

UNITED STATES BANKRUPTCY COURT
SOUTHERN DISTRICT OF FLORIDA
MIAMI DIVISION

In re:

FORASTERO, INC.,
Debtor.

Case No. 18-13397-RAM
Chapter 11

FORASTERO, INC.'S AMENDED DISCLOSURE STATEMENT DATED JULY 31, 2018

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I. INTRODUCTION

This is the amended disclosure statement (the “Disclosure Statement”) in the chapter 11 case of Forastero, Inc. (the “Debtor”). This Amended Disclosure Statement contains information about the Debtor and describes Forastero, Inc.’s Amended Plan of Reorganization (the “Plan”) filed by Forastero, Inc. on July 31, 2018. A full copy of the Plan is attached to this Disclosure Statement as Exhibit A. *Your rights may be affected. You should read the Plan and this Disclosure Statement carefully and discuss them with your attorney. If you do not have an attorney, you may wish to consult one.*

The proposed distributions under the Plan are discussed at pages 5 through 16 of this Disclosure Statement.

A. Purpose of This Document

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 Forastero, Inc. believes 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 approve this Disclosure Statement and confirm the Plan will take place on August 7, 2018 at 11:00 a.m., in Courtroom 4, at the Bankruptcy Court, C. Clyde Atkins United States Courthouse, 301 N. Miami Avenue, Miami, Florida 33128.

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 Clerk of Bankruptcy Court,

See section IV.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 Adequacy of Disclosure and Confirmation of the Plan*

Objections to this Disclosure Statement or to the confirmation of the Plan must be filed with the Court and served upon the Debtor and all creditors by July 31, 2018.

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

If you want additional information about the Plan, you should contact Richard R. Robles, Esquire, 905 Brickell Bay Drive, Suite 228, Miami, Florida 33131.

C. **Disclaimer**

The Court may conditionally approved this Disclosure Statement as containing adequate information to enable parties affected by the Plan to make an informed judgment about its terms. The Court has not yet determined whether the Plan meets the legal requirements for confirmation, and the fact that the Court has approved this Disclosure Statement does not constitute an endorsement of the Plan by the Court, or a recommendation that it be accepted. The Court's approval of this Disclosure Statement is subject to final approval at the hearing on confirmation of the Plan. Objections to the adequacy of this Disclosure Statement may be filed until July 31, 2018.

II. **BACKGROUND**

A. **Description and History of the Debtor's Business**

The Debtor holds the real property located at 2 Tahiti Beach Island Road, Coral Gables, Florida 33143. It has held this property since December, 1999. The Debtor is not a going concern and does not have employees outside of the officer and director. The corporation's purpose is to hold and maintain the real property.

B. Insiders of the Debtor

<u>Insider</u>	<u>Position</u>	<u>Payment</u>
Marie C. Vallejo	President, Secretary Treasurer, Director	None.

C. Management of the Debtor Before and During the Bankruptcy

During the two years prior to the date on which the bankruptcy petition was filed, the officers, directors, managers or other persons in control of the Debtor (collectively the “Managers”) were: Marie C. Vallejo.

The Officers of the Debtor during the Debtor’s chapter 11 case have been: Marie C. Vallejo.

After the effective date of the order confirming the Plan, the directors, officers, and voting trustees of the Debtor, any affiliate of the Debtor participating in a joint Plan with the Debtor, or successor of the Debtor under the Plan (collectively the “Post Confirmation Managers”), will be: Marie C. Vallejo.

The responsibilities and compensation of these Post Confirmation Managers are described in section III(D)(2) of this Disclosure Statement.

D. Events Leading to Chapter 11 Filing

Approximately four (4) years prior to the filing of this matter, the Debtor’s principals underwent significant financial hardship. The Debtor’s principals were involved in the ownership and management of a large Venezuelan media entity, which was seized by the Venezuelan government along with the majority of the principals financial assets. This lead to the Debtor suffering significant financial hardships. The Debtor had attempted to sell its principal asset prior to the filing of this case, and it is seeking to sell this asset through the bankruptcy.

E. Significant Events During the Bankruptcy Case

The Law Offices of Richard R. Robles, Esquire was approved as counsel for the Debtor. The Debtor has entered into a proposed contract for the sale of its primary asset, which would provide for the payment in full of all amounts owed by the Debtor.

