effective Date.

11. **Executory Contracts**. With the exception of the agricultural grazing lease with Roberts Enterprises, Inc., which is assumed under the Plan, all executory contracts and unexpired leases that have not previously been assumed by the Debtor will be deemed rejected as of the Effective Date, unless specific written notice of intent to assume is mailed or delivered to the other contracting party before the Effective Date. In the event of assumption, and except as otherwise agreed to by the other contracting party, all pre-petition defaults will be cured on the Effective Date, or as soon thereafter as is reasonably practicable. In the event of any dispute over the cure amounts, the dispute will be resolved by the Court. All parties to rejected executory contracts and unexpired leases will have 14 calendar days after the Confirmation Date to file a Proof of Claim for the damages, if any, resulting from such rejection. All parties to rejected contracts and leases who have timely filed Proofs of Claim for damages, if any, resulting from such rejection, will be treated as holders of Class 4 Allowed or Disputed Claims, as appropriate. Any party in interest may file an objection to a Claim for damages arising from rejection of an executory contract or lease. The failure of any party to a rejected contract or lease to timely file a Proof of Claim will bar said party from participating under the Plan or from receiving any payment on account of such rejected executory contract or lease.

12. **Retention and Enforcement of Claims**. The Plan preserves in full for the benefit of the Reorganized Debtor the Retained Causes of Action and all other claims and causes of action of any sort owned by the Debtor or estate, pursuant to § 1123(b)(3) of the Code, other than those expressly released by the terms hereof.

Such Retained Causes of Action and all other claims and causes of action will be controlled by the Reorganized Debtor. The Reorganized Debtor is hereby designated as the estate representative pursuant to and in accordance with Bankruptcy Code §1123(b)(3)(B). Without limiting the generality of the foregoing, all claims, actions, causes of action, defenses, setoffs, counterclaims, and third-party claims asserted, or which may yet be asserted by the Debtor in the Lawsuit are preserved for the benefit of the Estate and the Reorganized Debtor.

13. **Modification of the Plan**. The Debtor reserves the right to propose modifications or amendments to the Plan at any time prior to the Confirmation Date. After confirmation, the Reorganized Debtor may, with Court approval, and so long as it does not materially or adversely affect the interests of creditors, remedy any defect or omission, or reconcile any inconsistencies in the Plan, or in the Confirmation Order, in such manner as may be necessary to carry out the purposes and effect of the Plan. The foregoing provisions of this Article do not limit the ability of any party to modify the Plan under Code § 1127 and applicable Rules.

14. **Exculpation**. Debtor and its advisors, attorneys, consultants, officers, managers, and agents (the "**Exculpated Parties**") will neither have nor incur any liability to any holder of a Claim or Equity Security, or any other party in interest, or any of their respective shareholders, former shareholders, members, former members, agents, employees, representatives, financial advisors, attorneys, consultants, affiliates, successors, or assigns (the "**Exculpating Parties**"), for any acts or omissions relating to or arising out of this Case, the preparation for and administration of this Case, or the negotiation, execution, confirmation, consummation or administration of the Plan (the "**Exculpated Acts**"), other than acts of gross negligence, fraud, breach of fiduciary duty, or willful misconduct. The Exculpating Parties will have no right of action against any of the Exculpated

Parties for any of the Exculpated Acts, and the Exculpated Parties are released of and from all claims or liabilities, known or unknown, arising out of or related to the Exculpated Acts. The provisions of this Article will not be deemed to limit any existing protections or immunities afforded to the Exculpated Parties under existing law. The provisions of this Article will not apply to any claim, action or cause of action by the SEC, and the SEC will not be included in the definition of "Exculpating Parties".

15. **Retention of Jurisdiction**. Notwithstanding confirmation of this Plan, the Bankruptcy Court will retain jurisdiction to: (a) Determine the allowability of Claims and interests upon objection to such Claims or interests by the Debtor, or by any other party in interest; (b) consider requests for payment of Claims entitled to priority under Code § 507(a), including, without limitation, compensation of professionals pursuant to §§ 330 and 503; (c) hear, determine and enforce all claims and causes of action which may exist on behalf of Debtor or the estate, including, but not limited to, any right of the Reorganized Debtor or the estate to recover assets pursuant to the provisions of the Code, whether or not such claims, causes of action, or rights are Retained Causes of Action, and whether they are pursued by the Reorganized Debtor or another appropriate party; (d) consider and act upon the compromise and settlement of any Claims against, or cause of action on behalf of, the Debtor or the Estate; (e) resolve controversies and disputes regarding the interpretation or enforcement of the terms of the Plan, or any documentation relating thereto; (f) resolve controversies and disputes regarding implementation of the Plan, and to enter orders in aid of confirmation of the Plan and appropriate orders to protect the Debtor or its successors in interest; (g) determine all matters and controversies regarding state, local, and federal taxes pursuant to all applicable provisions of the Bankruptcy Code; and (h) enter a Final Decree closing Debtor's case.

