UNITED STATES BANKRUPTCY COURT
DISTRICT OF MAINE

In Re: RED SHIELD ENVIRONMENTAL, LLC, Debtor.	Chapter 11 Case No. 08-10633
In Re: RSE PULP & CHEMICAL, LLC, Debtor.	Chapter 11 Case No. 08-10634 Jointly Administered Through Case No. 08-10633

DISCLOSURE STATEMENT WITH RESPECT TO DEBTORS' JOINT PLAN OF REORGANIZATION DATED APRIL 23, 2009

Red Shield Environmental, LLC ("Environmental") and RSE Pulp & Chemical, LLC ("Pulp") (collectively, the "Debtors"), each a debtor and a debtor-in-possession in the above-captioned jointly-administered Chapter 11 cases, present this disclosure statement (the "Disclosure Statement"), pursuant to 11 U.S.C. § 1125(b),[1] to all known creditors and holders of interests of the Debtors, in connection with the Debtors' Joint Plan of Reorganization Dated April 23, 2009 (the "Plan"). A copy of the Plan, which has been filed with the United States Bankruptcy Court, the District of Maine (the "Court" or "Bankruptcy Court") is attached hereto as Exhibit A.

Plan Summary

Creditors and interest holders are directed to read this entire Disclosure Statement and should not rely solely on this summary in deciding to vote for the Plan. The following is a short

[1] Unless otherwise indicated, all statutory references are to the United States Bankruptcy Code, 11 U.S.C. §§ 101-1330.

summary of the structure and projected outcome of the Plan. The Plan accompanying this Disclosure Statement provides for the distribution of the remaining proceeds of the sale of the Debtors' assets, as well as possible proceeds of certain causes of action.[2] The balance of the sale proceeds is slightly in excess of seven million dollars ($7,000,000), after taking into account all previous payments and distributions authorized by the Court. The Plan also provides for substantive consolidation of the Debtors for the purposes of distribution, meaning that the assets (primarily cash) will be pooled as if a single entity had sold the assets and all claims, whether filed or scheduled as claims against one or the other Debtor, shall, to the extent such claims are allowed, be treated as claims against this single pool of assets, sharing pro rata in accordance with their respective priorities. In addition, intercompany claims are eliminated. The Debtors estimate that general unsecured creditors will receive an amount equal to approximately 60 to 70% of the claim amount.[3]

I. Introduction

The purpose of this Disclosure Statement is to provide such information as may be deemed material, important and necessary for the Debtors' creditors and holders of interests to make an informed decision in exercising their right to vote, if any, to accept or reject the Plan. This Disclosure Statement will also assist the Bankruptcy Court in its determination whether the Plan complies with all applicable provisions of the Code and should therefore be confirmed. All terms defined in the Plan and not defined herein shall have the respective meanings ascribed to them in the Plan. Where applicable and unless otherwise defined in the Plan or in this Disclosure Statement, the terms used herein shall have the meaning given them in the Bankruptcy Code. All

[2] The viability and value of such causes of action has not yet been determined by the Debtors and the Creditors Creditors' Committee.

[3] These percentage estimates are based upon the amount of allowed claims not substantially exceeding the amount of claims scheduled by the Debtors. This may not be the case.

exhibits to this Disclosure Statement, including the Plan, are incorporated into and made a part of this Disclosure Statement.

IT IS RECOMMENDED THAT EACH CREDITOR AND HOLDER OF AN INTEREST REVIEW THE ENTIRE PLAN AND DISCLOSURE STATEMENT CAREFULLY AND DETERMINE WHETHER OR NOT TO ACCEPT THE PLAN BASED ON THAT CREDITOR'S OR INTEREST HOLDER'S INDEPENDENT EVALUATION AND JUDGMENT. IT IS IMPORTANT THAT YOU VOTE IF YOU HAVE A RIGHT TO VOTE. IN DETERMINING WHETHER A PLAN OF REORGANIZATION HAS BEEN ACCEPTED BY THE REQUIRED MAJORITIES OF CREDITORS AND INTEREST HOLDERS, ONLY THOSE CREDITORS AND INTEREST HOLDERS WHO ACTUALLY VOTE ON THE PLAN ARE COUNTED, EXCEPT WHERE SPECIFICALLY STATED OTHERWISE.

NO REPRESENTATIONS CONCERNING THE PLAN ARE AUTHORIZED OTHER THAN AS SET FORTH IN THIS DISCLOSURE STATEMENT. THE PORTIONS OF THIS DISCLOSURE STATEMENT DESCRIBING THE DEBTORS, THE PLAN, AND THE PRE- AND POST-BANKRUPTCY OPERATIONS OF THE DEBTORS, HAVE BEEN PREPARED FROM INFORMATION SUBMITTED BY REPRESENTATIVES OF THE DEBTORS. THE DEBTORS BELIEVE THIS INFORMATION TO BE ACCURATE AND COMPLETE BUT MAKE NO WARRANTIES AS TO SUCH COMPLETENESS OR ACCURACY. NO REPRESENTATIONS CONCERNING THE DEBTORS ARE AUTHORIZED OTHER THAN AS SET FORTH IN THIS DISCLOSURE STATEMENT. CERTAIN OF THE STATEMENTS CONTAINED IN THIS DISCLOSURE STATEMENT, BY NATURE,

ARE FORWARD-LOOKING AND CONTAIN ESTIMATES AND ASSUMPTIONS. THERE CAN BE NO ASSURANCE THAT SUCH STATEMENTS WILL BE REFLECTIVE OF ACTUAL OUTCOMES.

By Order dated April 22, 2009, the Bankruptcy Court approved this Disclosure Statement, finding that it contains "adequate information" as that term is defined in § 1125(a)(I). The Bankruptcy Court has not yet made a determination of the merits of the Plan.

II. Description of the Debtors

A. The Debtors and Their Operating Structure.

In November 2006 a group of investors led by Edward Paslawski ("Paslawski") and his partners Ronald Popolizio ("Popolizio"), Jody Flynn ("Flynn") and Bert Martin ("Martin"), formed Red Shield Environmental, LLC ("Environmental") for the purpose of purchasing the former Georgia Pacific paper mill in Old Town, Maine. As of the date of this Disclosure Statement, Environmental's members, and their respective economic ownership interests, are as follows:

Red Shield Environmental

Capitalization Chart

10,000

Class B	Investment	Internal %	Fully Diluted	# Units Fully Diluted
		% of		
Edward Paslawski		18.750%	16.594%	1,659
Ronald Popolizio		18.750%	16.594%	1,659
Bert Martin		18.750%	16.594%	1,659
Jody Flynn		18.750%	16.594%	1,659
Severin Beliveau		5.000%	4.425%	443
Anthony Buxton		5.000%	4.425%	443
Penobscot Energy		15.000%	13.275%	1,328
		100.000%	88.500%	8,850
Class A		11.500%		

	$	% of		
John Schiavi	500,000	43.478%	5.000%	500
Schiavi Construction	500,000	43.478%	5.000%	500
Al Mack	100,000	8.696%	1.000%	100
Richard Mack	50,000	4.348%	0.500%	50
	1,150,000	100.000%	11.500%	1,150
Total Ownership			**100.000%**	**10,000**

Environmental was managed by Paslawski, Popolizio, Flynn and Martin.

The investor group purchased the old Georgia Pacific Mill with the intention of converting it into an industrial park powered by renewable energy. The company intended to rent over 800,000 square feet of industrial space and sell power, steam and services to its industrial tenants. To that end, and because of the need to reference the enterprise, Paslawksi, Popolizio, Flynn and Martin secured a second group of investors to form RSE Pulp & Chemical, LLC ("Pulp") for the purpose of reopening and operating a 200,000 ton hardwood kraft pulp mill located on the property. Pulp's members, and their respective economic interests, are as follows

RSE Pulp & Chemical

Capitalization Chart

10,000

Class B	**Investment**	**Internal %**	**Fully Diluted**	**# Units Fully Diluted**
		% of		
Red Shield Environmental	950	95.000%	70.094%	7,009
Dick Arnold	50	5.000%	3.689%	369
		0.000%	0.000%	0
		0.000%	0.000%	0
		100.000%	73.783%	7,378
Class A		26.217%		
	$	% of		
J. Carrier RSE, LLC and R. Carrier RSE, LLC	1,500,000	41.958%	11.000%	1,100
Gardiner RSE, LLC	1,500,000	41.958%	11.000%	1,100
Schiavi	500,000	13.986%	3.667%	367

Alvin Mack	50,000	1.399%	0.367%	37
Richard Mack	25,000	0.699%	0.183%	18
	3,575,000	100.000%	26.217%	2,622
Total Ownership			**100.000%**	**10,000**

Pulp was also managed by Paslawski, Popolizio, Martin and Flynn.

The relationship between Environmental as owner and Pulp as operator is governed by the Operations and Management Agreement (the "Operations Agreement") dated April 1, 2007. The Operations Agreement establishes Pulp's obligations, which include:

a. Operating, maintaining, and managing the Facility and entering into new contracts in Environmental's name for certain utility and maintenance services;
b. Entering into contracts in Environmental's name to purchase, and otherwise purchasing, all supplies, equipment and third party services necessary to maintain and operate the Facility;
c. Maintaining in Pulp's name Environmental's environmental permits; and
d. Administering, recruiting, selecting, training, promoting, directing and terminating the employment of all personnel and contractors reasonably required to fulfill Pulp's duties under the Operations Agreement.

Under the Operations Agreement, among other things, Environmental leased to Pulp all of the employees necessary to operate the pulp mill, and Pulp contracted with Environmental to have Environmental actually operate the facility. The agreement also governed the sharing of expenses, with the arrangement designed to be "cash neutral" to Environmental.

To further define the relationship between the two companies, Environmental and Pulp also executed the Lease Agreement Dated as of April 1, 2007 By and Between Red Shield Environmental, LLC, as Landlord and RSE Pulp & Chemical, LLC, as Tenant With Respect to Premises Located at 24 Portland Street, Old Town, Maine 04468 (the "Lease Agreement"). Under the Lease Agreement, Pulp leased from Environmental all of the real and personal property necessary to operate the pulp mill for a period of up to forty (40) years. The same senior employees managed the day to day operations of Pulp and Environmental.

Initially, Pulp produced wood pulp for sale to customers in the United States, Europe and Asia, attaining sustainable profitability in August, September and October of 2007. In November 2007, the pulp plant was shut down for annual maintenance, reactivation of the second digester and preparation of the facility for conversion to the manufacture of dissolving pulp. The plant was back to full capacity in January 2008 and Pulp returned to profitability in February. A second shutdown occurred in May 2008 for the final conversion to dissolving pulp and completion of an EPA mandated gas capture process. By nearing completion of the final stages of conversion to a dissolving pulp mill, Pulp was poised to enter a very profitable market. Dissolving pulp sells for approximately twice as much as paper pulp.