F. Projected Recovery of Avoidable Transfers

The Debtor does not anticipate any recovery of avoidable transfers.

G. 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 ___ of the Plan.

H. Current and Historical Financial Conditions

The identity and fair market value of the estate's assets are listed in Exhibit B. This is based on the values determined by the Debtor.

The Debtor's most recent financial statements, if any, issued before bankruptcy, each of which was filed with the Court, are set forth in Exhibit C.

The most recent post-petition operating report filed since the commencement of the Debtor's bankruptcy case are set forth in Exhibit D.

III. 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. Unclassified Claims

Certain types of claims are automatically entitled to specific treatment under the Code. They are not considered impaired, and holders of such claims do not vote on the Plan. They may, however, object if, in their view, their treatment under the Plan does not comply with that required by the Code. As such, the Plan Proponent has *not* placed the following claims in any class:

1. *Administrative Expenses*

Administrative expenses and super-priority claims 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:

<u>Type</u>	<u>Estimated Amount Owed</u>	<u>Proposed Treatment</u>
Expenses Arising in the Ordinary Course of Business After the Petition Date	0.00	Paid in full on the effective date of the Plan, or according to terms of obligation if later
The Value of Goods Received in the Ordinary Course of Business Within 20 Days Before the Petition Date	0.00	Paid in full on the effective date of the Plan, or according to terms of obligation if later
Professional Fees, as approved by the Court. (This does not include proposed sales commissions from the purchase and sale of the Debtor's principal asset).	\$45,000.00 (estimated)	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	0.00	Paid in full on the effective date of the Plan
Other administrative expenses	0.00	Paid in full on the effective date of the Plan or according to separate written agreement
Office of the U.S. Trustee Fees	975.00 (estimated)	Paid in full on the effective date of the Plan
TOTAL	\$45,975.00 (estimated)	

2. *Priority Tax Claims*

Priority tax claims are unsecured income, employment, and other taxes described by §507(a)(8) of the Code. Unless the holder of such a §507(a)(8) 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 order of relief.

The following chart lists the Debtor's estimated §507(a)(8) priority tax claims and their proposed treatment under the Plan:

Description (name and type of tax)	Estimated Amount Owed	Date of Assessment	Treatment
Internal Revenue Service	\$400.00	Unknown.	Paid in full on effective date of the Plan.

C. 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 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 allowed as secured claims 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:

