IN THE UNITED STATES BANKRUPTCY COURT
FOR THE MIDDLE DISTRICT OF NORTH CAROLINA
DURHAM DIVISION

IN RE: **CLEAN BURN FUELS, LLC,** **DEBTOR**	**CASE NO. 11-80562** **CHAPTER 11**

FIRST AMENDED DISCLOSURE STATEMENT FOR PLAN OF REORGANIZATION DATED DECEMBER 28, 2011

Sara A. Conti, Chapter 11 Trustee for Clean Burn Fuels, LLC, respectfully provides the following Amended Disclosure Statement regarding the Plan of Reorganization Dated December 28, 2011 (the "Plan") pursuant to 11 U.S.C. § 1125 and Rule 3016 of the Federal Rules of Bankruptcy Procedure. Capitalized terms are defined in the Plan and shall have the meaning set forth therein. The Trustee has adopted the Plan, a copy of which is attached hereto as Exhibit 1 and incorporated by reference.

INTRODUCTION

On April 3, 2011 (the "Petition Date"), Clean Burn Fuels, LLC (the "Debtor") filed a voluntary petition in the United States Bankruptcy Court for the Middle District of North Carolina (the "Court") seeking relief under Chapter 11 of the Bankruptcy Code. As of the Petition Date, the Debtor owned and operated an ethanol plant located on a 500 acre tract of land in Raeford, North Carolina (the land and buildings thereon collectively referred to as the "Ethanol Plant"). Prior to the Petition Date, the Debtor stopped producing ethanol due to the high price of corn and shut down the Ethanol Plant. From the Petition Date through June of 2011, the Debtor continued in possession of its assets and tried to work with its secured lender, Cape Fear Farm Credit, ACA ("Cape Fear"), to maintain and repair the Ethanol Plant with the expectation that operations could resume in the late summer of 2011. However, these efforts failed and effective June 21, 2011, Cape Fear was granted relief from the automatic stay to foreclose on the Ethanol Plant.

The Debtor retained Northen Blue as its Bankruptcy Counsel, Neal Bradsher & Taylor as its accountants, and Anderson Bauman Tourtellot Vos & Co. as its Financial Consultant and to provide the services of Ed Sanz as the Debtor's Chief Restructuring Officer. The Debtor proceeded to liquidate all its tangible assets, and with the assistance of the Official Committee of

Unsecured Creditors (the "Committee"), pursued claims and commenced litigation to recover assets for the benefit of creditors. The Debtor filed the Plan as a plan of orderly liquidation, focused on the pursuit of certain litigation for the benefit of creditors and distribution of net proceeds or recoveries to secured and unsecured creditors as their interests may appear.

In the Plan, the Debtor proposed the appointment of a trustee upon confirmation of the Plan to wind up the affairs of the Debtor, complete the final administration of the Debtor's bankruptcy estate, and execute and consummate the Plan. The Bankruptcy Administrator and Perdue BioEnergy, LLC each filed motions asking the Court to convert the case from Chapter 11 to Chapter 7 and for the appointment of a trustee, the Debtor objected to the conversion to Chapter 7 but did not oppose the immediate appointment of a trustee. After notice and hearing, the Court denied the requests to convert the case to Chapter 7 as not being in the best interest of creditors, but did appoint Sara A. Conti as the Chapter 11 Trustee and directed her to file a report as to the financial condition of the Debtor and the possible conversion to Chapter 7. Upon appointment of the Trustee, Ed Sanz as the Chief Restructuring Officer assisted in the transition but ceased any further work for the estate.

On February 22, 2012, the Trustee filed her report (the "Trustee's Report"), a copy of which (along with the above referenced orders) is attached hereto as Exhibit 6 and incorporated by reference. As set forth in the Trustee's Report, the Trustee has conducted extensive investigations, reviewed the Debtor's financial information, and conferred with the Chief Restructuring Officer, former officers of the Debtor, and counsel for both the Debtor and the Committee. Based upon this investigation the Trustee concluded that it was in the best interest of creditors to remain in Chapter 11 for at least some further period of time.

All creditors and other parties in interest are encouraged to read the Plan carefully and thoroughly, and to review the Plan with their attorneys or other advisors to ascertain its terms, provisions, and conditions and the effect of the Plan on any Claims or Equity Interests which such persons may possess.

PROCEDURAL INFORMATION

Pursuant to the Bankruptcy Code, this Disclosure Statement must be approved by the Court. Such approval is required by statute and does not constitute a determination by the Court as to the desirability of, or the value, adequacy, or suitability of any consideration offered under the Plan, but does indicate that the Disclosure Statement contains adequate information to permit

those claimants and other parties in interest whose acceptance of the Plan is solicited pursuant to this Disclosure Statement to make an informed judgment about the Plan.

The Debtor prepared and the Trustee adopts this Disclosure Statement to disclose that information available which is material, important and necessary to an evaluation of the Plan, and the material herein contained is intended solely for this purpose and the use of known creditors and equity interest holders of the Debtor. This Disclosure Statement may not be relied upon for any purpose other than a determination of how to vote on the Plan. Furthermore, the matters addressed and the discussions contained in this Disclosure Statement are not necessarily sufficient for the formulation of a judgment by any creditor or equity interest holder of whether the Plan is preferable to any alternative thereto. However, the Trustee as the proponent of the Plan supports the Plan for the reasons explained herein and encourages each creditor, equity interest holder, or other party in interest to accept the Plan by timely returning a ballot in favor of the Plan.

The Disclosure Statement is submitted in accordance with § 1125 for the purpose of soliciting acceptance of the Plan from holders of certain classes of claims and equity interests. The persons whose acceptance is sought are those whose claims or interests are "impaired" by the Plan; *i.e.*--those whose claims or equity interests are altered by the Plan or who will not receive under the Plan the allowed amounts of their respective claims or equity interests in cash. Holders of those claims and interests which are not "impaired" are automatically deemed to have accepted the Plan.

If the Plan is rejected by one or more impaired classes of claims or equity interests, the Plan or a modification thereof may still be confirmed by the Court if the Court determines, among other things, that the Plan does not discriminate unfairly and is fair and equitable with respect to the rejecting class or classes of claims or interests impaired by the Plan. The Trustee will request such a determination (commonly referred to as a "cram down") if the Plan or modification thereof is not accepted by one or more of the impaired classes of claims or interests.

If the Plan or any modification thereof is not accepted by one or more of the impaired classes of claims or interests and is not confirmed by the Court pursuant to the cram down provisions of the Bankruptcy Code, the Trustee may seek to modify the Plan or may convert this case to a proceeding under Chapter 7, in which event the Trustee would still liquidate all assets

and pursue all necessary litigation. By separate Order served on all parties in interest, the Court will set a hearing to consider confirmation of the Plan.

A creditor or equity interest holder, in order to vote, must file a Proof of Claim or Interest on or before the date set as the "bar date" for filing all claims. The bar date for filing claims against the Debtor is set forth in the Plan. However, any creditor or equity interest holder whose claim or interest is listed in the schedules filed by the Debtor and not identified as disputed, unliquidated or contingent is deemed (to the extent so scheduled) to have filed a claim, and absent objection such claim is deemed allowed and entitled to vote.