Despite Pulp's prospects in the burgeoning dissolving pulp market, sudden market pressures and the declining economy created cash flow and liquidity problems for Pulp. The price of wood chips, Pulp's chief raw material, had risen in June 2007 by $30 per ton in recent months. Similar rises in fuel and chemical costs significantly increased the cost of Pulp's operations. With no concomitant increases in pulp prices, however, Pulp was unable to recoup the increase in production costs on the consumer end.

Pulp entered into negotiations with its chip suppliers regarding restructuring the payment terms for chip suppliers. The suppliers responded by terminating the delivery of chips. As detailed below, the Debtors were forced to suspend operation of the chip mill, an event which caused the Debtors' prepetition lenders to withhold credit.

B. Pre-Petition Financing.

On November 3, 2006, Environmental and Chittenden Trust Company, d/b/a Chittenden Bank ("Chittenden"), entered into a Loan and Security Agreement pursuant to which Environmental executed a $7 million term note. As of the Petition Date, Environmental owed

just over $3 million to Chittenden under the $7 million note, which indebtedness was secured by a first security interest in all of Environmental's inventory, receivables, machinery and equipment, intellectual property, general intangibles, and contract rights, and by first mortgages and collateral assignments of rents with respect to all of Environmental's real estate.

On March 16, 2007, Environmental borrowed an additional $1 million under a term note with the Finance Authority of Maine ("FAME"). As of the Petition Date, Environmental owed an additional $826,000 to FAME, which indebtedness was secured by a second priority interest in all of Environmental's real and personal property.

Pulp and Chittenden entered into a Loan and Security Agreement on May 3, 2007, pursuant to which Chittenden advanced $1.5 million to Pulp under a $1.8 million term note and made available to Pulp a $5 million asset-based revolving line of credit. The term debt was also subject to a FAME guaranty. A May 2, 2008 amendment to the May 3, 2007 Loan Agreement reduced the line of credit to $2.25 million and established a schedule for continuing decreases in the credit line over the next two months until the credit line was set to finally expire on June 30, 2008. The May 3, 2007 agreement was amended one more time on June 5, 2008 to provide for additional advances by Chittenden in the principal amount of $586,116.

As of the Petition Date, Pulp owed just over $1.1 million to Chittenden on the FAME-guaranteed term debt facility, which indebtedness was secured by a first priority security interest in all of Pulp's inventory, receivables, machinery and equipment, intellectual property, general intangibles, and contract rights, and by first mortgages and collateral assignments of rents with respect to all of the Pulp's real estate.

All of Pulp's secured debt was guaranteed by Environmental and all of Environmental's secured debt was guaranteed by Pulp. These guarantees were in turn secured by all of each

Debtor's assets.

III. Events Leading to Chapter 11 Cases

A. Chip Suppliers.

As noted above, Pulp's chief raw material was wood chips and it had contracts with Costigan Chip, LLC, Milo Chip, LLC and W.T. Gardner & Sons, Inc. (collectively, the "Chip Suppliers")[4] for the supply and delivery of hardwood pulp chips. Environmental also executed a contract with W.T. Gardner & Sons, Inc. for premium quality wood chips.

Beginning in late 2007, citing fuel prices and other market pressures, the Chip Suppliers began raising their prices to unprecedented levels. Although the chip supply contracts contained price adjustment provisions, the Debtors contend that the new prices cited by the Chip Suppliers were far in excess of the formulas established in the contracts.

There are very few chip suppliers capable of providing the volume and quality of chips required by the Debtors to sustain their operations. The Debtors sought unsuccessfully to either get the Chip Suppliers to honor all agreements or to negotiate a new, more viable agreement. When negotiations failed and the Chip Suppliers ceased deliveries, the Debtors were forced to engage in what they had hoped to be a temporary shutdown. The loss of revenue and the increased overhead ultimately impeded the Debtors' ability to meet their obligations under the financing agreements with Chittenden and FAME.[5]

[4] These entities are affiliates of certain of the preferred, class A unit holders in Pulp.

[5] The Debtors contend that the Chip Suppliers' actions in ceasing deliveries constitute, *inter alia*, constitutional breaches of contract, violations of the Uniform Commercial Code, violations of antitrust laws and breaches of fiduciary duty. The Debtors further contend that the Chip Suppliers' actions led to the cessation of operations and lost value. The Chip Suppliers are expected to contest such contentions. In the event the Debtors do not exchange mutual releases with the Chip Suppliers and their affiliates resulting in a waiver of all claims and cancellation of all interests of the Chip Suppliers, all causes of action against the Chip Suppliers will be preserved and prosecuted after confirmation of the Plan.

B. Chittenden.

The Debtors' obligations under the Chittenden financing were scheduled to become due at the end of June. Well in advance of the maturity date, the Debtors commenced discussions with Chittenden regarding refinancing. The Debtors' attempt to refinance coincided with the dispute with the Chip Suppliers and, therefore, although Pulp had nearly completed the conversion to a dissolving pulp facility and was poised to enter a profitable market, Chittenden was unwilling to refinance the debt on acceptable terms in light of the activity of the Chip Suppliers and the resulting uncertainty such actions caused.

Unable to secure refinancing, facing a looming maturity date on their existing financing agreements, and precluded from restarting their revenue-producing operations by actions of the Chip Suppliers, the Debtors were eventually forced to file for chapter 11 protection on June 27, 2008.[6]

IV. Liabilities on the Petition Date

Secured Claims.

As of the Petition Date, Environmental owed just over $3 million to Chittenden on a $7 million term note. That indebtedness was secured by a first priority security interest in all of Environmental's inventory, receivables, machinery and equipment, intellectual property, general intangibles, and contract rights, and by first mortgages and collateral assignments of rents with respect to all of Environmental's real estate.

Environmental owed an additional $826,000 on a $1 million term note from FAME, which indebtedness was secured by a second priority interest in all of Environmental's real and personal property. As noted above, Pulp provided secured guarantees as to the debt owed to

[6] As noted above, the Chip Suppliers disagree with the Debtors' version of these events.

Chittenden and FAME.

In addition to the secured claims held by Chittenden and FAME, Preti, Flaherty, Beliveau & Pachios, LLP ("Preti") obtained a pre-petition attachment and trustee process against the Debtors in the Cumberland County Superior Court. That attachment was eventually reduced to $659,986.50. Preti recorded the attachment in the Penobscot County Registry of Deeds and further filed a Maine UCC-1 financing statement against both Debtors claiming a security interest in all of the Debtors' personal property.

Finally, CES, Inc., Foresight Engineering, P.C., Sullivan and Merritt Constructors, Inc., and Thornton Construction, Inc. all recorded mechanics liens pre-petition asserting claims against Environmental.[7]

Pulp owed just over $1.1 million to Chittenden on a $1.8 million term note guaranteed by FAME. That indebtedness was secured by a first priority security interest in all of Pulp's inventory, receivables, machinery and equipment, intellectual property, general intangibles, and contract rights, and by first mortgages and collateral assignments of rents with respect to all of Pulp's real estate. As noted above, Environmental provided secured guarantees as to all such debt.

In addition, pre-petition, Foresight Engineering P.C. recorded a lien against Environmental's property, asserting a claim against Pulp.[8]

C. Unsecured Claims Against Both Debtors.

As of the Petition Date, Environmental's general unsecured creditors were allegedly owed approximately $2.5 million. Pulp's general unsecured creditors were allegedly owed

[7] PSC Industrial Outsourcing, LP, St. Germain & Associates, Inc., Zampell Refractories, Inc., Global Metal Fabrication, LLC and A.H. Lundberg, Inc. recorded mechanics liens in the months immediately following Environmental's filing.

[8] In July and August 2008, Wilcox Electric, Inc. and PSC Industrial Outsourcing, LP recorded mechanics liens against Environmental's property to secure claims against Pulp.

approximately $9.7 million.[9]

V. Significant Post-Petition Events

A. General Administrative Matters; Cash Collateral.

After the Petition Date, the Debtors continued to manage and operate their businesses and property as debtors-in-possession under §§ 1107 and 1108 of the Code. The cases were jointly administered pursuant to an order issued by this Court dated July 2, 2008. With authorization from the Court, the Debtors retained Bernstein, Shur, Sawyer & Nelson ("BSSN") as their bankruptcy counsel in connection with the case. The Debtors also obtained authorization from the Court to employ Windsor Associates ("Windsor") as financial consultant to the Debtors. An official committee of unsecured creditors (the "Creditors' Committee") was appointed on July 14, 2008. The Creditors' Committee retained Perkins, Thompson, P.A. ("Perkins Thompson") as its counsel and Aurora Management Partners, Inc. as its financial advisor.

The Debtors filed their chapter 11 petitions with the intention of securing replacement financing and resuming their operations. With its current financing scheduled to expire, the Debtors filed with their first day motions a Motion for an Order Directing Joint Administration of the Debtors' Chapter 11 Cases (the "Motion for Joint Administration") and a Motion for an Order (A) Authorizing the Debtors to Obtain Post-Petition Financing, (B) Granting Post-Petition Senior Security Interests to Chittenden and Priority Administrative Expense Status Pursuant to Section 364(c) to Chittenden, (C) Modifying the Stay, (D) Authorizing the Use of Cash Collateral, (E) Granting Adequate Protection to Chittenden Pursuant to Sections 105, 361, and 363 of the Bankruptcy Code Including Replacement Liens and (F) Prescribing the Form and Manner of Notice for the Final Hearing (the "First DIP Motion"). The First DIP Motion was

[9] These allocations of claims between the Debtors are based on the Debtors' schedules. Some evidence suggests that most trade creditors were unaware that there were two debtors and believed that they were dealing with a single entity operating "the pulp mill."

subsequently granted and pursuant to interim orders issued by this Court on June 30, 2008 and July 10, 2008 and a final order issued by this Court on July 18, 2008 (the "DIP Orders"), the Debtors borrowed an additional $1,248,531 in debtor in possession financing from Chittenden (the "First DIP Financing"). The DIP Orders provided Chittenden with a senior priority lien in all of the Debtors' real and personal property in accordance with 11 U.S.C. § 364(d)(1).

Following entry of the final DIP Order, Chittenden assigned to Whitebox Red Shield, Inc. ("Whitebox") all of its rights and obligations under Chittenden's pre-petition and post-petition loans to the Debtors. As Chittenden's assignee, Whitebox enjoyed the full benefit of the terms in the applicable loan and security agreements, as well as certain adequate protection provisions contained in the order approving the First DIP Financing.

Throughout this period, the Debtors actively sought out lenders and investors who would be able to fully recapitalize the Debtors. The Debtors' efforts eventually resulted in a term sheet from Woodside Capital Partners IV, LLC ("WCP") for a $13.6 million replacement financing agreement, which such financing was conditioned upon, *inter alia*, WCP's ability to secure a participating lender. After confirming that WCP had in fact secured a participant[10], the Debtors filed a motion seeking approval of the proposed WCP loan on July 25, 2008. A hearing was scheduled on the motion for August 20, 2008.