<u>Class #</u>	<u>Description</u>	<u>Insider</u>	<u>Impairment</u>	<u>Treatment</u>
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<p>1</p>	<p><i>Allowed Secured Claim of: Citibank, N.A., as Trustee for the Federal Deposit Insurance Corporation 2010-R1 Trust</i></p> <p>Collateral Description = 2 Tahiti Beach Island Road, Coral Gables, Florida 33143</p> <p>Allowed Secured Amount= \$5,489,084.53 plus applicable post-judgment interest at the statutory rate, attorney's fees and costs</p> <p>Priority of lien= First Position Lien</p> <p>Principal owed= \$5,489,084.53 plus applicable post-judgment interest at the statutory rate, attorney's fees and costs</p> <p>Total claim = \$5,489,084.53 plus applicable post-judgment interest at the statutory rate, attorney's fees and costs</p>	<p>No.</p>	<p>Treatment 1- No.</p> <p>Treatment 2- Yes.</p>	<p>The Debtor is offering two (2) alternative treatments for Citibank, N.A., as Trustee for the Federal Deposit Insurance Corporation 2010-R1 Trust. These alternative treatments are based on the ability of the Debtor to sell the real property located at 2 Tahiti Beach Island Road, Coral Gables, Florida 33143 in order to pay all claims in full.</p> <p><u>Treatment #1-</u> The Debtor shall complete a sale of the real property located at 2 Tahiti Beach Island Road, Coral Gables, Florida 33143. The Debtor shall pay the claim in full at the closing of the real property. The Debtor shall offer reasonable adequate protection to the Creditor while the marketing of the property is pending.</p> <p><u>Treatment #2-</u> The Debtor is presenting two (2) options regarding its repayment the mortgage on the following terms:</p> <p><u>a. Interest Only Three (3) Year Balloon</u></p> <p>Monthly Payment= \$24,472.17</p> <p>Interest Rate= 5.35%</p> <p>Begin Date= Effective Date of the Plan</p> <p>End Date= Thirty-six months from the Effective Date of the Plan</p> <p>The Debtor shall make interest only payments at a rate of 5.35% on the debt for thirty-six months from the effective date of the plan as it relates to the claim of Citibank, N.A., as Trustee for the Federal Deposit Insurance Corporation 2010-R1 Trust.</p>
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			<p>At the conclusion of the thirty-six (36) month period, the principal amount shall be due. Upon final payment made to Citibank, N.A., as Trustee for the Federal Deposit Insurance Corporation 2010-R1 Trust, all liens relating to the amounts owed by the Debtor, including but not limited to the mortgage recorded on March 31, 2005 in the Official Records Book 23224, Page 3454 of the Public Records of Miami-Dade County, Florida, the assignment of mortgage recorded on September 27, 2011 in the Official Records Book 27839, Page 2479 of the Public Records of Miami-Dade County, Florida, the final judgment of foreclosure recorded on December 20, 2017 in the Official Records Book 30799, Page 1118 of the Public Records of Miami-Dade County, Florida and the unopposed amended final judgment of foreclosure recorded on January 25, 2018 in the Official Records Book 30842, Page 284 of the Public Records of Miami-Dade County, Florida.</p> <p><u>b. Principal and Interest Three (3) Year Balloon with a Thirty Year Balloon</u></p> <p>Monthly Payment= \$30,651.80</p> <p>Interest Rate= 5.35%</p> <p>Begin Date= Effective Date of the Plan</p> <p>End Date= Thirty-six months from the Effective Date of the Plan</p>
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				<p>The Debtor shall make principal and interest payments at a rate of 5.35% on the debt for thirty-six months from the effective date of the plan as it relates to the claim of Citibank, N.A., as Trustee for the Federal Deposit Insurance Corporation 2010-R1 Trust.</p> <p>At the conclusion of the thirty-six (36) month period, the entire principal amount shall be due. Upon final payment made to Citibank, N.A., as Trustee for the Federal Deposit Insurance Corporation 2010-R1 Trust, all liens relating to the amounts owed by the Debtor, including but not limited to the mortgage recorded on March 31, 2005 in the Official Records Book 23224, Page 3454 of the Public Records of Miami-Dade County, Florida, the assignment of mortgage recorded on September 27, 2011 in the Official Records Book 27839, Page 2479 of the Public Records of Miami-Dade County, Florida, the final judgment of foreclosure recorded on December 20, 2017 in the Official Records Book 30799, Page 1118 of the Public Records of Miami-Dade County, Florida and the unopposed amended final judgment of foreclosure recorded on January 25, 2018 in the Official Records Book 30842, Page 284 of the Public Records of Miami-Dade County, Florida. A copy of the amortization table for this treatment is attached to the Debtor's Plan as Exhibit "1".</p>