A creditor or equity interest holder may vote to accept or reject the Plan by filling out and mailing (as instructed thereon) the ballot which has been provided with this Disclosure Statement. The Court will set the time by which ballots must actually be filed; and, any ballots received after such time may not be counted. Regardless of whether a creditor or interest holder votes against the Plan, or whether the creditor or interest holder votes at all, such persons will be bound by the terms and treatment set forth in the Plan if the Plan is confirmed by the Court.

Allowance of a claim or interest for voting purposes does not necessarily mean that all or a portion of the claim will be allowed or disallowed for distribution purposes. The Trustee or any party in interest may file an objection to a claim, which will then be allowed or disallowed by the Court after notice and an opportunity for hearing. Tax consequences of any of the transactions proposed by the Plan will depend upon the individual circumstances applicable to each creditor, equity interest holder, or other party in interest, and must of necessity include factors beyond the Debtor's knowledge. A general discussion of potential tax consequences is contained in the Disclosure Statement.

The various claims of creditors and interests of equity interest holders are all treated under the proposed Plan. There are additional significant provisions contained throughout the Plan that impact the treatment of creditors and equity interest holders--please read the Plan carefully to fully understand its terms. The Plan proposes segregation of the creditors into separate classes, with an additional class comprising the equity interests.

The Trustee or others may solicit your vote for or against the Plan. The cost of any solicitation by the Trustee will be borne by the Estate. No other additional compensation shall be received by any party for any solicitation other than as disclosed to the Court.

Consummation Of The Plan Is Subject To Numerous Conditions And Variables, And There Can Be No Assurance That The Plan, As Contemplated, Will Be Effectuated. No Representations Or Assurances Concerning The Plan Are Authorized By The Debtor Other Than As Set Forth In This Disclosure Statement. Any Representations Or Inducements Made By Any Person To Secure Your Vote Which Are Other Than Herein Contained Should Not Be Relied Upon By You In Arriving At Your Decision, And Such Additional Representations Or Inducements Should Be Reported To Counsel For The Debtor, Who In Turn Shall Convey Such Information To The Court For Such Action As May Be Deemed Appropriate.

Certain materials contained in this Disclosure Statement may have been taken directly from other, readily accessible instruments or digests of other instruments. In addition, other information may be made available, upon reasonable written request, to creditors or other parties in interest having standing to request such information. While the Debtor and the Trustee have made every effort to retain the meaning of any such instruments or documents or the portions thereof reiterated herein, you are advised that any reliance on the contents of such other instruments or documents should be predicated on a thorough review of the instruments or documents themselves, including the Plan.

VOTING

If you are in one of the classes of creditors or other parties in interest whose interests are affected by the Plan, it is important that you vote. To vote to accept or reject the Plan, creditors and other persons or entities having claims against the Debtor falling within any of the impaired classes should indicate their acceptance or rejection on the appropriate ballot. Any persons holding claims in more than one impaired class must file one ballot for each such class. Additional ballots may be obtained by written request to Special Counsel for the Trustee.

A class of claims will have accepted the Plan if it is accepted by class members holding at least two-thirds (2/3) in amount and more than one-half (½) in number of the allowed claims of such class voting on the Plan. A class of equity interests will have accepted the Plan if it is accepted by class members holding at least two-thirds (2/3) in amount of the allowed interests in such class voting on the Plan. You are, therefore, urged to fill in, date, sign, and promptly mail the enclosed ballot furnished to you.

Please Be Sure To Properly Complete The Form And Legibly Identify The Name Of The Claimant Or Equity Interest Holder. Executed Ballots Must Be Received On Or Before The Return Date Set Forth In The Ballot. Completed Ballots Should Be Returned To The Address Specified On The Ballot. Since Mail Delays May Occur, It Is Important That The Ballot Or Ballots Be Mailed Or Delivered Well In Advance Of The Date

Specified. Any Acceptances Or Rejections Of The Plan Received After The Date May Not Be Included In Any Calculation To Determine Whether The Creditors And Equity Interest Holders Have Voted To Accept Or Reject The Plan.

This Is A Solicitation By The Debtor Only And Is Not A Solicitation By The Attorneys, Accountants, Or Other Professionals Who May Be Employed By The Debtor, And The Representations Made Herein Are Solely And Exclusively Those Of The Debtor And Not Of Such Attorneys, Accountants, Or Other Professionals.

BACKGROUND AND HISTORY OF THE DEBTOR,

The Debtor, a North Carolina limited liability company founded in 2005, was the first company to produce and sell ethanol in North Carolina. Ethanol is a clean-burning, high-octane fuel produced from renewable sources with corn being the key ingredient. The Debtor also produced and sold dried distillers grains with solubles ("DDGS"), a co-product created during the ethanol production process that is used by farmers as livestock and poultry feed. The Debtor produced ethanol and DDGS at the Ethanol Plant, which was completed in August of 2010.

In order to acquire and construct the Ethanol Plant, on March 31, 2008, the Debtor and Cape Fear, for itself and/or as agent/nominee for other lending institutions, entered into a Credit Agreement. The Debtor and Cape Fear also entered into seven separate amendments to the Credit Agreement between November of 2008 and August of 2010 (the Credit Agreement, along with the seven amendments, collectively referred to as the "Credit Agreement").

Pursuant to the Credit Agreement, the Debtor executed (i) three Construction/ Term Loan Notes in the aggregate principal amount of $63,000,000 (the "Term Notes"), (ii) a Revolving Line of Credit Note in the principal amount of $6,000,000 (the "RLOC Note"), (iii) a Deed of Trust, Security Agreement, and Assignment of Leases, Rents, and Occupancy Agreements as security for the obligations under the Term Notes and the RLOC Note ("Deed of Trust"), and (iv) a Security Agreement as security for the obligations under the Term Notes and the RLOC Note ("Security Agreement," and together with the Credit Agreement, Term Notes, RLOC Note, and Deed of Trust, the "Loan Documents"). Pursuant to the Deed of Trust and Security Agreement, the obligations of the Debtor pursuant to the Term Notes and the RLOC Note are secured by a first mortgage lien on the Ethanol Plant and a security interest in other assets of the Debtor, including equipment, inventory, accounts, deposit accounts, general intangibles and the proceeds thereof (collectively, the "Cape Fear Collateral").

Soon after the Debtor began operations, the Chicago Board of Trade ("CBOT") price of corn began to rise dramatically. By the end of February 2011, the price of corn had effectively doubled from approximately $3.60 per bushel in the summer of 2010 to $7.20 per bushel. The price of ethanol and DDGS however did not rise resulting in significant losses for the Debtor. For this and other reasons, the Debtor stopped purchasing corn on February 28, 2011 and temporarily shut down the Ethanol Plant. As of the Petition Date, the Debtor planned to resume operations in late summer of 2011 when the price of corn was expected to drop to a level that would allow the Debtor to be profitable. However, after the Petition Date, the Debtor was unable to complete the repairs to the Ethanol Plant or raise additional capital, both of which were necessary for continued operations. Effective June 21, 2011, Cape Fear was granted relief from the automatic stay to foreclose on the Ethanol Plant and immediately filed a separate action in the Superior Court Division, Hoke County, North Carolina for the appointment of a receiver to operate the Ethanol Plant.