However, WCP's original participant declined to go forward and WCP sought a replacement. In addition, delays were incurred in obtaining appraisals. WCP's difficulty in locating a replacement participant and the delays in obtaining valuations necessitated several continuances of the motion seeking approval of the replacement financing arrangement. In the interim, the Debtors were forced to seek additional DIP financing in order to continue idling their

[10] The Debtors had direct contact – in the context of due diligence – with the designated participant.

operations pending replacement financing.

On August 21, 2008, pursuant to the Debtors' motion seeking additional DIP Financing, the Court entered an order authorizing the Debtors to borrow up to $220,000 from Whitebox (the "Second DIP Financing"). The Court entered an interim order on September 2, 2008 and a final order on September 15, 2008 granting a subsequent motion seeking additional DIP Financing from Whitebox in the amount of $550,000 (the "Third DIP Financing").

Eventually it became clear that Woodside might not be able to close on the proposed financing in time. Moreover, at this point in time credit and other markets had begun to collapse. The Debtors, after conversations with the Creditors Committee, the United States Trustee's office, secured creditors and other interested parties, determined that the estates would best be served by an immediate sale of substantially all of the Debtors' assets under §363 of the Code so that what remained of going concern value would be preserved. Accordingly, on September 18, 2008, the Debtor filed its motions seeking authority to sell substantially all of its assets and approval of its bidding procedures.

In order to continue idling the facility during the sale process, the Debtors filed a fourth, and final, application for DIP financing on September 23, 2008, pursuant to which the Court entered interim and final orders on September 25, 2008 and October 10, 2008 authorizing the Debtors to borrow an additional $1.05 million from Whitebox (the "Fourth DIP Financing").

B. The Sale.

The Court approved the Debtors' bid procedures in an order dated September 24, 2008. The bid procedures established a bid deadline of October 20, 2008 at 5:00 p.m. and the public auction was scheduled to be held at BSSN's offices on October 22, 2008 at 10:00 a.m.

The Debtors received three qualified bids – as determined by the terms of the bid

procedures – and the auction commenced on October 22, 2008 with all three qualified bidders in attendance. Red Shield Acquisition, LLC ("RSA") prevailed with a winning bid of $18.875 million.

During the auction, and in the process of resolving objections raised with respect to the motion seeking approval of the sale of the Debtors' assets to RSA, the Debtors were able to resolve a number of significant issues. For instance, section 8.3 of the court-approved Asset Purchase Agreement (the "APA") eliminates the Debtors' liability for more than $2.3 million in claims by the Chip Suppliers, either through a mutual release of liabilities between the Debtors and the Chip Suppliers or through a make-whole provision which states that RSA will reimburse the Debtors for any amounts the Debtors distribute to the Chip Suppliers on account of claims or interests. If the Chip Suppliers do not release their claims, all causes of action against the Chip Suppliers remain viable assets of the Debtor's estate.

Moreover, the Debtors were able to negotiate a compromise with Boralex Athens Energy, Inc. ("Boralex") and Fort James Operating Company ("FJOC") with respect to certain use restrictions and non-compete covenants contained in a certain Asset Purchase Agreement and a certain Quitclaim Deed.

The Court approved the sale to RSA on October 23, 2008 and the sale closed soon thereafter. After amounts paid to Whitebox and FAME in full satisfaction of debts owed to those creditors, as well as payments for taxes and to a number of creditors asserting cure claims in accordance with the APA, the Debtors were left with $9,443,544 in net sale proceeds.[11] This amount has been further reduced by court approved payments for professional fees, a break up fee to Whitebox, payments on certain compromised and liquidated administrative and secured

[11] The closing statement from the sale is attached hereto as Exhibit B.

claims and reimbursements to the Debtors' managers. Pursuant to the Court's November 13, 2008 order, the remaining sale proceeds are currently being held in a Bank of America Money Market Account. That balance is just in excess of $7 million as of the date of this Disclosure Statement.

C. The Sullivan and Merritt Compromise.

Pre-petition, Sullivan and Merritt Constructors, Inc. ("Sullivan and Merritt") provided to the Debtors certain labor, materials, supplies and services in connection with the construction of buildings and other improvements on real property owned by Environmental. Sullivan and Merritt had not been fully compensated for these services and materials when the Debtors filed their chapter 11 petitions.

On June 25, 2008, Sullivan and Merritt recorded a notice of lien claim in the Penobscot County Registry of Deeds and, on June 27, 2008, filed a complaint in Penobscot Superior Court to perfect its lien.[12] Sullivan and Merritt subsequently filed a proof of claim asserting a claim in the amount of $420,453.04.

Following negotiations between the Creditors' Committee, the Debtors and Sullivan and Merritt, the Creditors' Committee and the Debtors agreed to allow Sullivan and Merritt a secured claim in the amount of $385,000. In exchange, Sullivan and Merritt agreed to waive all other claims and release the Debtors from any other liability.

The Court approved the settlement on January 14, 2009, and the $385,000 claim was paid out of the sale proceeds shortly thereafter.

D. The Preti Compromise.

In April of 2006, a group of investors interested in purchasing and operating the former

[12] Though the complaint was filed on the date the Debtors filed their petitions, Sullivan and Merritt obtained an order from this Court on July 31, 2008 retroactively granting Sullivan and Merritt relief from the automatic stay for the purpose of filing a complaint to perfect its lien.

Georgia Pacific mill located in Old Town, Maine retained Preti to assist with the acquisition of that mill and three other chip mills located across the State of Maine. With Preti's help, the investors formed Environmental, which such entity purchased the Old Town mill with the intention of converting the property into an industrial park powered by renewable energy. Preti also assisted with Environmental's purchase, and subsequent resale, of the three chip mills.

In connection with the acquisition of the Old Town mill, Preti counseled Environmental in, and assisted in the drafting of documents executed in connection with, a $7 million term loan extended to Environmental by Chittenden. Preti later provided Environmental with similar legal services in connection with a $1 million note extended to that Debtor by FAME.

In April of 2007, the Debtors contended that Preti was retained to form a second entity, Pulp, for the purpose of operating the pulp mill Environmental purchased from Georgia Pacific. Pursuant to the original operating documents drafted by Preti, Environmental is a majority shareholder in Pulp. At the time of Pulp's formation, the Debtors contended, Preti drafted the Operations Agreement, which carefully outlined any intercompany obligations by and between Environmental and Pulp. The Debtors further allege that Preti also served as Pulp's counsel in connection with a $1.5 million term loan and a $5 million revolving line of credit extended to Pulp by Chittenden. Preti asserted that Pulp was, at all relevant times, represented by other counsel.

A fee dispute subsequently arose between Preti and the Debtors and, on December 13, 2007, Preti commenced a civil action against Environmental and Pulp in the Cumberland County Superior Court. The complaint alleged that Environmental owed Preti $827,240.79 in outstanding legal fees and that Environmental's failure to pay that amount was attributable to transfers of property between Environmental and Pulp.

Originally, the Cumberland County Superior Court entered an order granting an e*x parte* attachment in favor of Preti in the amount of $827,240.79 but after the Debtors filed a motion to dissolve the attachment, the Court entered a second order reducing the amount of the attachment to approximately $667,000. The Debtors filed counterclaims against Preti for, *inter alia*, breach of fiduciary duty, negligent misrepresentation, malpractice and breach of contract, and also asserted claims against Buxton, Beliveau and Penobscot Energy Advisors.

The state court proceeding was in the discovery stages when the Debtors' chapter 11 petitions triggered the automatic stay on June 27, 2008. On September 25, 2008, the Debtors filed a Notice of Removal, removing the entire state court action to this Court and initiating Adversary Proceeding No. 08-01031.

Preti filed two proofs of claim – one in each bankruptcy case – based on its state court claims. Proof of Claim No. 113 asserted against Environmental a secured claim of $659,986.50 and an unsecured claim of $167,254.29. Proof of Claim No. 96 asserted against Pulp a secured claim of $659,986.50 and an unsecured claim of $1,821,735.87, plus attorney's fees.[13]

After extensive negotiations, Preti, the Creditors' Committee and the Debtors all agreed to allow Preti a secured claim of $515,000. Preti also received a release from the Debtors' with respect to their counterclaims. Preti likewise agreed to release the Debtors from any claims it might hold against Environmental and/or Pulp other than the agreed allowed secured claim. The difference between $659,986.50 and $515,000.00 represents a lien preserved for the benefit of the estate. The settlement, which was approved by the Court on February 24, 2009, avoids unnecessary litigation costs while substantially reducing Preti's potential claims against the estates. All of the Debtors' claims in the litigation against parties other than Preti are preserved.

[13] The claim against Pulp was based on an alleged fraudulent conveyance from Environmental to Pulp consisting of the leased property. Upon the commencement of the Chapter 11 cases, Preti ceased to have standing to assert this claim which the Debtors contended, in any event, was without merit.

E. The Union Compromise.

In connection with the sale of the Debtor's assets, the Debtors served a notice of cure claims procedures, along with a schedule of proposed cure amounts. Among the contracts referenced in the notice was the collective bargaining agreement ("CBA") with the United Steel, Paper and Forestry, Rubber, Manufacturing, Energy, Allied Industrial and Service Workers International Union, AFL-CIO, CLC (the "Union"). The Debtors scheduled the cure amount with respect to the CBA at $0.00.

In response to the notice of cure claims procedures, the Union filed an objection. The Union alleged in its objection [D.E. #413] that the amount of accrued, unpaid vacation obligations to Union-represented employees was $490,115.56, and alleged that there were other obligations for "unpaid floating holidays and other fringe benefits accrued but not yet paid to these employees." The Union further stated, in the same objection, the following:

> In the event that the Purchaser unequivocally agrees that it will comply with all obligations under the CBA, including obligations resulting from accrued seniority, benefits, or other events preceding the Closing Date, the Union will accept the proposed cure amount of $0.00. Otherwise, the cure amount must reflect the obligations under the CBA.

The Union also filed a proof of claim [Claim # 119] against the estates in the amount of $497,620.24.

At the sale hearing, the issue of the nature and extent of RSA's assumption of liabilities arising out of the CBA was the subject of an exchange between counsel to RSA and counsel to the Union. (See Transcript of the Hearing held on October 23, 2008).

Subsequent to the closing of the sale, a dispute emerged between RSA and the Union over vacation pay, which threatened to spill over into claims against the bankruptcy estates and/or litigation to rescind the sale. The Union claimed that RSA had assumed, when it assumed the

CBA, liability for over $1.2 million in accrued vacation pay and other benefits, consisting of the over $497,000 in prepetition amounts and more than that amount accruing post-petition and pre-closing. However, RSA claimed that no pre-closing amount had been assumed, relying on the Union's objection to the notice of cure amounts saying that the cure amount on the CBA was about $490,000, but that, upon assumption of the CBA, the union would agree to a "zero cure amount." The sale order in fact calls for a cure amount of $0.00 for the CBA.

In response to the Union's claims, RSA asserted that if it owed the $1.2 million in vacation pay and other benefits, the disclosures made in connection with the sale were inadequate and that it could recoup such amounts as it paid from the estates or perhaps even rescind the sale. The estates, through the Debtors and the Creditors' Committee, denied that a basis existed for estate liability for any such amounts, or for rescission.