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<p>2</p>	<p><i>Secured claim of:</i> Cocoplum Homeowner's Association, Inc.</p> <p>Collateral Description = 2 Tahiti Beach Island Road, Coral Gables, Florida 33143</p> <p>Allowed Secured Amount= \$19,859.45 Priority of lien= 2nd Position Home Owner's Association Lien Principal owed= \$19,859.45 Pre-pet. arrearage = \$13,000.00</p> <p>Post-pet. Arrearage = \$6,859.45</p> <p>Total claim = \$19,859.45</p>	<p>No.</p>	<p>Treatment 1- No.</p> <p>Treatment 2- Yes.</p> <p>Treatment 3- No.</p>	<p>The Debtor is offering two (2) alternative treatments for Cocoplum Homeowner's Association, Inc. These alternative treatments are based on the ability of the Debtor to sell the real property located at 2 Tahiti Beach Island Road, Coral Gables, Florida 33143 in order to pay all claims in full.</p> <p><u>Treatment #1-</u> The Debtor shall complete a sale of the real property located at 2 Tahiti Beach Island Road, Coral Gables, Florida 33143. The Debtor shall pay the claim in full at the closing of the real property.</p> <p><u>Treatment #2-</u> The Debtor shall repay the assessments on the following terms:</p> <p>Monthly Payment= \$874.38 Interest Rate= 5.35% Begin Date= Effective Date of the Plan End Date= Twenty-four (24) Months from the Effective Date of the Plan</p> <p>The Debtor shall pay the principal amount of \$19,859.45 at an interest rate of 5.35% per annum over the course of twenty-four (24) months from the effective date of the plan as it relates to the claim of Cocoplum Homeowner's Association, Inc. The Debtor shall keep all post-petition insurance and tax obligations on the property current.</p>
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			<p>Upon final payment made to Cocoplum Homeowner's Association, Inc., all liens relating to the amounts owed by the Debtor, including but not limited to the claim of lien recorded on March 21, 2016 in the Official Records Book 30006, Page 4933 of the Public Records of Miami-Dade County, Florida. A copy of the amortization table for these payments is attached to Debtor's Chapter 11 Plan as Exhibit "2".</p> <p><u>Treatment #3-</u> The Debtor shall obtain financing from a third party lender at terms agreeable to both parties and approved by the Bankruptcy Court. This financing will be used to pay the claim of Cocoplum Homeowner's Association, Inc. in full on the Effective Date of the Plan.</p>
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<p>3</p>	<p><i>Secured claim of:</i> Tahiti Beach Homeowners Association, Inc.</p> <p>Collateral Description = 2 Tahiti Beach Island Road, Coral Gables, Florida 33143</p> <p>Allowed Secured Amount= \$87,601.00</p> <p>Priority of lien= 3rd Position Homeowner's Association Lien</p> <p>Principal owed= \$87,601.00</p> <p>Pre-pet. arrearage = \$87,601.00</p> <p>Post-pet. Arrearage = Unknown</p> <p>Total claim = \$87,601.00</p>	<p>No.</p>	<p>Treatment 1- No.</p> <p>Treatment 2- Yes.</p>	<p>The Debtor is offering two (2) alternative treatments for Tahiti Beach Homeowners Association, Inc. These alternative treatments are based on the ability of the Debtor to sell the real property located at 2 Tahiti Beach Island Road, Coral Gables, Florida 33143 in order to pay all claims in full.</p> <p><u>Treatment #1-</u> The Debtor shall complete a sale of the real property located at 2 Tahiti Beach Island Road, Coral Gables, Florida 33143. The Debtor shall pay the claim in full at the closing of the real property.</p> <p><u>Treatment #2-</u> The Debtor shall repay the assessments on the following terms:</p> <p>Monthly Payment= \$1,667.22</p> <p>Interest Rate= 5.35%</p> <p>Begin Date= Effective Date of the Plan</p> <p>End Date= Sixty (60) Months from the Effective Date of the Plan</p> <p>The Debtor shall pay the principal amount of \$87,601.00 at an interest rate of 5.35% per annum over the course of sixty (60) months from the effective date of the plan as it relates to the claim of Tahiti Beach Homeowners Association, Inc. The Debtor shall keep all post-petition insurance and tax obligations on the property current.</p>
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				<p>Upon final payment made to Tahiti Beach Homeowners Association, Inc., all liens relating to the amounts owed by the Debtor, including but not limited to the claim of lien recorded on March 1, 2017 in the Official Records Book 30440, Page 349 of the Public Records of Miami-Dade County, Florida. A copy of the amortization table for these payments is attached to Debtor's Chapter 11 Plan as Exhibit "3".</p>
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4	<p><i>Secured claim of:</i> Reiner & Reiner, P.A.</p> <p>Collateral Description = 2 Tahiti Beach Island Road, Coral Gables, Florida 33143</p> <p>Allowed Secured Amount= \$6,026.65</p> <p>Priority of lien= Lien from Attorney's Fees</p> <p>Principal owed= \$6,026.65</p> <p>Pre-pet. arrearage = \$6,026.65</p> <p>Post-pet. Arrearage = None.</p> <p>Total claim = \$6,026.65</p>	No.	No.	<p>The Debtor shall pay the claim in full on the effective date of the plan.</p>
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2. *Classes of Priority Unsecured Claims*