The Debtor wound down its business operations, selling any vehicles or other property not subject to the security interest of Cape Fear, and with the assistance of the Committee, investigating claims and pursuing litigation for the benefit of creditors. While the proposed Plan will likely result in unsecured creditors receiving less than full payment, the Trustee believes that such a distribution will be greater than could be obtained through any other means, and represents the most that can reasonably be expected in the present circumstances. Accordingly, the Trustee asks that creditors vote to accept the Plan.

PLAN SUMMARY

The Following Is A Brief Summary Of Certain Provisions Of The Plan And Should Not Be Relied On For Voting Purposes In Lieu Of A Thorough And Comprehensive Review Of The Actual Plan Itself. The Summary Does Not Purport To Be Complete. Creditors And Equity Interest Holders Are Urged To Read The Plan To Ascertain The Effect Of The Plan On Their Claims And Interests And The Other Provisions Of The Plan. Creditors And Equity Interest Holders Are Further Urged To Consult With Their Attorneys, Tax Advisors, Financial Consultants, Or Other Professionals In Order To Understand More Fully The Plan Or The Effect Of The Plan As To Their Particular Situation.

The Plan contemplates that the best disposition of the Debtor's estate would involve (i) the appointment of a Trustee pursuant to § 1104 of the Bankruptcy Code, (ii) the sale and/or collection of any remaining property of the Estate, and (ii) the pursuit of any causes of action or

claims which the Trustee could assert pursuant to §§ 541, 542, 544, 545, 546, 547, 548, 549, 550 or 553 of the Bankruptcy Code (the "Bankruptcy Causes of Action"), followed by the distribution of such cash proceeds to creditors in accordance with the priorities established by the Bankruptcy Code. If confirmed, a claims review process regarding Allowed Claims is anticipated to take approximately 180 days after the Confirmation Date.

As discussed more fully below, the Debtor has resolved the claim of Cape Fear pursuant to the Order Approving Compromise and Settlement entered in the Debtor's proceeding on September 19, 2011 ("Cape Fear Order"). Pursuant to the Cape Fear Order, Cape Fear was allowed to foreclose on the Ethanol Plant and exercise its rights with respect to its collateral, except that the Debtor retained, free and clear of any lien of Cape Fear, the sum of $250,000 on deposit in the Debtor's bank account and any recoveries pursuant to Bankruptcy Causes of Action, including the litigation currently pending against Perdue BioEnergy, LLC ("Perdue") in the Bankruptcy Court, Adversary Proceeding Number 11-09046 ("Perdue Proceeding"). Cape Fear also agreed to subordinate its deficiency claim in the agreed amount of $30,000,000 to payment of costs of administration and to distributions on all other allowed unsecured claims with a priority equal or higher than that priority set forth in § 726(a)(2) of the Bankruptcy Code. Finally, the Debtor assigned to Cape Fear the right to pursue any breach of warranty or contract claim against parties who provided goods and services for the purpose of constructing the Ethanol Plant, excluding however any claims which could be asserted against the construction manager, E 85 Transport, LLC and any other tort claims which could be asserted by the Debtor.

The Debtor contends that no parties have a lien on the $250,000 released to the Debtor pursuant to the Cape Fear Order, and that no parties have a lien on any recoveries made on the Bankruptcy Causes of Action, including the Perdue Proceeding. The amount of funds available for distribution and the amount of claims which may be allowed will be solely dependent upon the outcome of the Bankruptcy Causes of Action, including the Perdue Proceeding wherein the Debtor is seeking, among other things, to (1) avoid any lien or interest of Perdue in corn located at the Ethanol Plant on the Petition Date; (2) recover for the benefit of the Estate proceeds from the sale of the corn in the approximate amount of $5,000,000; and (3) recover for the benefit of the Estate a sum in excess of $1,000,000 owed to the Debtor pursuant to the sale of its DDGS. As discussed more fully below, Perdue is vigorously defending the litigation and the ultimate recovery may fall within a range of zero to approximately $6 million. In addition, if recoveries

are made from Perdue or any other defendants in Bankruptcy Causes of Action, those defendants will then have the right to file a claim for the payments made to the Debtor.

The Trustee desires that this Plan be a consensual plan, with all classes of creditors voting to accept the Plan by the requisite majorities required under § 1126. In the event any class does not accept the Plan, however, the Trustee requests that the Plan be confirmed by the cram down provisions of § 1129(b) with respect to such dissenting class or classes. The Trustee reserves the right to modify the Plan pursuant to § 1127, consistent with the requirement that the Plan, as modified, meets the requirements of § 1122 and § 1123.

Classification and Treatment of Claims and Interests.

For purposes of the Plan, Claims and Equity Interests are divided into the following Classes and will receive the treatment summarized below and set forth in detail in the Plan. **A schedule of estimated claims is attached hereto as Exhibit 2**. Please note that the schedule was prepared prior to completion of the claims reconciliation process, and thus the amounts shown are subject to change depending on the final amount of the allowed claims.

Administrative Expenses. Administrative expenses shall be allowed upon due request or application and in such amounts as may be determined by the Court after notice and hearing. The Trustee and any attorneys, accountants and other professionals retained by the Debtor or the Trustee shall be compensated for services rendered in such capacity and reasonably necessary to the administration of this estate, in such amounts as may be determined by the Court not to exceed reasonable compensation for such services. In addition, Tencarva Machinery Company ("Tencarva") has an allowed administrative claim in the amount of $14,335.28 pursuant to Section 503(b) for goods delivered within twenty days prior to the Petition Date. Allowed administrative claims shall be paid from Available Cash (either in full or pro rata depending upon the amount of Available Cash) on the later of (i) within thirty (30) days after the Effective Date or (ii) within thirty (30) days after the same can be determined and, if necessary, allowed by the Court.

The term "Available Cash" includes all proceeds recovered or generated from the liquidation of assets, Bankruptcy Causes of Action, or from any other sources, less payment or provisions for Allowed Secured Claims having a lien upon such assets.

The aggregate amount of Allowed Administrative Claims is difficult to predict, as the fees of the Trustee's attorneys and the Committee's attorneys will be directly related to the time

and effort necessary to pursue the Bankruptcy Causes of Action and reconciliation of claims, which in turn will be related to the defenses raised by the parties involved. The fees and expenses of Debtor's counsel, the Committee's counsel, and other professionals have been paid in part as and when allowed during the course of this case, and the attached projections as summarized below represent an estimated amount for such claims which will be due and payable as provided above.

1. Trustee's Fees: between $15,000 and $250,000 depending upon recoveries on the Bankruptcy Causes of Action and distributions on Allowed Claims.

2. Trustee's counsel: up to $350,000 depending on the cost of pursuing Bankruptcy Causes of Action.

3. Counsel for Official Committee of Unsecured Creditors: up to $200,000 depending on the cost of litigation instituted by the Committee.

4. Special Counsel for the Debtor: approximately $5,000.

5. Trustee's Accountant: approximately $5,000.

6. Debtor's CRO & Financial Consultant, Anderson Bauman Tourtellot Vos & Co., approximately $130,000. By agreement of the parties, these fees will be deferred pending the completion of the Trustee's litigation.

7. Tencarva's 503(b)(9) claim: $14,335.

8. Court fees: between $2,000 and $13,000 depending upon recoveries on the Bankruptcy Causes of Action and distributions on Allowed Claims.