VII. TAX CONSEQUENCES OF THE PLAN

Debtor purchased the Property in 2006 for $3,700,000. Debtor is a "pass through" entity, so any capital gains or other taxes will be the responsibility of its members. Because the Plan provides for the full payment of all claims, no material cancellation of debt income is anticipated. Consequently, Debtor does not believe that there will be any material adverse tax consequences as a result of confirmation of the Plan to Debtor, its creditors, or its members (other than capital gains taxes and the like). However, Debtor does not express any opinion as to the tax consequences of the Plan to creditors or members, who are advised and strongly encouraged to obtain their own tax advice.

While this Disclosure Statement does not attempt to describe all of the tax consequences of the transactions contemplated by the Plan to the Debtor and other interested parties, Debtor will use all reasonable efforts to preserve its tax attributes and minimize the tax consequences to Debtor.

BECAUSE DEBTOR EXPRESSES NO TAX ADVICE, NEITHER DEBTOR NOR ANY OF ITS PROFESSIONAL ADVISORS SHALL BE LIABLE IF, FOR ANY REASON, THE TAX CONSEQUENCES OF THE PLAN ARE OTHER THAN AS ANTICIPATED. CREDITORS AND EQUITY SECURITY HOLDERS MUST RELY SOLELY UPON THEIR OWN ADVISORS AS TO THE TAX CONSEQUENCES OF THE PLAN.

VIII. CONFIRMATION OVER DISSENTING CLASS

The Code contains provisions for confirmation of the Plan even if it is not accepted by all impaired classes, provided that at least one impaired class of Claims votes to accept the Plan. These "cramdown" provisions are set forth in Section 1129(b) of the Code. If one or more classes of impaired Claims does not accept the Plan, the Bankruptcy Court may confirm the Plan if it finds that the Plan: (i) was accepted by at least one impaired class of claims; and (ii) does not

discriminate unfairly against, and is fair and equitable as to, all non-accepting impaired classes. Debtor will request confirmation of the Plan pursuant to Section 1129(b) of the Code if all impaired classes do not accept the Plan.

IX. FEASIBILITY OF THE PLAN

For the Court to confirm the Plan it must find that confirmation "is not likely to be followed by the liquidation, or the need for further financial reorganization, of the debtor … unless such liquidation or reorganization is proposed in the plan." This is generally referred to as the "feasibility" requirement of Section 1129(a)(11) of the Code. The Plan provides for payment in full on the Effective Date of all Administrative Claims and Priority Claims. Accordingly, feasibility is not an issue for creditors in those Classes. As for creditors who are to be paid over time, Debtor estimates the Property's value at approximately $3.5 million, while the claims to be paid over time total approximately $640,374 ($740,374 minus the minimum of $100,000 that is to be paid on the Effective Date). Accordingly, the secured and unsecured creditors are protected by an equity cushion of approximately 500%, and a sale or refinancing of the Property within the projected repayment period is not only feasible, but a virtual certainty.

X. ALTERNATIVES TO THE PLAN

Debtor has considered alternatives to the Plan, including a liquidation of the Property under Chapter 7 of the Code or under a liquidating plan. Either alternative would depress the value of the Property, jeopardize the payment of unsecured claims, and reduce the return to Debtor's members. Accordingly, Debtor does not consider liquidation as a viable alternative to the Plan.

XI. RECOMMENDATION AND CONCLUSION

Debtor believes that the Plan is in the best interests of all creditors and parties in interest and recommends that it be approved.

Dated September 22, 2016.

FORRESTER & WORTH, PLLC

/s/ SCF (006342)
S. Cary Forrester
Attorney for the Debtor

NORTH GATEWAY CORE ACREAGE INVESTORS, LLC, a Delaware Limited Liability Company

By: NG Core Acreage Management, LLC, a Delaware Limited Liability Company, its sole Managing Member

By: _____
Patrick J. Evans, Member and Co-Manager

By: _____
Gary S. White, Member and Co-Manager