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UNITED STATES BANKRUPTCY COURT
SOUTHERN DISTRICT OF NEW YORK

In re	:	Chapter 11
TERRA NOSTRA RESOURCES CORP.,	:	Case No. 08-14708 (JMP)
Debtor.	:	

DISCLOSURE STATEMENT TO ACCOMPANY TRUSTEE'S AMENDED PLAN OF REORGANIZATION

THIS IS NOT A SOLICITATION OF ACCEPTANCES OR REJECTIONS OF THE PLAN. ACCEPTANCES OR REJECTIONS MAY NOT BE SOLICITED UNTIL A DISCLOSURE STATEMENT HAS BEEN APPROVED BY THE BANKRUPTCY COURT. THIS DISCLOSURE STATEMENT IS BEING SUBMITTED FOR APPROVAL, BUT HAS NOT YET BEEN APPROVED BY THE COURT.

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I. INTRODUCTION

George M. Kelakos, as Chapter 11 trustee (the "Trustee") of Terra Nostra Resources Corp. (the "Debtor" or "Terra Nostra"), the debtor in the above-captioned Chapter 11 case, respectfully submits this disclosure statement (the "Disclosure Statement") to all known holders of Claims, pursuant to section 1125 of the Bankruptcy Code, in connection with the solicitation of acceptances or rejections of the Trustee's Amended Plan of Reorganization (the "Plan")[1]. The Plan is being filed contemporaneously with this Disclosure Statement.[2]

On November 25, 2008, an involuntary case under Chapter 11 of the Bankruptcy Code was commenced in The United States Bankruptcy Court for the Southern District of New York (the "Bankruptcy Court") against Terra Nostra by petitioning creditors Sofaer Capital Inc., c/o Sofaer Administration Ltd.; Sofaer Capital Natural Resources Hedge Fund, c/o Sofaer Global Research (UK) Limited; Sofaer Capital Asian Hedge Fund, c/o Sofaer Global Research (UK) Limited; Sofaer Capital Emerging Markets Hedge Fund, c/o Sofaer Global Research (UK) Limited; Photon Global, Ltd.; Cheyne Capital Management (UK) LLP; Anthony Giammalva, c/o Sound Energy Partners, Inc.; Kristoffer Andenaes; Holland Park Emerging Markets Fund - In Voluntary Liquidation, c/o Kroll (Cayman) Limited; Alpha Capital Anstalt; and Chestnut Ridge Partners LP, and subsequently joined by DD Growth Premium Master Fund and Paragon Capital LP (collectively, the "Petitioning Creditors").

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[1] Capitalized terms not otherwise defined herein have the meanings ascribed to such terms in the Plan. Definitions are contained in Article I of the Plan.

[2] The Trustee intends to seek Bankruptcy Court approval of a summary of the Plan and a separate disclosure statement for transmittal to holders of interests.

On December 23, 2008, the U.S. Trustee filed a notice of appointment of George M. Kelakos as Chapter 11 trustee of the Debtor's estate and the Bankruptcy Court entered an order approving his appointment on December 31, 2008.

A. Purpose of the Disclosure Statement

The purpose of this Disclosure Statement is to provide the Debtor's Creditors with adequate information, as defined in section 1125(a) of the Bankruptcy Code, to enable them to make an informed judgment as to whether to vote to accept or reject the Plan. The Plan is the document that contains the exclusive and final statement of the rights of the Creditors, Interest holders and interested parties, including what they will receive in consideration for their Claims against the Debtor, and how they are to receive it. If the Plan is confirmed by the Bankruptcy Court, it will become binding on the Debtor, all Creditors, Interest holders and interested parties.

THIS DISCLOSURE STATEMENT CONTAINS IMPORTANT SUMMARY INFORMATION ABOUT THE PLAN AND CONSIDERATIONS PERTINENT TO VOTING FOR OR AGAINST THE PLAN. IT IS NOT INTENDED TO REPLACE CAREFUL REVIEW OF THE ENTIRE PLAN BY EACH CREDITOR AND ENTITLED TO VOTE ON THE PLAN. THE TRUSTEE STRONGLY RECOMMENDS THAT EACH CREDITOR REVIEW THE ENTIRE PLAN. THE DISCLOSURE STATEMENT IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO THE PLAN.

B. Brief Summary of the Plan

The Plan contains the Trustee's proposal for the restructuring of the Debtor's business and financial affairs and the payment of Creditors' Claims. The Trustee submits that the Plan will afford Creditors a superior return on account of their Claims than would a liquidation of the Debtor under Chapter 7 of the Bankruptcy Code.

In sum, the Plan is to consummate one of three possible reorganization transactions to be selected by the holders of Allowed Claims in Class 4: (A) a sale of the Debtor's interest in the Chinese JVs, for $27,000,000 (part of which will be used to satisfy all priority and secured claims and expenses), with the installment payments through December 2010, and the New Common Stock in the Reorganized Debtor issued pro rata to holders of an Allowed Class 4 Claim; (B) a combined sale of the Debtor's interest in one of the Chinese JVs, with the Reorganized Debtor retaining an interest in the other of the Chinese JVs, while spinning off one of the two factories, with the New Common Stock in the Reorganized Debtor issued to the Shareholder Investor Group, with proceeds available for distribution of $17,790,000, and holders of Allowed Class 4 Claims receiving a pro rata distribution of the remaining amounts after satisfaction of all priority and secured claims and expenses; or (C) a debt-for-equity swap with the New Common Stock in the Reorganized Debtor issued pro rata to holders of Allowed Class 4 Claim. In addition, irrespective of the transaction selected, the holders of Allowed Class 4 Claims will receive a pro rata distribution of the net proceeds of certain lawsuits to be pursued by the Plan Administrator.