Priority Tax Claims

Priority tax claims are those unsecured claims entitled to priority as set forth in § 507(a)(8) of the Bankruptcy Code. While there may be some priority tax claims allowed in this case, the Debtor as a limited liability company does not have any income tax obligations as the income (or loss) passes through to its members in the same manner as a partnership. Allowed Priority Tax Claims shall be paid from Available Cash (either in full or in regular installments depending on the amount of Available Cash) with interest at the applicable statutory rate, over a period not exceeding five (5) years from and after the Petition Date.

The proofs of claim filed to date which assert Priority Tax Claims total approximately $2,045,000, and the Debtor believes that the aggregate amount of Allowed Priority Tax Claims

could be less depending on the ultimate disposition of the claim filed by the North Carolina Department of Revenue for sales and use tax and motor fuel tax which is disputed by the Debtor.

Classes Of Claims

Class 1 shall consist of the Secured Claim of Cape Fear Farm Credit, ACA ("Cape Fear") in the aggregate amount of $66,504,213.83 pursuant to the Credit Agreement and the Loan Documents, all of which are attached to Claim Number 88 filed by Cape Fear in the Debtor's proceeding. The Claim of Cape Fear was resolved pursuant to the terms of the Cape Fear Order, a copy of which is attached hereto as **Exhibit 3**.

Pursuant to the Cape Fear Order, Cape Fear was granted stay relief to foreclose on the Ethanol Plant and to exercise its rights with respect to the Cape Fear Collateral, except as otherwise set forth in the Cape Fear Order. Cape Fear shall have a secured claim to the extent of the value of the Debtor's interest in the Cape Fear Collateral, and Cape Fear shall look solely to the Cape Fear Collateral for payment of its Secured Claim.

Pursuant to the Cape Fear Order, Cape Fear agreed to subordinate its deficiency claim in the agreed amount of $30,000,000 to payment of Allowed Administrative Claims, Allowed Unsecured Priority Claims, and Allowed Unsecured Claims in Class 12 below. The deficiency claim of Cape Fear shall be treated as a Class 13 Subordinated Claim. The Class 1 claim of Cape Fear is impaired.

Class 2 shall consist of the Secured Claim of the Hoke County Tax Collector ("Hoke County") in the amount of $235,937.26 as set forth in Claim Number 17 filed in the Debtor's proceeding for ad valorem property taxes due on the Debtor's real and personal property located in Raeford, North Carolina. Hoke County contends that $69,023.09 of the claim is secured by the Ethanol Plant. The balance of the claim in the amount of $169,914.17 is identified as an unsecured priority tax claim. Hoke County shall have an allowed secured claim in the amount of $69,023.09, plus any post-petition interest, fees and costs allowed by the Court. With respect to the ad valorem taxes secured by the Ethanol Plant, which has been released to Cape Fear for foreclosure, Hoke County will retain its lien and look to the Collateral to satisfy its claim for taxes due thereon. The personal property taxes in the amount of $169,914.17 shall be included and paid with the Allowed Unsecured Priority Tax Claims. The Class 2 claim of Hoke County is impaired.

Class 3 shall consist of the Secured Claim of Uretek ICR, Mid Atlantic, Inc. ("Uretek") in the amount of $264,222.99 as set forth in Claim Number 34 filed in the Debtor's proceeding. Uretek asserts a materialman's lien on the Ethanol Plant pursuant to N.C. Gen. Stat. §44A *et seq.* arising out of a contract between the Debtor and Uretek for the provision of soil improvement repair at the Ethanol Plant. Any materialman's lien of Uretek on the Ethanol Plant is junior to the lien of Cape Fear, and to the extent Uretek contends otherwise, the validity and priority of such lien would need to be determined as part of the foreclosure proceeding instituted by Cape Fear.

The Secured Claim of Uretek shall be allowed as a secured claim to the extent of the value of its interest in the Debtor's interest in the Ethanol Plant, and Uretek shall look solely to the Ethanol Plant for payment of its Secured Claim, plus any post-petition interest, fees and costs allowed by the Court (the "Uretek Indebtedness"). In the event of any deficiency balance remaining on the Uretek Indebtedness after the sale of the Ethanol Plant, such deficiency amount shall be treated as a Class 12 Unsecured Claim, subject to any timely objections to such claim as to validity or amount. The Class 3 claim of Uretek is impaired.

Class 4 shall consist of the Secured Claim of Anixter, Inc. ("Anixter") in the amount of $83,158 as set forth in Claim Numbers 85 and 93 filed in the Debtor's proceeding. Anixter asserts a secured claim, to the extent so allowed by the Court, in the amount of $79,383.27 for wire and cable furnished by Anixter for the construction of the Ethanol Plant, and an unsecured claim in the amount of $3,774.88. Anixter, as a first-tier subcontractor who contracted with Southeastern Industrial Electrical Contractors, Inc. ("Southeastern"), asserts a lien on funds and a subrogation lien on the Ethanol Plant pursuant to Chapter 44A of the North Carolina General Statutes ("Chapter 44A"). The Debtor disputes the validity of the claim and the liens asserted by Anixter. The Debtor contends that it owes no funds to Southeastern, and accordingly, it would have no liability for the payment of any amounts owed by Southeastern to Anixter pursuant to Chapter 44A.

To the extent the Court determines otherwise, any claim of Anixter shall be allowed as a secured claim to the extent of the value of its interest in any funds owed by the Debtor to Southeastern, and Anixter shall look solely to such funds for payment of its Secured Claim, plus any post-petition interest, fees and costs allowed by the Court (the "Anixter Indebtedness"). In the event of any deficiency balance remaining on the Anixter Indebtedness, such deficiency

amount shall be treated as a Class 12 Unsecured Claim, subject to any timely objections to such claim as to validity or amount. The Class 4 claim of Anixter is impaired.

Class 5 shall consist of the Secured Claim of Atlantic Services Group, Inc. ("Atlantic Services") in the amount of $1,212,024.88 as set forth in Claim Number 80 filed by Atlantic Services. Atlantic Services asserts a secured claim, to the extent so allowed by the Court, in the amount of $1,068,044.85 for services furnished by Atlantic Services for the construction of the Ethanol Plant, and an unsecured claim in the amount of $143,980.33. Atlantic Services, as a first-tier subcontractor of Southeastern, asserts a lien on funds and a subrogation lien on the Ethanol Plant pursuant to Chapter 44A. The Debtor disputes the validity of the claim and the liens asserted by Atlantic Services. The Debtor contends that it owes no funds to Southeastern, and accordingly, it would have no liability for the payment of any amounts owed by Southeastern to Atlantic Services pursuant to Chapter 44A.

To the extent the Court determines otherwise, any claim of Atlantic Services shall be allowed as a secured claim to the extent of the value of its interest in any funds owed by the Debtor to Southeastern, and Atlantic Services shall look solely to such funds for payment of its Secured Claim, plus any post-petition interest, fees and costs allowed by the Court (the "Atlantic Services Indebtedness"). In the event of any deficiency balance remaining on the Atlantic Services Indebtedness, such deficiency amount shall be treated as a Class 12 Unsecured Claim, subject to any timely objections to such claim as to validity or amount. The Class 5 claim of Atlantic Services is impaired.