Following extensive negotiations, the parties reached a pragmatic compromise. The Union class claim [Claim #119] for accrued pre-closing vacation pay and benefits was capped at $375,000, and would be allowed as an unsecured claim (with no priority) as against the Debtors' estates. RSA agreed to immediately fund the difference between that allowed amount and the $230,000 RSA previously paid. The individual vacation pay accounts of each employee are to be adjusted to 75% of the alleged accrued amount as reflected in the exhibits to the union class proof of claim [Claim #119]; any employee already paid 100% will have a negative balance which will be cleared as additional vacation pay accrues. The Union agreed to assign its claim to RSA (which cannot assign it to anyone else). If RSA gets a waiver of the Chip Supplier claims referenced in the Asset Purchase Agreement with the Debtors (the "APA"), then RSA will receive a distribution on the assigned, unsecured Union claim. If not, and RSA owes the estates the "make whole" amount representing the distribution on the $2.3 million in Chip Supplier

claims as set forth in the APA, any distribution on the assigned Union claim will be set off and RSA will pay the balance of the make whole to the extent provided by the APA. All other pre-closing claims of the union (including the balance of the alleged $1.2 million in benefits claims) will be forever waived and released as against the estates and RSA.

While the Debtors and the Creditors' Committee did not believe that claims could be successfully asserted against the estates, any litigation arising out of the vacation pay claims would have been expensive and time-consuming. Moreover, ambiguities existed with respect to the parties' respective intentions regarding pre-closing vacation and benefits accruals. Litigation over the issue would have delayed any distribution to unsecured creditors and, however remote the prospect, a loss of the litigation by the estates would have resulted in a net loss of up to $1.2 million in distributable funds to other creditor groups. Under the compromise, the estate will, at worst, distribute a *pro rata* amount to a general unsecured claim of $375,000. This outcome also promotes fairness to the currently-unemployed workers at the Debtors' former pulp plant, as a separate constituency of the estates. The Debtors intend to file a motion to approve this compromise prior to the hearing on confirmation of the Plan.

VI. Assets and Liabilities as of the Plan Filing Date

As of the date of the filing of the Plan, the Debtors' principal assets consist of the approximately $7 million in remaining net sale proceeds currently held in the Bank of America money market account. For the purpose of this Plan, the claims against the Debtors and not yet paid are estimated to be as follows (amounts rounded or approximate):

Secured Claims[14]

CES, Inc.	$84,973.27

[14] As noted in the Treatment of Claims and Interests section of Article VII, *infra*, most of these claims have been settled for reduced amounts.

Foresight Engineering, P.C.	$5,000.00
PSC Industrial Outsourcing, L.P.	$38,825.92
St. Germain & Associates, Inc.	$21,405.93
Thornton Construction, Inc.	$36,921.65
Zampell Refractories, Inc.	$96,172.99
Global Metal Fabrication, LLC	$25,273.73
A.H. Lundberg Associates, Inc.	$157,012.22
Wilcox Electric, Inc.	$12,864.00
PSC Industrial Outsourcing, Inc.	$103,976.29
Foresight Engineering P.C.	$121,251.40

Administrative Claims (*Excluding* Professional Fees and Fees Payable to the United States Trustee)[15]

Manager Salary Claims	$20,000.00[16]
Unsecured Claims	$8,831,582.00[17]

These amounts do not include administrative claims of the Debtors' professionals or the Creditors' Committee's professionals. Such claims are estimated to be up to $500,000 at the date of confirmation of the Plan, but could exceed that estimate.

VII. Plan of Reorganization

The following constitute material provisions of the Plan. The following terms when used in the Plan shall, unless the context otherwise requires, have the following respective meanings:

1.1 "Administrative Claims Reserve" shall mean an amount not less than Four Hundred Thousand Dollars ($400,000) set aside and held in escrow by the Disbursing Agent to pay Allowed Administrative Expense Claims for Professional Fees and UST Fees and any court costs payable to the Bankruptcy Court.

1.2 "Administrative Expense" shall mean an expense of the kind described in Section

[15] Other administrative claims are estimated to be in the range of $400,000 to $500,000.
[16] This amount reflects prior Court-approved payments of $140,000 to the managers and the managers' agreement to reduce their asserted post-petition claims against Pulp to $80,000 collectively, and have that amount treated as general unsecured claims under the Plan.
[17] This total assumes that the Chip Suppliers claims are waived and that certain other claims filed against the Debtors, and to which the Debtors will object, are disallowed. This amount also excludes intercompany claims.

503(b) of the Code.

1.3 "Allowed Amount" of a Claim or expense shall mean, for the purposes of this Plan, (a) the amount of the Claim scheduled by the Debtors if (i) the Claim is not scheduled as disputed, contingent or unliquidated by the Debtors, (ii) no objection to that amount is filed by the Claims Objection Date, and (iii) the holder of the Claim has not timely filed a properly prepared proof of claim in an amount different than that scheduled by the Debtors; (b) the amount set forth by the holder of a Claim in a timely filed and properly prepared proof of claim if that amount differs from the amount scheduled by the Debtors and no objection to the amount stated in the proof of claim is filed by the Claims Objection Date; or (c) the amount of such Claim established by a Final Order of the Bankruptcy Court if (i) such Claim is scheduled by the Debtors as contingent or disputed, (ii) an objection to that amount is filed on or before the Claims Objection Date, or (iii) if the amount set forth by the holder of such Claim in a timely filed, properly prepared proof of claim differs from the amount scheduled by the Debtors and an objection is filed to the proof of claim on or before the Claims Objection Date.

1.4 "Allowed" shall mean, with respect to any Claim, the status of the Claim, such that (a) upon expiration of the Claims Objection Date, the Claim, whether filed or scheduled, has not been disputed or (b) with respect to disputed Claims, a Final Order allowing the Claim has been entered.

1.5 "Allowed Secured Claim" shall mean an Allowed Claim arising on or before the Filing Date that is secured by a valid Lien on property of the Debtors which is not void or avoidable under any state or federal law, including any provision of the Code.

1.6 "APA" shall mean the Asset Purchase Agreement dated as of October 22, 2008 by and among the Debtors and RSA.

1.7 "Asset Sale" shall mean the RSA Sale.

1.8 "Asset Sale Proceeds" shall mean the proceeds of the Asset Sale.

1.9 "Bankruptcy Court" shall mean the United States Bankruptcy Court, District of Maine.

1.10 "Bank of America Account" shall mean the depository account for the Estates opened pursuant to the Bankruptcy Court order dated November 13, 2008.

1.11 "Bar Date" shall mean November 3, 2008, the date established by the Bankruptcy Court as the deadline for creditors to file proofs of claim.

1.12 "Case" or "Chapter 11 Case" shall mean the Debtors' jointly administered Chapter 11 cases.

1.13 "Chip Suppliers" shall mean Costigan Chip, LLC, Milo Chip, LLC, William T. Gardner & Sons, Inc. and their respective affiliates including, without limitation, Gardner RSE, LLC, J Carrier RSE LLC, and R. Carrier RSE LLC.

1.14 "Chip Suppliers Causes of Action" shall mean any and all causes of action of the Debtors or the Estates, or any of them, against any and/or all of the Chip Suppliers.

1.15 "Chip Suppliers Release Agreement" shall mean the provisions of section 8.3 of the APA under which the Debtors and the Estates agreed to provide a release of the Chip Suppliers Causes of Action in exchange for a waiver by the Chip Suppliers of all cure costs, all Claims against the Debtors and the Estates and a cancellation of all Equity Interests in the Debtors held by the Chip Suppliers.

1.16 "Chittenden" shall mean Chittenden Trust Company d/b/a Chittenden Bank.

1.17 "Chittenden Operating Account" shall mean the Debtor's depository and operating checking account at Chittenden.

1.18 "Claim" shall have the meaning set forth in Section 101(5) of the Code and shall include, without limitation, all rights to payment from the Debtors.

1.19 "Claims Objection Date" shall mean the date that is ninety (90) days from the last to occur of: (a) the Bar Date, or (b) with respect to a specified Claim for which a creditor is allowed to file a proof of claim after the Bar Date, twenty (20) days after the date on which such proof of claim is filed, or (c) the Confirmation Date. The failure to object to a Claim by the Claims Objection Date shall not constitute a waiver, acceptance or release of any claim or cause of action against a creditor, including causes of action based on a creditor receiving preferential or fraudulent transfers under Section 547 or Section 548 of the Code.

1.20 "Closing Statement" shall mean the final closing statement with respect to the Asset Sale.

1.21 Common Interests" shall refer to Class B membership interests in Environmental pursuant to the Environmental Operating Agreement, and the common unit membership interests in Pulp pursuant to the Pulp Operating Agreement.

1.22 "Confirmation Date" shall mean the date on which the Bankruptcy Court Order confirming this Plan, as the same may be amended, becomes a Final Order.

1.23 "Confirmation Hearing" shall mean the hearing held by the Bankruptcy Court to consider confirmation of the Plan, as the same may be amended, and as contemplated by Code § 1128(a).

1.24 "Confirmation Order" shall mean the Final Order entered by the Bankruptcy Court confirming this Plan pursuant to Code § 1129.

1.25 "Creditors' Committee" shall mean the Official Committee of Creditors Holding Unsecured Claims appointed in the Case.

1.26 "Disbursing Agent" shall mean the person or entity appointed pursuant to Article V of this Plan.

1.27 "Disclosure Statement" shall mean that certain disclosure statement filed by the Debtors in respect of the Plan and approved as containing adequate information pursuant to a Final Order of the Bankruptcy Court.

1.28 "Effective Date" shall mean the date that is thirty (30) days after the Confirmation Date, provided that all the conditions set forth in Article XI of the Plan have been satisfied. If an order staying confirmation of the Plan has been entered, the Effective Date shall mean the earlier of the first business day following the date upon which (a) the order confirming the Plan has become a Final Order or (b) any stay of confirmation of the Plan is no longer effective, provided that such business day is more than thirty (30) days after the Confirmation Date.

1.29 "Environmental Managers" shall mean Edward Paslawski, Bert Martin, Jody Flynn and Ron Popolizio.

1.30 "Environmental Managers Administrative Claims" shall mean any and all Claims of the Environmental Managers arising after the Filing Date, including without limitation those Claims arising under the Environmental Operating Agreement after the Filing Date and not paid pursuant to the Manager Payments.

1.31 "Environmental Operating Agreement" shall mean the First Amended and Restated Operating Agreement for Environmental dated as of March 1, 2007.

1.32 "Estate" shall mean the substantively consolidated bankruptcy estates of the Debtors, as each was created in the Case pursuant to § 541 of the Code, including as such Estate may be continued or preserved under this Plan.

1.33 "Exculpated Party" means any of the Debtors, the Disbursing Agent, the Liquidating Trustee, the Estates, the Liquidating Trust, the Creditors' Committee, each of the members of the Creditors' Committee, and their respective officers, directors, employees, managers, and professionals retained after the Filing Date and approved by the Bankruptcy Court, each in their respective capacities.