Certain priority claims that are referred to in §§507(a)(1), (4), (5), (6), and (7) of the Code are required to be placed in classes. The Code requires that each holder of such a claim receive cash on the effective date of the Plan equal to the allowed amount of such claim. However, a class of holders of such claims may vote to accept different treatment.

The following chart lists all classes containing claims under §§507(a)(1), (4), (5), (6), and (a)(7) of the Code and their proposed treatment under the Plan:

<u>Class #</u>	<u>Description</u>	<u>Insider</u>	<u>Impairment</u>	<u>Treatment</u>
N/A	None.	None.	None.	None.

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 Class 5 which contain general unsecured claims against the Debtor:

<u>Class #</u>	<u>Description</u>	<u>Insider</u>	<u>Impairment</u>	<u>Treatment</u>
5	General Unsecured Class	No.	No.	All allowed unsecured claims shall be paid one hundred percent (100%) of the prepetition amount actually due based on the Debtor's schedules and proofs of claim filed within fifteen (15) days of the Effective Date of the Plan.

4. *Class 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:

<u>Class #</u>	<u>Description</u>	<u>Insider</u>	<u>Impairment</u>	<u>Treatment</u>
6	Shareholder of the Debtor	No.	No.	The shareholder of the Debtor shall retain ownership of the Debtor in exchange for New Value.

D. **Means of Implementing the Plan**

1. *Source of Payments*

Payments and distributions under the Plan will be funded by the following:

Payments shall be funded either by the sale of the Debtor's principal asset located at 2 Tahiti Beach Island Road, Coral Gables, Florida 33143 or new value provided to the Debtor's shareholder and

principal.

2. *Post-confirmation Management*

The Post-Confirmation Managers of the Debtor, and their compensation, shall be as follows:

Name	Affiliations	Insider	Position	Compensation
Marie C. Vallejo	Current President, Director, Treasurer and Secretary of the Debtor	Yes.	President, Director, Treasurer and Secretary	None.

E. **Risk Factors**

The proposed Plan has the following risks:

- The Debtor's projections as to its funding are based on the ability of the Debtor to finalize the sale of its real property or to obtain a re-financing option on its property. A default of the buyer through no fault of the Debtor or an inability to obtain financing would cause the Debtor to be left without the necessary income in these situations. As such, there is no guarantee that the projected income will remain as proposed. The Debtor has provided its best estimate, based on current factors.
- Failure to Satisfy Vote Requirement - the Debtor is seeking the affirmative vote of at least one class of creditors. If the Plan does not receive sufficient votes for confirmation pursuant to 11 U.S.C. § 1129(a), then the Plan cannot be confirmed.
- The Plan May Not Be Accepted or Confirmed – while the Debtor believes that the Plan is confirmable under the standards set forth in 11 U.S.C. § 1129, there is no assurance that the Bankruptcy Court will find the Plan to be confirmable. If the Plan is not confirmed, it is possible that an alternative plan can be negotiated and presented to the Bankruptcy Court for approval, but there is also no assurance that an alternative plan would be confirmed or that any alternative plan of reorganization could or would be formulated on terms as favorable to the creditors and the Debtor as the terms of the Plan.

F. **Executory Contracts and Unexpired Leases**

The Plan, in Section 6.01, lists all executory contracts and unexpired leases that the Debtor will assume under the Plan. Assumption means that the Debtor has elected to continue to perform the obligations under such contracts and unexpired leases, and to cure defaults of the type that must

be cured under the Code, if any. Section 6.01 also lists how the Debtor will cure and compensate the other party to such contract or lease for any such defaults.

If you object to the assumption of your unexpired lease or executory contract, the proposed cure of any defaults, or the adequacy of assurance of performance, you must file and serve your objection to the Plan within the deadline for objecting to the confirmation of the Plan, unless the Court has set an earlier time.

All executory contracts and unexpired leases that are not listed in Section 6.01 will be rejected under the Plan. Consult your adviser or attorney for more specific information about particular contracts or leases.

If you object to the rejection of your contract or lease, you must file and serve your objection to the Plan within the deadline for objecting to the confirmation of the Plan.

G. 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.

The following are the anticipated tax consequences of the Plan: The following is a summary of certain U. S. federal income tax consequences of the Plan to the Debtor and certain claim holders. This summary is based on the Internal Revenue Code, Treasury Regulations thereunder, and administrative and judicial interpretations and practice, all as in effect on the date of the Disclosure Statement and all of which are subject to change, with possible retroactive effect.

The following summary is not a substitute for careful tax planning and advice based on the particular tax circumstances of each claim holder. Claim holders are urged to consult with his, her or its own tax advisors as to the U. S. federal income tax consequences, as well as other tax consequences, including under any applicable state, local or foreign law of the restructuring described in the Plan.