Class 6 shall consist of the Secured Claim of Hagemeyer North America, Inc. ("Hagemeyer") in the amount of $107,917.36 as set forth in Claim Number 65 filed in the Debtor's proceeding. Hagemeyer asserts a secured claim, to the extent so allowed by the Court, in the amount of $107,917.36 for services furnished by Hagemeyer for the construction of the Ethanol Plant. Hagemeyer, as a first-tier subcontractor of Southeastern, asserts a lien on funds and a subrogation lien on the Ethanol Plant pursuant to Chapter 44A. The Debtor disputes the validity of the claim and the liens asserted by Hagemeyer. The Debtor contends that it owes no funds to Southeastern, and accordingly, it would have no liability for the payment of any amounts owed by Southeastern to Hagemeyer pursuant to Chapter 44A.

To the extent the Court determines otherwise, any claim of Hagemeyer shall be allowed as a secured claim to the extent of the value of its interest in any funds owed by the Debtor to

Southeastern, and Hagemeyer shall look solely to such funds for payment of its Secured Claim, plus any post-petition interest, fees and costs allowed by the Court (the "Hagemeyer Indebtedness"). In the event of any deficiency balance remaining on the Hagemeyer Indebtedness, such deficiency amount shall be treated as a Class 12 Unsecured Claim. The Class 6 claim of Hagemeyer is impaired.

Class 7 shall consist of the Secured Claim of RSC Equipment ("RSC") scheduled by the Debtor in the amount of $7,182.26. RSC asserts a secured claim, to the extent so allowed by the Court, in the amount of $7,182.26 for services furnished by RSC for the construction of the Ethanol Plant. RSC, as a first-tier subcontractor of Southeastern, asserts a lien on funds and a subrogation lien on the Ethanol Plant pursuant to Chapter 44A. The Debtor disputes the validity of the claim and the liens asserted by RSC. The Debtor contends that it owes no funds to Southeastern, and accordingly, it would have no liability for the payment of any amounts owed by Southeastern to RSC pursuant to Chapter 44A.

To the extent the Court determines otherwise, any claim of RSC shall be allowed as a secured claim to the extent of the value of its interest in any funds owed by the Debtor to Southeastern, and RSC shall look solely to such funds for payment of its Secured Claim, plus any post-petition interest, fees and costs allowed by the Court (the "RSC Indebtedness"). In the event of any deficiency balance remaining on the RSC Indebtedness, such deficiency amount shall be treated as a Class 12 Unsecured Claim, subject to any timely objections to such claim as to validity or amount. The Class 7 Claim of RSC is impaired.

Class 8 shall consist of the Secured Claim of Chartis Specialty Insurance Company, National Union Fire Insurance Company of Pittsburgh, PA, and certain other subsidiaries of Chartis, Inc. (collectively, "Chartis") as set forth in Claim Number 89 filed in the Debtor's proceeding. Chartis contends that it has an unliquidated claim arising out of the provision of insurance and insurance services to the Debtor. Chartis asserts a right of recoupment and/or setoff with respect to any funds it may owe the Debtor. Chartis shall receive payment on its Allowed Secured Claim, in cash and by means of a setoff against funds on deposit with Chartis as of the Petition Date to the extent so allowed by the Court after notice and hearing. No post-petition interest or attorneys' fees or expenses shall be paid on the Allowed Secured Claim in this Class, unless and to the extent allowed by the Court upon motion, notice and hearing pursuant to § 506(b). To the extent the aforesaid claim is allowed in an amount greater than the setoff

permitted by the Court, if any, the amount of the claim in excess of the permitted setoff shall be treated as a Class 12 Unsecured Claim, subject to any timely objections to such claim as to validity or amount. The Class 8 Claim of Chartis is impaired.

Class 9 shall consist of the Secured Claim of First Insurance Funding Corp. ("First Insurance") in the amount of $7,546.64 as set forth in Claim Number 81 filed in the Debtor's proceeding. First Insurance asserts a security interest or right of setoff in any unearned insurance premiums prepaid by the Debtor as of the Petition Date. First Insurance shall receive payment on its Allowed Secured Claim, in cash and by means of a setoff against funds on deposit with First Insurance as of the Petition Date to the extent so allowed by the Court after notice and hearing. No post-petition interest or attorneys' fees or expenses shall be paid on the Allowed Secured Claim in this Class, unless and to the extent allowed by the Court upon motion, notice and hearing pursuant to § 506(b). To the extent the aforesaid claim is allowed in an amount greater than the setoff permitted by the Court, if any, the amount of the claim in excess of the permitted setoff shall be treated as a Class 12 Unsecured Claim, subject to any timely objections to such claim as to validity or amount. The Class 9 Claim of First Insurance is impaired.

Class 10 shall consist of the Secured Claim of Perdue in the amount of $7,537,729.82 as set forth in Claim Number 94 filed in the Debtor's proceeding. The claim arises out of certain agreements executed by Perdue and the Debtor on November 9, 2009, including a Master Agreement, Feedstock Supply Agreement and Co-Product Purchasing and Marketing Agreement (collectively, the "Perdue Agreements"). Perdue contends that the Debtor owes Perdue (1) $6,677,053.94 for corn purchased by the Debtor from Perdue prior to the Petition Date, and (2) $860,675.88 for damages arising out of the Debtor's breach of the Perdue Agreements. Perdue asserts a secured claim and right of setoff against funds owed by Perdue to the Debtor in the amount of $2,131,448.86 pursuant to the Perdue Agreements. To the extent the Debtor recovers any amount from Perdue pursuant to the Perdue Proceeding, Perdue has reserved the right to amend its claim as necessary and appropriate.

Perdue shall receive payment on its Allowed Secured Claim, in cash and by means of a setoff against funds owed by Perdue to the Debtor pursuant to the Perdue Agreements as of the Petition Date to the extent so allowed by the Court after notice and hearing. No post-petition interest or attorneys' fees or expenses shall be paid on the Allowed Secured Claim in this Class, unless and to the extent allowed by the Court upon motion, notice and hearing pursuant to §

506(b). To the extent the aforesaid claim is allowed in an amount greater than the setoff permitted by the Court, if any, the amount of the claim in excess of the permitted setoff shall be treated as a Class 12 Unsecured Claim, subject to any timely objections to such claim as to validity or amount. The Class 10 Claim of Perdue is impaired.

Class 11 shall consist of the Priority Unsecured Claims entitled to priority as specified in §507(a)(4) for unpaid wages, salaries, or commissions, including vacation, severance and sick leave, but only to the extent of $11,725 for each individual or corporation, as the case may be, earned within 180 days before the Petition Date or the date of cessation of the Debtors' business, whichever comes first. Holders of Allowed Priority Unsecured Claims shall be paid from Available Cash (in full or in regular installments, depending on the amount of Available Cash), with interest at the federal judgment rate in effect at the Petition Date and over a period not exceeding five (5) years from and after the Petition Date. The Class 11 Priority Unsecured Claims are impaired.

Class 12 shall consist of Unsecured Claims. Holders of Allowed Unsecured Claims will be paid in cash, in full or pro rata depending upon the amount of Available Cash, after payment in full of all Allowed Administrative Claims, Priority Tax Claims, Priority Unsecured Claims, and Secured Claims, in one or more distributions after the Effective Date upon the realization of Available Cash and as determined by the Trustee from time to time. No post-petition interest shall be paid on any Allowed Unsecured Claims unless all Allowed Claims have been paid in full, in which event interest shall be calculated from the Petition Date and paid at the federal judgment rate in effect at the Petition Date. The Class 12 Unsecured Claims are impaired.