1.34 "FAME" shall mean Finance Authority of Maine.

1.35 "Filing Date" shall mean June 27, 2008.

1.36 "Final Order" shall mean an order of a court of competent jurisdiction with respect to which all periods for taking appeal from such order or any order of an appellate court relating to such order have expired with no appeal pending and no stay of such order being then in effect.

1.37 "Holder" shall mean a creditor holding, including by assignment, a Claim against the Estate.

1.38 "Inter-Debtor Lease" shall mean the Lease Agreement dated as of April 1, 2007 by and between the Debtors with respect to the premises located at 24 Portland Street, Old Town, Maine.

1.39 "Lien" shall mean any mortgage, lien, claim, interest, encumbrance, security interest, restriction, charge or assessment, of every kind, nature and description, against, in or upon property, whether recorded or unrecorded, fixed or contingent, perfected or unperfected, possessory or non-possessory, known or unknown, and, without limiting the foregoing, shall include the meaning set forth in § 101(37) of the Code.

1.40 "Liquidating Trust Assets" shall have the meaning assigned to such term in Section 5.10 hereof.

1.41 "Make Whole Agreement" shall mean the provisions of section 8.3 of the APA under which RSA shall pay to the Debtors the amount otherwise to be distributed to the Chip Suppliers under this Plan to the extent RSA does not obtain the Chip Suppliers signatures and agreement with respect to the Chip Suppliers Release Agreement and/or a written agreement embodying same satisfactory to the Debtors and the Creditors' Committee.

1.42 "Make Whole Payment" shall mean the payment by RSA to the Estates under the Make Whole Agreement.

1.43 "Management Agreement" shall mean the Operations Management Agreement by and between the Debtors dated April 1, 2007.

1.44 "Manager Payments" shall mean the payments made to the Environmental Managers and the Pulp Managers pursuant to the Bankruptcy Court's order dated January 12, 2009.

1.45 "Managers" shall mean the Environmental Managers and the Pulp Managers.

1.46 "Plan Cash" shall mean the amount determined by (a) adding (i) the net cash paid to the Sellers shown on the Closing Statement; (ii) the deposit paid by RSA under the APA; (iii) the balance contained in the IOLTA account of Debtors' counsel on behalf of the Debtors (including hold back amounts) as of the Effective Date; (iv) the Make Whole Payment, if any; and (v) the proceeds of the Liquidating Trust Assets and then (b) subtracting (i) the Whitebox Break-up Fee; (ii) amounts previously paid from the Bank of America Account for Professional Fees and Expenses and UST Fees; (iii) the Woodside Payment; (iv) the Woodside Fee Reimbursement; (v) the Preti Payment; (vi) the Sullivan & Merritt Payment; (vii) taxes paid as part of the proration for the Asset Sale as shown on the Closing Statement; (viii) the Managers Payments; (ix) the Administrative Claims Reserve; (x) any other amounts paid pursuant to prior

orders of the Court; and (xi) any amounts required to pay the fees of the Disbursing Agent or Trustee and the Disbursing Agent's or Trustee's professionals (or to provide a reasonable reserve therefor) and not paid from the Administrative Claims Reserve.

1.47 "Post-Confirmation Causes of Action" shall mean (a) any and all causes of action other than the Residual Assets belonging to the Debtors or the Estate, whether arising before or after the Filing Date and whether arising under state or federal law, constituting causes of action under Code §§ 544 – 553 (including any state fraudulent conveyance statute by virtue of §544) and (b) any and all proceeds, whether in the form of cash or otherwise, from any recoveries on or settlements of such causes of action.

1.48 "Preferred Interests" shall refer to Class A membership interests in Environmental pursuant to the Environmental Operating Agreement, and the Class A or preferred units in Pulp pursuant to the Pulp Operating Agreement.

1.49 "Preti" shall mean Preti, Flaherty, Beliveau & Pachios, LLP.

1.50 "Preti Claims" shall mean any and all claims of Preti, whether Administrative, Priority, Secured or Unsecured Claims.

1.51 "Preti Payment" shall mean the amounts paid pursuant to the Preti settlement in full and complete satisfaction of the Preti Claims.

1.52 "Preti Preserved Lien" shall mean the lien preserved for the benefit of the Estate pursuant to the Preti Settlement.

1.53 "Preti Settlement" shall mean the compromise evidenced by, and as set forth in, that certain Compromise and Settlement Agreement by and among Preti, the Debtors and the Creditors' Committee and attached to the motion seeking approval of same dated February 4, 2009, as the Court approved by Order dated February 24, 2009.

1.54 "Priority Claim" means an Allowed Unsecured Claim granted a priority under §507 of the Code.

1.55 "Pro Rata" means proportionate, so that, for example, the ratio of the consideration distributed on account of an Allowed Claim to the amount of the Allowed Claim is the same as the ratio of the consideration distributed on account of all Allowed Claims in such class of Claims to the amount of all Allowed Claims in the class.

1.56 "Professional Fees and Expenses" shall mean Allowed Administrative Claims of the professionals hired by the Debtors and the Creditors' Committee.

1.57 "Protected Party" means any of the Debtors, the Disbursing Agent, the Liquidating Trustee, the Estates, and the Liquidating Trust, each in their respective capacities.

1.58 "Pulp Managers" shall mean Edward Paslawski, Bert Martin, Jody Flynn and Ron Popolizio.

1.59 "Pulp Managers Administrative Claims" shall mean any and all Claims of the Pulp Managers arising after the Filing Date, including without limitation those Claims arising under the Pulp Operating Agreement pursuant to the Manager Payments.

1.60 "Pulp Operating Agreement" shall mean the Operating Agreement for Pulp dated as of April 1, 2007.

1.61 "Reclamation Claims" shall include the amount owed to any person or entity under section 503(b)(9) of the Code or to the extent: (a) such person or entity timely and properly reclaimed, or timely and properly asserted a right to reclaim, goods pursuant to § 546(c) of the Code, (b) such right to reclaim has not been satisfied and/or extinguished as of the Effective Date, and (c) the amount of such Reclamation Claim has been Allowed and liquidated by the Bankruptcy Court and determined by the Bankruptcy Court to have a priority superior to

Allowed Unsecured Claims and Allowed Priority Claims under this Plan.

1.62 "Residual Assets" shall mean all unencumbered assets, if any, belonging to the Debtors and not sold in the Asset Sale, other than claims against the Managers and Post-Confirmation Causes of Action, and including, without limitation the Chip Suppliers Causes of Action and any other causes of action of the Debtors on the Estates not previously released or released pursuant to the Plan, all of which causes of action are preserved under the Plan (including any causes of action against Anthony Buxton, Severin Beliveau or Penobscot Energy Advisors, LLC or any affiliate).

1.63 "RSA" shall mean Red Shield Acquisition LLC, the buyer in the Asset Sale.

1.64 "RSA-Union Settlement" shall mean the settlement reached by and among RSA, the Union, the Debtors and the Creditors' Committee with respect to the Claims for Vacation Pay by members of the Union.

1.65 "RSA Sale" shall mean that certain sale, pursuant to the Sale Order, of substantially all of the Debtors' assets to RSA such sale having been consummated on November 3, 2008, subject to the terms of the APA including, without limitation, the Chip Suppliers Release Agreement and the Make Whole Agreement.

1.66 "Sale Order" shall mean that certain Order Pursuant to 11 U.S.C. §§105, 363 and 365 Granting Debtor's Motion for Sale of Substantially All of their Assets to Red Shield Acquisition LLC Free and Clear of Liens, Claims and Encumbrances and For Approval of Assumption and Assignment of Certain Leases and Executory Contracts entered by the Bankruptcy Court in the Case on or about October 23, 2008.

1.67 "Secured Claim" shall mean a Claim that is secured by a valid Lien on property of the Debtors which is not void or avoidable under any state or federal law, including any

provision of the Code.

1.68 "Substantial Consummation" shall have the meaning assigned to such term in § 1101(2) of the Code.

1.69 "Sullivan & Merritt Claim" shall mean the Secured Claim of Sullivan & Merritt Constructors, Inc. as Allowed by the Court's Order dated January 14, 2009.

1.70 "Sullivan & Merritt Payment" shall mean the payment made to Sullivan & Merritt Constructors, Inc. in full and final satisfaction of the Sullivan & Merritt Claim as provided in the Court's Order dated January 14, 2009.

1.71 "Trust" or "Liquidating Trust" shall mean that certain liquidating trust described in Section 5.10 of this Plan and formed pursuant to the Trust Agreement.

1.72 "Trust Agreement" shall mean the trust agreement forming the Trust and satisfactory in form and context to the Debtors and the Creditors' Committee.

1.73 "Trustee" or "Liquidating Trustee" shall mean the initially appointed trustee(s) of the Trust, and shall include any successor trustee(s) appointed in accordance with the Trust Agreement.

1.74 "Unclassified Claims" shall have the meaning assigned to such term in Article II of this Plan.

1.75 "Union" shall mean United Steel, Paper and Forestry, Rubber, Manufacturing, Energy, Allied Industrial and Service Workers International Union, AFL-CIO, CLC.

1.76 "Unsecured Claim" shall mean a Claim that is (a) not an Unclassified Claim and (b) not secured by a valid Lien on property of the Debtors which is not void or avoidable under any state or federal law, including any provision of the Code.

1.77 "UST Fees" shall mean the quarterly fees paid and payable to the United States

Trustee.

1.78 "Vacation Pay Claims" shall mean Claims for accrued, pre-petition vacation pay held by current or former employees of any of the Debtors.

1.79 "Whitebox" shall mean Whitebox Red Shield Inc.

1.80 "Whitebox Break Up-Fee" shall mean the $600,000 break-up fee paid to Whitebox.

1.81 "Woodside Fee Reimbursement" shall mean the $65,000 portion of the Manager Payments representing reimbursement of the Managers for amounts paid to Woodside Capital Partners IV, LLC for an expense retainer.

1.82 "Woodside Payment" shall mean the payment made to Woodside Capital Partners IV, LLC pursuant to the Court's Order dated January 12, 2009.

Terms not defined in this Article I or otherwise defined in the Plan, but defined in the Bankruptcy Code, shall have the respective meanings assigned to such terms in the Bankruptcy Code, unless the context unequivocally otherwise requires.

Classification of Claims and Interests

Each holder of (a) a Claim against the Debtors of whatever nature, whether or not scheduled and whether unliquidated, absolute or contingent, including all claims arising from the rejection of leases and executory contracts, or (b) any interest in the Debtors or any of them, shall be bound by the provisions of the Plan, and all such Claims and interests are hereby classified as follows:

Unclassified Claims shall consist of (a) all Claims for the actual and necessary costs and expenses of administration of the Estate entitled to priority in accordance with §§ 507(a)(1) and 503(b) and 507(a)(8) of the Code, including, without limitation, claims for Professional Fees and

Expenses, Reclamation Claims (to the extent allowed as administrative expense claims), the Environmental Managers Administrative Claims for management fees from July to October, 2008 not to exceed $160,000 in the aggregate (and to the extent not paid by the Manager Payment) and fees payable pursuant to 28 U.S.C. § 1930, but not including the Pulp Managers Administrative Claims which shall be allowed in the aggregate amount of $80,000 and shall constitute Allowed Claims in Class 15 (General Unsecured Claims).