U. S. Federal Income Tax Consequences to the Debtor

Cancellation of Debt and Reduction of Tax Attributes

In general, absent an exception, a debtor will realize cancellation of debt (“COD”) income upon satisfaction of its outstanding indebtedness for total consideration less than the amount of such indebtedness. A debtor will not be required to include any amount of COD income in gross income if the debtor is under the jurisdiction of a court in a case under Chapter 11 of the U. S. Bankruptcy Code and the debt discharge occurs pursuant to that proceeding.

As a consequence of the exclusion however, a debtor must reduce its tax attributes by the amount of COD that is excluded from income under Section 108 of the Internal Revenue Code. In general,

tax attributes are reduced in the following order: (1) net operating losses (2) most tax credits and capital loss carryovers (3) tax basis in assets (4) foreign tax credits. A debtor with COD income may elect to first reduce the basis of its depreciable assets under section 108(b)(5) of the Internal Revenue Code.

U. S. Federal Income Tax Consequences to Certain Holders of Claims

Information reporting and back-up withholding

In general, information reporting requirements may apply to distributions or payments under the Plan. In addition, a claim holder may be subject to back-up withholding (currently at a rate of 28%) with respect to distributions or payments made pursuant to the Plan, unless the holder is exempt, or provides a correct taxpayer identification number and certifies under penalties of perjury that the taxpayer identification number is correct, and that the holder is not subject to back-up withholding because of a failure to report interest and dividend income. Back-up withholding is not an additional tax, but merely an advance payment that may be refunded to the extent it results in an overpayment of tax, provided that the required information is provided to the IRS.

The Debtor will report all appropriate payments and withhold all amounts required by law to be withheld from reportable payments. The Debtor will comply with all applicable reporting requirements of the Internal Revenue Code.

IRS Circular 230 Disclosure: To ensure compliance with requirements imposed by the IRS, any tax advice contained in this Disclosure Statement is not intended or written to be used, and cannot be used, by any taxpayer for the purpose of avoiding tax-related penalties under the U. S. Internal Revenue Code. The tax advice contained in this Disclosure Statement was written to support the promotion of transactions described in this Disclosure Statement. Each taxpayer should seek advice based on the taxpayer's particular circumstances from an independent tax advisor.

IV. CONFIRMATION REQUIREMENTS AND PROCEDURES

To be confirmable, the Plan must meet the requirements listed in §§ 1129(a) or (b) of the Code. These include the requirements that: the Plan must be proposed in good faith; at least one impaired class of claims must accept the plan, without counting votes of insiders; 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 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.

The Plan Proponent believes that if the sale or refinance of the real property is closed than no class is impaired and therefore, there would be no need for a vote as all classes would receive one hundred percent of their claims. If neither of these occur, then the holders of claims in classes 1, 2, and 3 would be impaired therefore, have the right to vote to accept or reject the Plan. The holders of claims in classes 4, 5 and 6 would not have the right 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 objections to claims is _____.

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 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; and
- holders of claims or equity interests in classes that do not receive or retain any value under the Plan;
- 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 and to the Adequacy of the Disclosure Statement.

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 later in Section B.2.

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 “cramdown” 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 attached to this Disclosure Statement as Exhibit E.

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. Tables showing the amount of cash on hand on the effective date of the Plan, and the sources of that cash are attached to this disclosure statement as Exhibit F.

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.

The Plan Proponent has provided projected financial information. Those projections are listed in Exhibit G.

The Plan Proponent's financial projections show that the Debtor will have an aggregate annual average cash flow, after paying operating expenses, post-confirmation taxes and other expenses, is unknown at this time. The final Plan payment is expected to be paid upon completion of the five (5) year term of the plan.

You Should Consult with Your Accountant or other Financial Advisor If You Have Any Questions Pertaining to These Projections.

V. EFFECT OF CONFIRMATION OF PLAN

A. DISCHARGE OF DEBTOR

Discharge. 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. 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.

VI. OTHER PLAN PROVISIONS

None.

/s/ Marie C. Vallejo

Marie C. Vallejo, as President, Director, Secretary and
Treasurer of Forastero, Inc.

/s/ Richard R. Robles

Richard R. Robles, Esquire
Attorney for Plan Proponent

EXHIBITS