Class 13 shall consist of the Cape Fear Subordinated Claim. Pursuant to the Cape Fear Order, Cape Fear shall have a subordinated Allowed Unsecured Claim in the amount of $30,000,000 which shall be paid in cash, in full or in part depending upon the amount of Available Cash, after payment in full of all other Allowed Claims, and in one or more distributions after the Effective Date upon the realization of Available Cash. No post-petition interest shall be paid on the Cape Fear Subordinated Claim unless all Allowed Claims have been paid in full, in which event interest shall be calculated and paid at the federal judgment rate in effect at the Petition Date. The Class 13 Cape Fear Subordinated Claim is impaired.

Equity Interests

Class 14 shall consist of the Equity Interests. The existing Equity Interests shall be terminated and holders of Equity Interests shall receive no distribution unless and until all Allowed Claims are paid in full, plus interest as provided herein. In such event, any remaining Available Cash would be distributed pro rata to the holders of the Equity Interests in the Debtor. The Class 14 Equity Interests are impaired.

PLAN CONSUMATION

Appointment of a Trustee.

Sara A. Conti will serve as Trustee pursuant to § 1104 of the Bankruptcy Code until a Final Decree is entered and the Trustee is discharged by the Court from further obligations. The Trustee shall wind up the affairs of the Debtor, complete the final administration of the Debtor's bankruptcy case, and execute and consummate the Plan as set forth herein. Sara A. Conti is a member of the panel of Chapter 7 bankruptcy trustees for the Middle District of North Carolina, and has been licensed to practice law in the State of North Carolina since 1981.

The Trustee shall evaluate and pursue to the extent necessary, appropriate and warranted all claims or causes of action by or on behalf of the Debtor. The Trustee has employed Debtor's counsel and Committee's counsel as special counsel to pursue such litigation, and the Trustee may employ such other counsel all as the Trustee may determine to be in the best interest of the estate. Available Cash shall be distributed by the Trustee according to the order of priorities set forth in the Plan, after taking into account all prior distributions made since the Petition Date.

Property of the Estate.

The Debtor has sold or stay relief has been granted with respect to most but not all of the Debtor's tangible and intangible assets pursuant to orders of the Court entered after notice and hearing. All remaining assets (including but not limited to, cash, funds on deposit, claims and causes of action) shall remain property of the estate and shall not vest in the Reorganized Debtor.

Distributions.

Once the Court has determined the extent, validity and priority of liens or interests asserted by the Secured Creditors, Allowed Secured Claims will be paid to the extent of the value of such creditor's interest in the Debtor's interest in the property subject to such lien or interest as provided in the Plan provisions regarding treatment of such claims.

Available Cash will be distributed in payment of Allowed Administrative Claims, Priority Tax Claims and Priority Unsecured Claims in one or more distributions as may be

determined by the Trustee from time to time until paid in full. Thereafter, Available Cash will be distributed in payment of Allowed Unsecured Claims in one or more distributions as may be determined by the Trustee from time to time until paid in full or until all Available Cash has been realized and fully distributed. After Allowed Unsecured Claims are paid in full, Available Cash will be distributed in payment of the Cape Fear Subordinated Claim in one or more distributions as may be determined by the Trustee from time to time until paid in full or until all Available Cash has been realized and fully distributed. In the event all Allowed Claims are paid in full, then interest shall be paid to the holders of Allowed Unsecured Claims and the Cape Fear Subordinated Claim and any remaining Available Cash shall be disbursed pro rata to the holders of the Equity Interests.

A final distribution shall be made within sixty (60) days after the later of (i) the resolution of all Disputed Claims asserted against the Debtor or the Estate, (ii) the resolution of all causes of action asserted by or on behalf of the Debtor, and (iii) the sale, liquidation or abandonment of all remaining property of the Estate.

Substantial Consummation.

The Plan shall be substantially consummated when the events specified in § 1101(2) have occurred. Substantial consummation shall not occur until an order confirming the Plan (the "Confirmation Order") has become a Final Order; provided however, that if an appeal of the Confirmation Order is filed but no stay is granted in connection with such appeal, the Trustee may elect to proceed with consummation of the Plan.

Bankruptcy Causes of Action

While the Trustee cannot predict the outcome of pending or potential causes of action, nor should the Trustee disclose her litigation strategies or her attorneys' work product, a brief summary of the pending or possible litigation for the estate is provided below:

1. Perdue Proceeding: The Debtor commenced an adversary proceeding to, among other things, (1) avoid any lien or interest of Perdue in corn located at the Ethanol Plant on the Petition Date; (2) recover for the benefit of the Estate proceeds from the sale of the corn in the approximate amount of $5,000,000; and (3) recover for the benefit of the Estate a sum in excess of $1,000,000 owed to the Debtor pursuant to the sale of its DDGS. This proceeding currently is in the early stages of discovery.

2. Preferences: The Debtor and the Committee are in the process of investigating and pursing the avoidance and recovery of preferential transfers totaling approximately $1,400,000; that is, payments made by the Debtor to creditors within 90 days prepetition and payments to creditors who are Insiders or Affiliates within 1 year prepetition. The Debtor has send demand letters to twelve (12) different creditors seeking the return of preferential transfers totaling in the aggregate approximately $1,285,000. There are many defenses to such actions which reduce any potential recovery, as the Bankruptcy Code protects certain payments (such as those made in the ordinary course of business) from such avoidance actions. However, the Debtor believes that it will be able to recover a portion of the transfers through settlements or litigation.

3. Other Litigation: The Committee is in the process of investigating other potential causes of action that may be brought against the Debtor's directors and officers or other third parties involved in the construction of the Ethanol Plant. The Committee's investigation is incomplete as of the date of the filing of the Plan.

Executory Contracts and Leases:

All executory contracts or leases which are existing on the Effective Date which have not been assumed or are not subject to a pending motion to assume are and shall be deemed rejected by the Debtor as of the Effective Date. To the extent the Debtor expects or is able to project potential rejection damage claims, such claims are included in the schedule of Unsecured Claims.

Pursuant to the Cape Fear Order, if requested by Cape Fear, the Debtor is obligated to file and pursue a motion to assume the KATZEN License Agreement and cure the default by issuing to KATZEN stock to fully satisfy the license claim. This is a fairly unusual provision given the current context, in that (i) the Debtor would seek to assume the License Agreement and assign it to Cape Fear, (ii) in order to assume an executory contract, the Debtor would have to cure any outstanding default, (iii) KATZEN has filed a proof of claim in the amount of $971, 250, (iv) the Debtor would take the position that the License Agreement allows the Debtor to cure this default, and thus eliminate the claim, by issuing stock in the Debtor, and (v) Cape Fear would have to provide adequate assurance of its future performance under the License Agreement.

To the extent Cape Fear desires that the Debtor file such a motion, it must make such request in sufficient time for the Debtor to file and schedule a hearing on the motion at or before

the hearing on confirmation of the Plan. No such request has yet been made by Cape Fear, nor has the Trustee been given any indication that such a request will be made.