2.1 Class 1 shall consist of all Allowed Secured Claims held by Whitebox, including, without limitation, as the successor in interest to Chittenden.

2.2 Class 2 shall consist of all Allowed Secured Claims held by FAME.

2.2(a) Class 2(a) shall consist of all Allowed Secured Claims held by Old Town Water District and City of Old Town.

2.3 Class 3 shall consist of the Preti Claims.

2.4 Class 4 shall consist of the Allowed Secured Claims, if any of CES.

2.5 Class 5 shall consist of the Allowed Secured Claims, if any, of Foresight Engineering PC.

2.6 Class 6 shall consist of the Sullivan & Merritt Claim.

2.7 Class 7 shall consist of the Allowed Secured Claim, if any, of PSC Industrial Outsourcing, L.P.

2.8 Class 8 shall consist of the Allowed Secured Claim, if any, of St. Germain & Associates, Inc.

2.9 Class 9 shall consist of the Allowed Secured Claim, if any, of Thornton Construction, Inc.

2.10 Class 10 shall consist of the Allowed Secured Claim, if any of Zampell

Refractories, Inc.

2.11 Class 11 shall consist of the Allowed Secured Claim, if any, of Global Metal Fabrication, LLC.

2.12 Class 12 shall consist of the Allowed Secured Claim, if any, of A.H. Lundberg Associates, Inc.

2.13 Class 13 shall consist of the Allowed Secured Claim, if any, of Wilcox Electric, Inc.

2.14 Class 14 shall consist of all Priority Claims, if any, entitled to priority pursuant to §§ 507(a)(3) and/or (a)(4) of the Code, including, without limitation, Vacation Pay Claims.

2.15 Class 15 shall consist of all Unsecured Claims not otherwise classified under this Plan, but shall not include any Unclassified Claims.

2.16 Class 16 shall consist of the Preferred Interests.

2.17 Class 17 shall consist of the Common Interests.

Treatment of The Claims and Interests By Classes

All Claims against the Debtors and Interests in the Debtors as finally Allowed by the Bankruptcy Court, are fully and finally satisfied in accordance with the provisions of this Plan.

Unclassified Claims against the Debtors are unimpaired. Unclassified Claims shall be paid in full on the later of (a) Effective Date, or (b) the date on which each such claim becomes an Allowed Claim, or alternatively, in accordance with such terms as may be agreed upon by the Debtors and each such holder of an Unclassified Claim, provided, however, that by agreement all Pulp Manager Administrative Claims (in the Allowed Amount of $80,000 in the aggregate) shall be treated as Class 15 Claims.

A. Professionals Fees and Expenses and United States Trustee Fees. Any Allowed

Unclassified Claim based on either (i) an interim or final award of compensation for services or reimbursement of expenses pursuant to Sections 330 or 331 of the Code or (ii) the obligation to pay fees under 28 U.S.C. § 1930(6) shall be paid in full (to the extent of the Allowed Amount of such Unclassified Claim) by the Debtors, and all such payments shall be funded from the Asset Sale Proceeds.

B. Claims Pursuant to Section 507(a)(8). Allowed Claims pursuant to Section 507(a)(8) of the Bankruptcy Code shall be satisfied by a payment in cash equal to the Allowed Amount of such Claims from Plan Cash.

Treatment of Claims and Interests

3.1 Class 1 Claims are unimpaired. Class 1 claims were paid in full from the Asset Sale Proceeds.

3.2 Class 2 Claims are unimpaired. Class 2 claims have been paid in full from the Asset Sale Proceeds.

3.2(a) Class 2(a) Claims are impaired. To the extent the Class 2(a) claims are Allowed Secured Claims such claims shall be paid in full, without interest, from Plan Cash. To the extent such claims are not Allowed Secured Claims they shall be treated as Class 15 Claims.

3.3 Class 3 Claims are unimpaired. The Preti claims have been paid in full, pursuant to the Preti Settlement, as a consequence of the Preti Payment.

3.4 Class 4 Claims are impaired. The Class 4 claim shall be paid in accordance with the Court's order dated April 14, 2009.

3.5 Class 5 Claims are impaired. To the extent the Class 5 claim is an Allowed Secured Claim such claim shall be paid in full, without interest, from Plan Cash. To the extent such claim is not an Allowed Secured Claim it shall be treated as a Class 15 Claim.

3.6 Class 6 Claims are unimpaired. The Class 6 claim was paid in full as a consequence of the Sullivan & Merritt Payment.

3.7 Class 7 Claims are impaired. The Class 7 claim shall be paid in accordance with the Court's order dated April 10, 2009.

3.8 Class 8 Claims are impaired. The Class 8 claim shall be paid in accordance with the Court's order dated April 21, 2009.

3.9 Class 9 Claims are impaired. To the extent the Class 9 claim is an Allowed Secured Claim such claim shall be paid in full, without interest, from Plan Cash. To the extent such claim is not an Allowed Secured Claim it shall be treated as a Class 15 Claim.

3.10 Class 10 Claims are impaired. The Class 10 claim shall be paid in accordance with the Court's order dated April 10, 2009.

3.11 Class 11 Claims are impaired. The Class 11 claim shall be paid in accordance with the Court's order dated April 17, 2009.

3.12 Class 12 Claims are impaired. To the extent the Class 12 claim is an Allowed Secured Claim such claim shall be paid in full, without interest, from Plan Cash. To the extent such claim is not an Allowed Secured Claim it shall be treated as a Class 15 Claim.

3.13 Class 13 Claims are impaired. The Class 13 claim shall be paid in accordance with the Court's order dated April 9, 2009.

3.14 Class 14 Claims are impaired. Class 14 claims will be paid in full, without interest, from Plan Cash, provided, however, that Vacation Pay Claims shall be satisfied in accordance with the RSA-Union/ Settlement. Non-union employee vacation pay claims shall be paid in accordance with the motion compromising the same pursuant to Fed. R. Bankr. P. 9019 and filed by the Debtors and the Creditors' Committee on April 17, 2009.

3.15 Class 15 Claims are impaired. Class 15 claims shall be paid pro rata from Plan Cash until paid in full or to the extent of all Plan Cash, without interest.

3.16 Class 16 Interests are impaired. Class 16 interests shall receive the balance of Plan Cash, if any, after payment in full of Classes 1 through 15 inclusive, until paid in full in accordance with the terms of the Environmental Operating Agreement and the Pulp Operating Agreement. Class 16 interests shall also receive a payment equal to the value of the Preti Preserved Lien. Class 16 interests shall be cancelled after the completion of payments under the Plan.

3.17 Class 17 Interests are impaired. Class 17 interests shall receive the balance of Plan Cash, if any, after payment in full of Classes 1 through 16 inclusive, until paid in full in accordance with the terms of the Environmental Operating Agreement and the Pulp Operating Agreement. Class 17 interests shall be cancelled after the completion of payments under this Plan. Class 17 interests are expected to take nothing and receive no payments under the Plan.

Interests to be Retained and Rights to be Exercised by the Debtors and the Liquidating Trustee

4.1 Preservation of All Causes of Action. Except as otherwise provided in the Plan or in any contract, instrument, release or agreement entered into in connection with the Plan, in accordance with section 1123(b) of the Bankruptcy Code, the Debtors and the Estate retain and preserve and the Liquidating Trustee shall be vested with, retain, and may enforce and prosecute any claims or Causes of Action that the Debtors or the Estate may have against any Person or entity that constitute Residual Assets or Post-Confirmation Causes of Action. The Liquidating Trustee shall have standing as a representative of the Debtors' respective estates and the Estate for the purposes of investigating, pursuing, prosecuting, settling, collecting, liquidating, and/or recovering any assets, claims or causes of action that either of the Debtors, their respective

estates or the Estate could have pursued that constitute Residual Assets or Post-Confirmation Causes of Action.

4.2 Successors. The Liquidating Trust shall be the successor to the Debtors for the purposes of sections 1123, 1129, and 1145 of the Bankruptcy Code and with respect to all Post-Confirmation Causes of Action and Residual Assets.

Provisions Affecting All Creditors; Means of Execution of the Plan

5.1 Substantive Consolidation; Funding of Plan; Disbursing Agent.

(a) Pursuant to the Plan and §§ 105(a) and 1123(a)(5)(C) of the Code, on the Effective Date, the Debtors' respective bankruptcy estates shall be substantively consolidated into a single estate for all purposes related to the Plan, including, without limitation, the collection and/or liquidation of any of the Debtors' properties or assets and the distribution of any proceeds thereof, or of any other amounts, to creditors under the Plan. The substantive consolidation of the Debtors' estates shall have the following effects: (i) all assets and liabilities of the Debtors and the Debtors' estates shall be treated as though they were merged for the purposes of distribution under the Plan; (ii) all prepetition and post-petition cross-corporate guarantees of the Debtors shall be eliminated; (iii) all Claims based upon guarantees of collection, payment or performance made by one or both Debtors as to the obligations of the other Debtor or of any other person shall be discharged, released, and of no further force and effect; (iv) any obligation of either Debtor and all guarantees thereof executed by one or both of the Debtors shall be deemed to be one obligation of the Estate; (v) any Claims filed or to be filed in connection with any such obligation and such guarantees shall be deemed one Claim against the Estate; and (vi) each and every claim filed in the individual Chapter 11 case of either of the Debtors shall be deemed filed against the consolidated Estate in the consolidated Chapter 11

Case and shall be deemed a single obligation of the Estate under the Plan on and after the Confirmation Date. In connection with, and as a result of, the substantive consolidation of the Debtors' estates and the Chapter 11 cases as provided in the Plan, on the occurrence of the Effective Date, all inter-company Claims shall be released, and the Holders of inter-company Claims shall be entitled to, and shall not receive or retain any property or any interest in property on account of such Claims. The substantive consolidation provided for herein shall not, other than for the purposes related to the Plan set forth herein, affect any of the legal and corporate structures of the Debtors, the Interests held by non-Debtors, and any obligations under any executory contracts or unexpired leases assumed in the Plan or otherwise in the Chapter 11 Case. The Plan shall serve as a motion seeking entry of an order substantively consolidating the Debtors' estates as provided herein.

(b) The Plan shall be funded from the Plan Cash.

(c) John Thibodeau, Windsor Associates, is hereby appointed as Disbursing Agent for all purposes under the Plan. Counsel for the Debtors shall represent the Disbursing Agent and expenses of the Disbursing Agent and such counsel, on and after the Effective Date, shall be paid from the Administrative Expense Reserve and, if necessary, Plan Cash. The Disbursing Agent shall, where provided in this Plan, receive and hold the Administrative Claims Reserve, Plan Cash (but excluding the Liquidating Trust Assets) for the purpose of making disbursements thereof to holders of Administrative Expense Claims and Allowed Claims and for the purpose, where provided in this Plan, of holding such funds in reserve for subsequent disbursements.