FINANCIAL INFORMATION The following information is available to creditors, equity interest holders, and other parties in interest:

Monthly Reports.

Monthly reports have been and shall continue to be filed by the Debtor and now by the Trustee through and including the Effective Date, and thereafter a post-confirmation report shall be filed by the Trustee on a quarterly basis until the filing of the Final Report. The Trustee shall file such reports by the end of the month next following the report period, and at the same time shall serve a copy thereon upon the Bankruptcy Administrator and any other party in interest making a written request.

Financial Information on Record.

At or shortly after the Petition Date, the Debtor filed Schedules of Assets and Liabilities and a Statement of Financial Affairs. The monthly reports, the Schedules of Assets and Liabilities, and the Statement of Financial Affairs may be inspected by interested parties in order to obtain a broader financial picture of the Debtor and the estate. These may be examined on-line through the Court's website.

Plan Projections and Liquidation Analysis

The primary assets of the Debtor's estate consist of (i) funds on deposit in the aggregate amount of approximately $175,000, and (iii) potential recoveries on the Bankruptcy Causes of Action, in a range of zero to in excess of $7.5 million, all of which the Trustee believes are or will be unencumbered. The Plan provides for the orderly liquidation of assets, pursuit of the Bankruptcy Causes of Action, and distribution to creditors in the order of priorities established by the Bankruptcy Code.

As set forth in the Trustee's Report, the Trustee has left open the possibility that the case could be converted to Chapter 7 at some future point in time. However, in the event this case were converted to a case under Chapter 7, the Trustee believes that substantially the same actions would be taken and with substantially the same result except that (i) if there were any transition to new professionals, there could be some degree of duplication and increased Administrative Claims, and (ii) there is a risk that the Committee may disband and the absence of the Committee members participation may lessen the likelihood of recoveries on certain Bankruptcy Causes of Action. Consequently, it is the Trustee's opinion that the best interests of all creditors, and especially the interests of creditors holding Unsecured Claims, are served through implementation and effectuation of the Plan.

Attached to the Disclosure Statement are (i) Exhibit 4, Projections which are intended to illustrate the possible recoveries on Bankruptcy Causes of Action and expected distributions to creditors under the Plan, and (ii) Exhibit 5, a summary Liquidation Analysis to reflect distributions to creditors if the case were converted to Chapter 7. Both the Projections and the Liquidation Analysis are subject to variance depending on (i) the recoveries on the Bankruptcy Causes of Action, (ii) the final amount of the Allowed Administrative Claims, Priority Tax Claims, Priority Unsecured Claims and Unsecured Claims, and (iii) the varying treatment of certain claims. While the Projections and the Liquidation Analysis will necessarily evolve by reason of on-going recoveries on Bankruptcy Causes of Action, they set forth the current estimate for the likely result if the net proceeds are applied in the manner required by the Bankruptcy Code.

Please note that the Projections and the Liquidation Analysis were prepared prior to (i) completion of the claims objection and reconciliation process, or (ii) the conclusion of the Bankruptcy Causes of Action. The claims objection and reconciliation process is not yet

underway and the aggregate amount of allowed claims is unresolved. Further, the Claims Analysis does not reflect claims which would arise from the avoidance and recovery of transfers, except to the extent such claims have already been filed, although the aggregate amount of Allowed Unsecured Claims has been adjusted in the Projections to reflect the possible recovery on the Bankruptcy Causes of Action.

TAX CONSEQUENCES OF THE PLAN

The federal income tax consequences of the Plan are complex and subject to significant uncertainties. The Debtor has not requested a ruling from the Internal Revenue Service ("IRS") or an opinion of counsel with respect to any of the tax aspects of the Plan. Thus, no assurance can be given as to any interpretation that the IRS may adopt. In addition, this summary does not address foreign, state or local tax consequences of the Plan, nor does it purport to address the federal income tax consequences of the Plan to special classes of taxpayers. Furthermore, this discussion assumes that holders of Allowed Claims hold only Claims in a single Class. Holders of Allowed Claims in multiple Classes should consult their own tax advisors as to the effect such ownership may have on the federal income tax consequences described below.

The Debtor is a limited liability company which reports its taxable income or loss as part of the individual income tax returns filed by its members, and consequently, the Debtor or the Estate is not responsible for any income tax which may become due nor may the Debtor or the Estate realize any tax benefits from any loss reportable for income tax purposes, whether for prior, current or prospective periods. To the extent any cancellation of debt ("COD") income is reportable as a result of consummation of the Plan, such COD income would flow through the Debtor or its Estate to the members.

Creditors holding Allowed Claims (whether Priority, Secured or Unsecured) will receive cash payments as provided in the Plan over a variable period of time and in amounts which may result in less than full payment of the respective Allowed Claims. The extent to which the unpaid balance of the Allowed Claims (or any portion of the underlying claim which is asserted but is not allowed by the Court) can be deducted for income tax purposes by the holder of such claim, as well as the timing for recognition of revenues, gains or losses for income tax purposes, is dependent upon the particular creditor involved and cannot be addressed by the Debtor due to the multiplicity of factors which may be involved. The amount of the income or gain, and its

character as ordinary income or capital gain or loss, as the case may be, will depend upon the nature of the claim of each particular Creditor.

The method of accounting utilized by a Creditor for federal income tax purposes may also affect the tax consequences of a distribution. In general, the amount of gain (or loss) recognized by any such Creditor will be the difference between (i) the Creditor's basis for federal income tax purposes, if any, in the Claim; and (ii) the amount of the distribution received. Whether the distribution will generate ordinary income or capital gain will depend upon whether the distribution is in payment of a Claim or an item which would otherwise generate ordinary income on the one hand or in payment of a Claim which would constitute a return of capital.

PROVISIONS FOR IMPAIRED CREDITORS NOT ACCEPTING PLAN

With respect to any Class of creditors impaired by and not accepting this Plan by the requisite majority in number and two-thirds (2/3) in dollar amount of those casting ballots, adequate protection for the realization by them of the value of their claim shall be provided in the Order confirming the Plan by such method as will, in the opinion of the Bankruptcy Judge and consistent with the circumstances of the case, fairly and equitably provide such protection in accordance with the applicable provisions of the Bankruptcy Code. With respect to the holders of Equity Interests of the Debtor, the existing Equity Interests shall be terminated and holders of Equity Interests shall receive pro rata distributions of Available Cash after all Allowed Claims are paid in full, with interest as provided herein.

The Bankruptcy Code provides that the Plan may be confirmed even if it is not accepted by all impaired Classes. In order to be confirmed without the requisite number of acceptances of each impaired Class, the Court must find that at least one impaired Class has accepted the Plan without regard to the acceptance of insiders, and the Plan does not discriminate unfairly against, and is otherwise fair and equitable to, such impaired Class. To the extent confirmation by "cramdown" is necessary or required, the Trustee requests confirmation thereof pursuant to Section 1129(b) without further motion or notice, which request shall be considered (if necessary) at the conclusion of the Confirmation Hearing.

DISCHARGE AND RELEASE.