5.2 Manner of Distribution**.** At the option of the Disbursing Agent, any distributions under the Plan may be made either in cash, by check drawn on a domestic bank or by wire transfer. Notwithstanding any other provisions of the Plan to the contrary, no payment of

fractional cents will be made under the Plan. Cash will be issued to Holders entitled to receive a distribution of cash in whole cents (rounded to the nearest whole cent when and as necessary).

5.3 De Minimis Distributions. "De Minimus Distributions" shall refer to any distribution of less than Ten Dollars ($10.00). All De Minimis Distributions will be held by the Disbursing Agent for the benefit of the Holders of Allowed Claims entitled to De Minimis Distributions. When the aggregate amount of De Minimis Distributions held by the Disbursing Agent for the benefit of a Creditor exceeds $50.00, the Disbursing Agent will distribute such De Minimis Distributions to such Creditor. If, at the time that the final distribution under the Plan is to be made, the De Minimis Distributions held by the Disbursing Agent for the benefit of a Creditor total less than $50.00, such funds shall not be distributed to such Creditor, but rather, shall vest in the Disbursing Agent and be distributed to other Holders of Allowed Claims in accordance with the terms of the Plan.

5.4 Delivery of Distributions. Except as otherwise provided in this Plan, distributions to Holders of Allowed Claims shall be made by the Debtors, if on the Effective Date, or the Disbursing Agent, if after the Effective Date, (i) at the addresses set forth on the Proofs of Claim filed by such Holders (or at the last known addresses of such Holder if no motion requesting payment or Proof of Claim is filed or the Debtors or the Disbursing Agent have been notified in writing of a change of address), (ii) at the addresses set forth in any written notices of address changes delivered to the Disbursing Agent after the date of any related proof of claim, or (iii) at the addresses reflected in the Schedules if no proof of claim has been filed and the Disbursing Agent has not received a written notice of a change of address.

5.5 Undeliverable Distributions. If payment or distribution to any Holder of an Allowed Claim under the Plan is returned for lack of a current address for the Holder or otherwise, the Disbursing Agent shall file with the Bankruptcy Court the name, if known, and last known address of the Holder and the reason for its inability to make payment. If, after the passage of ninety (90) days, the payment or distribution still cannot be made, the payment or distribution and any further payment or distribution to the holder shall be distributed to the

Holders in the appropriate Class or Classes, and the Allowed Claim shall be deemed satisfied to the same extent as if payment or distribution had been made to the holder of the Allowed Claim.

5.6 Setoffs and Recoupments. The Debtors, if on the Effective Date, or the Disbursing Agent if after the Effective Date, may, pursuant to sections 502(h), 553, and 558 of the Bankruptcy Code or applicable non-bankruptcy law, but shall not be required to, set off against or recoup from any Claim on which payments are to be made pursuant to the Plan, any claims or causes of action of any nature whatsoever that are proven valid that the Debtors may have against the Holder of such Claim; provided, however, that neither the failure to effect such offset or recoupment nor the allowance of any Claim shall constitute a waiver or release by the Debtors, the Estates, the Disbursing Agent of any right of setoff or recoupment that the Debtors or the Estates may have against the Holder of such Claim, nor of any other claim or Cause of Action.

5.7 Distributions in Satisfaction; Allocation. Except for the obligations expressly imposed by this Plan and the property and rights expressly retained under the Plan, if any, the distributions and rights that are provided in this Plan shall be in complete satisfaction and release of all Claims against, liabilities in, Liens on, obligations of and Interests in the Debtors and the Estates and the assets and properties of the Debtors and the Estates, whether known or unknown, arising or existing prior to the Effective Date.

5.8 Cancellation of Notes and Instruments. As of the Effective Date, except to the extent otherwise provided in the Plan, all notes, agreements and securities evidencing Claims and Interests and the rights there under of the holders thereof shall, with respect to the Debtors, be canceled and deemed null and void and of no further force and effect, and the holders thereof shall have no rights against the Debtors, the Estates, or the Disbursing Agent, and such instruments shall evidence no such rights, except the right to receive the distributions provided for in the Plan.

5.9 No Interest on Claims. Unless otherwise specifically provided for in the Plan, the Confirmation Order, or a postpetition agreement in writing between the Debtors and a Holder of

a Claim and approved by an order of the Bankruptcy Court, postpetition interest shall not accrue or be paid on any Claim, and no Holder of a Claim shall be entitled to interest accruing on or after the Filing Date on any Claim. In addition, and without limiting the foregoing, interest shall not accrue on or be paid on any Disputed Claim in respect of the period from the Effective Date to the date a final distribution is made when and if such Disputed Claim becomes an Allowed Claim.

5.10 Liquidating Trust. Effective upon the entry of the Confirmation Order, the Trust shall be formed pursuant to the Trust Agreement. On or before the Effective Date, the Debtors shall transfer and/or assign to the Trust, only the following: (a) the Post-Confirmation Causes of Action; and (b) the Residual Assets (items (a) and (b) hereinafter referred to collectively as the "Liquidating Trust Assets"). The Trust shall be established and otherwise administered in accordance with the Trust Agreement.

5.11 Rights and Interests Transferred to Trustee; Duties of Trustee. From and after the Confirmation Date, the Trustee shall assume the Debtors' and the Estate's right to conduct any litigation with respect to Post-Confirmation Causes of Action and Residual Assets, and to take such other actions as may be authorized by the Trust Agreement, except to the extent any causes of action have been waived, released or discharged pursuant to prior order of the Court or are waived, released or discharged pursuant to the Plan. The Debtors shall, on or before the Effective Date, transfer and assign to the Trust the property set forth in Section 5.10 of the Plan. Rights under the APA, including, without limitation, the Make Whole Agreement are retained by the Debtors' Estate, which shall remain in existence for the purpose of enforcing any rights under the APA, as directed by the Disbursing Agent. The Trustee shall be responsible for the preparation and filing of (a) a motion for final decree closing the Case and (b) interim reports on administration progress in accordance with Local Rule 3022-1. As of the Effective Date, the Creditors' Committee shall cease to exist, and the Trustee shall, without further application to or order of the Bankruptcy Court, be vested with any and all of the rights, remedies, powers, authorities, standing, and duties of the Debtors, a creditors' committee granted pursuant to §

1103 of the Code and any Final Orders issued with respect thereto in the Case, and a trustee appointed under the Code, for the purposes set forth herein, including without limitation, investigating, pursuing, prosecuting, settling, collecting, liquidating, and/or recovering any assets, claims or causes of action that constitute Residual Assets or Post-Confirmation Causes of Action for distribution pursuant to the provisions of the Plan. John Thibodeau shall serve as Trustee. Perkins Thompson shall serve as counsel to the Trustee. The Trustee and the Trustee's Professionals shall be paid from Plan Cash.

5.12 Disputed Claims Reserve.

A. Establishment. The Disbursing Agent shall maintain a reserve (the "Disputed Claims Reserve") equal to 100% of the distributions to which holders of Disputed Claims would be entitled under the Plan if such Disputed Claims were Allowed Claims or such lesser amount as required by a Final Order.

B. Distributions Upon Allowance of Disputed Claims. The holder of a Disputed Claim that becomes an Allowed Claim shall receive distributions of Cash from the Disputed Claims Reserve as soon as practical following the date on which such Disputed Claim becomes an Allowed Claim pursuant to a Final Order. Such distributions shall be made in accordance with the Plan based upon the distributions that would have been made to such holder under the Plan if the Disputed Claim had been an Allowed Claim on the Effective Date. No Holder of a Disputed Claim shall have any claim against the Disputed Claims Reserve, or the Trust with respect to such Claim, until such Disputed Claim shall become an Allowed Claim.

5.13 Amounts Distributed by the Trustee. Any funds recovered by the Trustee and not required for the expenses of administering the Trust (including the fees of the Trustee and the Trustee's professionals) shall be distributed to Holders of Claims and Interests in Classes 1 through 17, inclusive, in accordance with the priorities established by this Plan. In holding

such funds and making such distributions, the Trustee shall have the same rights, remedies and responsibilities as the Disbursing Agent under the Plan.

5.14 Cram Down. In the event that any class allowed to vote is deemed impaired under this Plan and refuses to accept the terms of the Plan, the Debtors shall and hereby do move the Bankruptcy Court to confirm the Plan pursuant to § 1129(b) of the Code. All Claims of creditors and the rights of all holders of equity interests in the Debtors shall be satisfied solely in accordance with the Plan.

5.15 Estate Representatives. Both the Disbursing Agent and the Trustee, without limitation of any other provisions herein, shall be appointed and hereby are appointed representatives of the Estate under Section 1123(b)(3)(B).

Executory Contracts

Except as to fully paid insurance policies, which shall be allowed to expire in accordance with their terms unless renewed by the Disbursing Agent or the Trustee in the exercise of their respective business judgment, the Plan hereby provides for the rejection of all unexpired leases and executory contracts not assumed and assigned pursuant to the APA and the Sale Order and to the extent not already rejected, including, without limitation, the Inter-Debtor Lease and the Management Agreement, with such rejection being effective as of the Confirmation Date. Promptly after the Confirmation Date, the Debtors shall make any properties or assets that are subject to an executory contract or unexpired lease rejected pursuant to this Article VI available to the counterparty to such contract or lease, and all such counterparties shall have relief from the automatic stay in order to repossess such properties or assets and to take such further action against such properties or assets (but not against the Debtors) as may be authorized by applicable non-bankruptcy law. Any Claim for damages arising out of the rejection of an executory contract or unexpired lease must be filed on or before thirty days (30) after the effective date of

such rejection, or such later date as may be specified by a Final Order of the Bankruptcy Court. All such Allowed Claims for rejection damages shall be classified as Unsecured Claims against the Estate of the Debtor that is the counterparty under such contract or lease.

VIII. Governance and Maintenance

After confirmation, and as detailed in the plan summary above and in the Plan, the Debtors will be managed by their existing Managers: Paslawski, Popolizio, Flynn and Martin.

IX. Feasibility of the Plan

The Plan is based upon the net sale proceeds from the sale of substantially all of the Debtors' assets. Those proceeds are more than sufficient to pay all of the secured and administrative claims in full and still provide a distribution to general, unsecured creditors. Accordingly, the Plan is feasible and will not likely be followed by the liquidation of, or need for further reorganization of reorganized Environmental and/or reorganized Pulp.

X. Risk Factors

The primary risk factors affecting the amount of the distribution to holders of claims are as follows:

(a) The Court could allow unsecured claims at higher amounts than asserted by the Debtors; or allow claims that the Debtors believe should be disallowed; and/or
(b) Administrative claims could exceed estimated amounts.

One or all of these factors could lower the dividend payable to general, unsecured claims, but no single factor or combination of factors would eliminate the dividend in total.

XI. Substantive Consolidation

Substantive consolidation can generally be described as the "pooling [of] the assets of, and claims against, [multiple entities]; satisfying liabilities from the resultant common fund; eliminating inter-company claims; and combining the creditors of the two companies for

purposes of voting on reorganization plans," and for purpose of distribution. See, e.g., Union Savings Bank v. Augie/Restivo Baking Company, LTD (In re Augie/Restivo Baking Company), 860 F.2d 515, 518 (2d Cir. 1988).

Courts have articulated a number of different tests to determine when substantive consolidation is appropriate and will be ordered, most of which are variations on the three most widely accepted tests:

(1) **The Auto-Train Test.** This test balances the benefits of the proposed consolidation against the harm inflicted on objecting parties. Drabkin v. Midland-Ross Corporation (In re Auto-Train Corporation, Inc.), 810 F.2d 270, 276 (D.C. Cir. 1987). Under this analysis, "[t]he proponent must show not only a substantial identity between the entities to be consolidated, but also that consolidation is necessary to avoid some harm or realize some benefit." Id. If a creditor shows that it relied on the separate credit of one of the entities and that it will be prejudiced, "the court may order consolidation only if it determines that the demonstrated benefits of consolidation 'heavily' outweigh the harm." Id.

(2) **The Augie/Restivo Test.** The Augie/Restivo test requires courts to consider two separate factors: "(i) whether creditors dealt with the entities as a single economic unit and 'did not rely on their separate identity in extending credit' . . . or (ii) whether the affairs of the debtors are so entangled that consolidation will benefit all creditors." Augie/Restivo, 860 F.2d at 518. [Internal citations omitted.]

(3) **The Owens Corning Test.** This test states that substantive consolidation is only appropriate where, with respect to the debtors, it can be shown that "(i) prepetition they disregarded separateness so significantly their creditors relied on the breakdown of entity borders and treated them as one legal entity, or (ii) postpetition their assets and liabilities are so scrambled that separating them is prohibitive and hurts all creditors." Owens Corning, 419 F.3d at 211.

The First Circuit has not directly addressed the issue of substantive consolidation and, therefore, it is unknown which of these three tests, if any, the First Circuit would employ.

The Debtors could most likely establish cause for substantive consolidation under any one of these three tests. First, as noted above, the affairs of the two Debtors as so interconnected and entangled that consolidation benefits all creditors. Sorting out which assets equitably belong to

each Debtor, if possible at all, would be costly and time-consuming, as would valuing such assets, and would produce at best an imperfect and imprecise location and result. Incurring that expense would result in a lower dividend to all creditors with no assurance of a better or more just result at the conclusion. Second, there is evidence that a large number of creditors thought of Environmental and Pulp as a single entity and did not rely on their separate identities in extending credit.

XII. Plan Alternatives

The Debtors believe that the only currently available alternatives to the current plan of reorganization are: (1) the conversion of the cases to cases under chapter 7; and (2) a plan which does not substantively consolidate the Estates. Both of these alternatives would significantly increase administrative costs, reduce distributions to general unsecured creditors and significantly delay distributions.

Conversion

The conversion of these cases to cases under chapter 7 would require the appointment of, not one, but two chapter 7 trustees. Both trustees would have to familiarize themselves with the claims at issue prior to any distribution of the net sale proceeds to creditors. The time spent by the chapter 7 trustees familiarizing themselves with these cases would both increase the administrative cost to the Estates and significantly delay distributions to creditors. Accordingly, conversion at this point would not be as beneficial to the Debtors' Estates as the confirmation of the Plan would be.

Plan without Consolidation

Filing and confirming a plan not based upon substantive consolidation would, in the opinion of the Debtors, be prohibitively expensive. First, litigation would be required in order to

allocate "ownership" of the assets as between the Debtors. The value of Pulp's leasehold interest in all pulp-producing assets as of the Petition Date would have to be determined by competing expert testimony, as would the value of many other assets. The legitimacy and amount of intercompany claims would also have to be determined by litigation. Such a process would take months and generate hundreds of thousands of dollars of administrative expense claims and the resulting allocation of values would be imperfect, at best.

XIII. Liquidation Analysis

Substantially all of the Debtors' assets have already been liquidated and all that remains is to determine which and to what extent claims are allowable and determine the method for distributing the net sale proceeds. The Debtors, as debtors-in-possession, and the current Creditors' Committee have the greatest familiarity with the circumstances giving rise to the claims against their estates and, therefore, are the best able to determine appropriate distributions in an efficient and economical manner. If the case were converted at this stage in these bankruptcy cases, these cases would require the appointment of two chapter 7 trustees, with two sets of professionals. Such trustees and professionals would have a steep learning curve as to the assets and the claims. Moreover, conversion to liquidate would likely lead to the same litigation over allocation of value as between estates as is noted above. Accordingly, the estates would suffer significantly greater administrative costs as the chapter 7 trustees familiarized themselves with the claims at issue and fought with each other over allocation.

XIV. Voting to Accept of Reject the Plan

The Debtors have enclosed herewith a ballot for accepting or rejecting the Plan. The Debtors encourage you to vote to accept the Plan, as does the Creditors' Committee. Please complete this ballot and return it to: Red Shield Environmental, LLC/RSE Pulp & Chemical,

LLC c/o Robert J. Keach, Esq., Bernstein, Shur, Sawyer & Nelson, 100 Middle Street, P.O. Box 9729, Portland, ME 04104-5029 on or before June 1, 2009 at 5:00 p.m. Ballots may be submitted by facsimile transmission to the attention of Robert J. Keach, Esq. at (207) 774-1127. Ballots may not be submitted by electronic mail.

EACH CREDITOR SHOULD NOTE THAT IF ANY CLASS OF CLAIMS SHOULD FAIL TO ACCEPT THE PLAN BY THE REQUISITE MAJORITY, THE BANKRUPTCY COURT MAY NONETHELESS ENTER AN ORDER CONFIRMING THE PLAN. THE REQUIREMENTS FOR OBTAINING SUCH AN ORDER ALLOW THE BANKRUPTCY COURT TO ENTER SUCH AN ORDER IF, AFTER NOTICE AND A HEARING, THE BANKRUPTCY COURT FINDS THAT THE PLAN DOES NOT DISCRIMINATE UNFAIRLY AND IS FAIR AND EQUITABLE WITH RESPECT TO ANY IMPAIRED CLASS OF CLAIMS OR INTERESTS WHICH HAS NOT ACCEPTED THE PLAN. IF ANY CLASS OF CLAIMS FAILS TO ACCEPT THE PLAN BY THE REQUISITE MAJORITY, THE DEBTORS SHALL SEEK THIS TREATMENT.

XV. Confirmation

The Code requires the Bankruptcy Court to hold a hearing on confirmation of the Plan. The Code also allows any party in interest to object to confirmation.

By Order of the Bankruptcy Court, the confirmation hearing in this case will be held June 4, 2009, at 10:00 a.m. at the United States Bankruptcy Court, 202 Harlow Street, 3rd Floor, Bangor, Maine. Any objection to confirmation must be made in writing, filed with the Clerk of the Bankruptcy Court, and served upon all parties who have filed a demand for receipt of papers under Fed. R. Bankr. P. 2002 on Debtors' counsel, and on Creditors' Committee counsel on or

before June 1, 2009. Any party that objects to confirmation must also attend the confirmation hearing, either in person or through counsel.

XVI. Effect of Confirmation

Confirmation of the Plan shall discharge the Debtors from all Claims arising before the date of Confirmation, except as expressly provided in the Plan. The Confirmation Order shall permanently enjoin all holders of Claims from taking action contrary to the Plan or to collect upon any Claim other than pursuant to the Plan.

XVII. Income Tax Consequences

The Debtors are limited liability companies organized under Maine law. As such, in general, the Debtors are treated as "pass-through" entities for federal income tax purposes. The federal, state, and local tax consequences of the Plan may be complex and, in some cases, uncertain. Such consequences may also vary based upon the individual circumstances of each holder of a claim or interest. **ACCORDINGLY, EACH HOLDER OF A CLAIM OR INTEREST IS STRONGLY URGED TO CONSULT WITH ITS OWN TAX ADVISOR REGARDING THE FEDERAL, STATE, AND LOCAL TAX CONSEQUENCES OF THE PLAN. THIS DISCLOSURE STATEMENT MAY NOT BE RELIED UPON FOR, AND SHALL NOT BE DEEMED TO CONSTITUTE, ADVICE ON THE TAX OR OTHER LEGAL EFFECTS OF THE PLAN.** Any federal or state withholding taxes or other amounts required to be withheld under any applicable law shall be deducted and withheld from any distributions under the Plan.

XVIII. Retention of Jurisdiction

To the maximum extent permitted by 28 U.S.C. § 1334 and the Code, the Bankruptcy Court shall retain exclusive jurisdiction with respect to the following matters:

(a) To adjudicate all controversies concerning the classification, allowance, or determination of any claim or interest, including, without limitation, any administrative claim or claim arising from any environmental liability;

(b) To hear and determine all Claims arising from rejection of any executory contract, including leases, and to consummate the rejection and termination thereof;

(c) To liquidate damages in connection with any disputed contingent or unliquidated Claims;

(d) To adjudicate all Claims to, or ownership of any property of, the Debtors or in any proceeds thereof arising prior to and after the Effective Date;

(e) To adjudicate all Claims and controversies arising out of any purchases, sales or contracts made or undertaken by the Debtors prior to the Effective Date;

(f) To make such orders as are necessary and appropriate to construe or effectuate the provisions of the Plan;

(g) To hear and determine any and all Avoidance Actions, including, without limitation, any and all preference actions, fraudulent conveyance actions or other matters brought pursuant to the Debtor's avoidance or subordination powers;

(h) To hear and determine any and all applications of professional persons for allowance of compensation and/or reimbursement of expenses and all other Administrative Expenses which may be pending on, or made after, the Confirmation Date;

(i) To adjudicate any and all motions, adversary proceedings and litigated matters pending on the Confirmation Date or filed thereafter within any applicable statutory period;

(j) To adjudicate any and all controversies and disputes arising under, or in connection with, the Plan or any order or document entered or approved by the Bankruptcy Court

in connection with the Debtors, the Cases, or any controversy or dispute which may affect the Debtors' ability to implement or fund the Plan; and

(k) To hear and determine such other matters as the Bankruptcy Court in its reasonable discretion shall deem appropriate.

XIX. Conclusion

The Debtors submit that the Plan complies in all respects with Chapter 11 of the Bankruptcy Code, and recommend to holders of claims who are entitled to vote on the Plan that they vote to accept the Plan. The Debtors remind such holders that each ballot, signed and marked to indicate the holder's vote, must be received by the Debtors' counsel no later than June 1, 2009, at 5:00 p.m. (prevailing time in Bangor, Maine).

Dated: April 23, 2009

RED SHIELD ENVIRONMENTAL, LLC
RSE PULP & CHEMICAL, LLC
Debtors-in-possession

By their attorney:

/s/ Robert J. Keach
Robert J. Keach, Esq.

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