As the Plan provides for the liquidation of all assets of the Estate and the Debtor will not continue business operations, the Plan does not provide for the discharge of any claims or liabilities. However, all proceedings and court actions seeking to establish or enforce pre-

petition liabilities and claims of any nature against property of the Estate or priorities received or retained by any creditor with respect to debts and obligations of the Debtor shall be stayed and treated as specifically provided for in the Plan.

DISPUTED CLAIMS AND OBJECTIONS TO CLAIMS

The Trustee, the Committee, or any party in interest may file an objection to any claim within one hundred eighty (180) days after entry of the Order confirming the Plan. Objections not filed within such time shall be deemed waived unless the period within which to file objections to claims is extended by Order of this Court as provided in the Plan. The absence of an objection prior to the Confirmation Date, whether as to a scheduled or filed claim, shall not be deemed an acceptance of any Claim nor a waiver of the right to object to any Claim, and the holder of any such Claim shall not be entitled to assert reliance upon any implied acceptance of such Claim when voting to accept or reject the Plan.

Any claim, or portion thereof, which is to be paid in cash under the Plan and which is challenged, shall be protected by requiring the Trustee to segregate and set aside in an escrow account a reserve based on the Court's estimate of such claim and sufficient to treat said claim in the same fashion as though the objection were denied. The reserve so segregated shall be distributed in accordance with the Plan in the event the objection is overruled or a dispute is resolved in favor of the party asserting the claim. In the event the disputed claim is disallowed, the retained cash so segregated shall be retained by the Trustee and available for distribution in accordance with the provisions of this Plan, with the disallowed claimant being excluded from the appropriate Class.

MATTERS TO CONSIDER BEFORE VOTING ON THE PLAN

Who May File a Plan.

The confirmation of the Plan of Reorganization is the ultimate goal of the Chapter 11 proceeding. Consequently, your decision whether to accept or reject the Plan must be made in the context established by the Bankruptcy Code. In a Chapter 11 case, only the Debtor may file a plan of reorganization within the exclusivity period provided by §1121(b); however, once a trustee has been appointed any party in interest may file a proposed plan.

Conditions Precedent to Confirmation.

There are no conditions precedent to confirmation of Plan, except to the extent the Effective Date is defined in such a way as to be conditional upon the entry of a final order confirming the Plan.

What is Necessary for Court Approval of a Plan.

Chapter 11 permits the adjustment of secured debt, unsecured debt and equity interests. A Chapter 11 Plan may provide for less than full satisfaction of senior indebtedness and payment of junior indebtedness, and may even provide some return to equity owners absent full satisfaction of indebtedness, so long as no impaired class votes against the Plan (except as provided below).

Even if an impaired class votes against the Plan, implementation of the Plan is still possible so long as (i) the Plan is fair and equitable and (ii) that class is afforded certain treatment defined by the Code, broadly defined as giving a claimant the full value of his claim or interest. Such value is determined by the Court and balanced against the treatment afforded the dissenting class of creditors.

In particular, senior claims must be satisfied in full prior to payment of junior claims or interests, unless the holders of senior claims agree to different treatment. This principle (commonly known as the "absolute priority rule") applies only in cases when a class of unsecured claims or equity interests is impaired and does not accept the proposed Plan. In that event, the absolute priority rule does not apply to all classes of unsecured claims and equity interests, but only to the dissenting class and classes junior to the dissenting class.

In the event a class is unimpaired, it is automatically deemed to have accepted the Plan. If there is no dissenting class, the test for confirmation (*i.e.*, approval) by the Court of a Chapter 11 Plan is whether the Plan is feasible and in the best interests of the creditors and equity interest holders. In simple terms, this test requires that creditors and equity interest holders receive more under the Plan than they would obtain if the Debtor were liquidated and the proceeds distributed in accordance with bankruptcy liquidation priorities. The Court, in considering this factor, need not consider any other alternatives to the Plan but liquidation.

In considering "feasibility" the Court is only required to determine whether the Plan can be accomplished. This entails determining the availability of cash for payments required at the Effective Date, and any other factor which might make it impossible for the Debtor to accomplish that which it proposes to accomplish in the Plan. In addition, in order to confirm a

Plan the Court must find that such Plan was proposed in good faith and that the Plan and the Debtor are in compliance with the applicable provisions of Chapter 11. Finally, similar to the requirement that the Court find the Plan to be feasible, the Court must find that liquidation or further reorganization is not likely to occur after implementation of the Plan, except to the extent the Plan provides for such liquidation.

The determination by the Court that the Plan is fair, equitable and feasible occurs at the confirmation hearing. The Court's adjudication of these matters does not constitute an expression of the Court's opinion as to whether the Plan is a good one, nor does it constitute an opinion by the Court regarding any debt or equity interest or securities issued to creditors under the Plan.

Alternatives to the Plan.

Although this Disclosure Statement is intended to provide information to assist in the formation of a judgment as to whether to vote for or against the Plan, and although creditors are not being offered, through that vote, an opportunity to express an opinion concerning alternatives to the Plan, there are no on-going operations and the only likely alternative to the Plan is the liquidation of the Debtor through conversion of the case to one under Chapter 7 which would result in the appointment of a Chapter 7 trustee, a new notice period for the filing of claims, and additional administrative costs, and any dividend to unsecured creditors would be delayed and likely reduced in amount.

The Trustee Has Attempted to Set Forth The Likely Alternatives to The Proposed Plan. The Debtor Must Caution Creditors and Other Parties in Interest That a Vote Must Be For or Against The Plan. The Vote on The Plan Does Not Include a Vote on The Likely Alternatives to The Plan. If You Believe The Alternatives Are Preferable to The Plan And You Wish to Urge Them Upon The Court, You Should Consult Counsel As To The Appropriate Response.

Specific Considerations in Voting.

While the Plan provides for certain payments or other distributions, such payments or distributions will only be made to the holders of Allowed Claims. Under the Bankruptcy Code, a claim may not be paid until it is "allowed" pursuant to §502. A filed or scheduled claim will be allowed in the absence of an objection. A claim to which an objection has been filed will be heard by the Court at a regular evidentiary hearing and will be allowed in full or in part or disallowed. While the Trustee will bear the principal responsibility for claim objections, any

interested party may file claim objections. Accordingly, payment on all claims may be delayed until all pending objections to such claims are ultimately adjudicated or settled.

For Classes of Claims which do not receive payment in full on the Effective Date, there are certain risks inherent in accepting the Plan, including the absence of absolute certainty of ultimate payment, especially with respect to Unsecured Claims and the Cape Fear Subordinated Claim which are dependent upon recoveries made pursuant to Bankruptcy Causes of Action.

The materials provided in this Disclosure Statement are intended to assist you in voting on the Plan in an informed fashion. If the Plan is confirmed, you will be bound by its terms; therefore, you are urged to review this material and to make such further inquiries as you may deem appropriate, then cast an informed vote on the Plan. The Debtor solicits your acceptance of the Plan as being in the best interests of creditors in this case.

Respectfully submitted on behalf of the Debtor, this the 21st day of March, 2012.

/s/ Vicki L. Parrott

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Exhibits to Disclosure Statement:

1. Plan Of Reorganization Dated December 28, 2011.
2. Schedule Of Scheduled, Filed, And Estimated Claims, By Class.
3. Cape Fear Order.
4. Projections as to Plan Payments.
5. Liquidation Analysis
6. Trustee's Report and Orders Denying Conversion and Appointing Trustee