The Plan also provides that holders of Administrative Expense Claims and Gap Period Claims will receive Cash on account of such Claims to the extent that they are Allowed Claims as of the Effective Date. Priority Tax Claims that are Allowed Claims shall be paid at the Reorganized Debtor's election either in full in Cash on the Effective Date or in installments no later than 5 years from the Relief Date.

The fees of Professional Persons shall be paid after entry of a Final Order by the Bankruptcy Court awarding such compensation and reimbursement of expenses. The services of the Committee and its counsel in obtaining the appointment of the Trustee, including all related

preparation and litigation, and the services of the lenders in connection with the Post-Petition Financing Agreements shall be deemed a substantial contribution entitled to priority status and entitled to reasonable compensation as set forth more fully herein. Counsel for the Petitioning Creditors and the lenders in connection with the Post-Petition Financing Agreements is also entitled to reasonable compensation for services related to the filing of the involuntary petition.

The following table divides the Claims against and Interests in the Debtor into separate Classes and summarizes the treatment for each Class. The table also identifies which Classes are entitled to vote on the Plan based on Rules set forth in the Code.

CLASS	TYPE OF CLAIM	TREATMENT OF ALLOWED CLAIMS
1	Post-Petition Secured Claims	*Unimpaired* - Class 1 shall receive Cash equal to 100% of the allowed amount of such Class 1 Claim, together with interest, at the rate set forth in the Post-Petition Financing Agreements.
2	Other Secured Claims	*Impaired* - Class 2 shall receive on the Effective Date, at the election of the Reorganized Debtor, one of the following alternatives: (a) cash equal of the Allowed Amount of its Claim; (b) a surrender of the collateral securing the Allowed Claim; or (c) the holder's legal, equitable and contractual rights unaltered by the Plan.
3	Priority Claims	*Unimpaired* - Each holder of an Allowed Claim in Class 3 shall receive Cash equal to 100% of the allowed amount of such Class 3 Claims, together with interest, if any, to which each holder may be entitled under applicable law on such Class 3 Claims.
4	General Unsecured Claims	*Impaired* - Each holder of an Allowed Claim in Class 4 shall receive a pro rata distribution of Class 4 Proceeds based upon consummation of one of three plan options available to Class 4 holders as follows: (A) if Option A (Sale of Chinese JVs) is selected: a pro rata distribution of the New Common Stock in the Reorganized Debtor (which will receive the sale proceeds of $27,000,000 after satisfaction of

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CLASS	TYPE OF CLAIM	TREATMENT OF ALLOWED CLAIMS
		all priority and secured claims and expenses) plus the net proceeds of the Causes of Action pursued by the Plan Administrator; (B) if Option B (Combined Sale and Restructure) is selected: a pro rata distribution of $17,790,000 after satisfaction of all priority and secured claims and expenses plus net proceeds of the Causes of Action pursued by the Plan Administrator; or (C) if Option C (Stock for Debt) is selected: a pro rata distribution of the New Common Stock in the Reorganized Debtor (which will receive the sale proceeds of $27,000,000 after satisfaction of all priority and secured claims and expenses) plus the net proceeds of the Causes of Action pursued by the Plan Administrator.
5	Equity	*Impaired* - There will be no distribution to holders of Interests on account of such Interests and all Old Common Stock of the Debtor will be cancelled.

C. <u>Voting on the Plan</u>

Creditors whose Claims are impaired – Classes 2 and 4 – may vote to accept or reject the Plan. The Ballot for holders of Allowed Claims in Class 4 contains provisions for those holders to select their preferences for a reorganization transaction among the three options, as summarized above. Each holder of impaired Claims and/or Interests in Class 5 will not receive or retain any property under the Plan, is deemed to have rejected the Plan and, therefore, is not entitled to vote to accept or reject the Plan.

Creditors whose Claims are unimpaired – Classes 1 and 3 – are conclusively presumed to accept the Plan and are not entitled to vote. Generally speaking, a Claim or Interest is impaired if the Plan alters the rights to which the holder of the Claim or Interest would otherwise be entitled. A Class of Creditors is held to have accepted the Plan when Creditors

holding two-thirds in amount of such Class and more than one-half in number of Allowed Claims in such Class who actually cast their ballots have voted to accept the Plan. The Ballot for holders of Allowed Claims in Class 4, in addition to the designation of acceptance or rejection of the Plan, shall contain the following preferences for those voting to accept the Plan: (1) Option A, and if Option A cannot be consummated, then Option C; (2) Option B, and if Option B cannot be consummated, then Option C; or (3) Option C (without attempting to consummate Option A or B. Option A or B will be considered eligible if a preference that includes such Option is selected by two-thirds in dollar amount and a majority in number of the holders of Allowed Claims in Class 4 that select a preference. Option C is deemed eligible irrespective of the selection of preferences.

Accordingly, Creditors' votes on the Plan are important. The Class of Interests (Class 5) receives no distribution and is deemed to reject the Plan. Therefore, the votes of holders of Interests will not be solicited, and the Trustee will request confirmation of the Plan notwithstanding its rejection by the Class of Interests under the so-called "cram down" provisions of the Bankruptcy Code. The Trustee intends to seek Bankruptcy Court approval of a summary of the Plan and a separate Disclosure Statement for transmittal to holders of Interests.

Accompanying this Disclosure Statement are the following materials:

- A copy of the Plan;
- The ballot for accepting or rejecting the Plan;
- An envelope in which the ballot may be sent; and
- A copy of the notice setting forth (i) the date by which ballots must be received to be counted, (ii) the date by which objections to confirmation of the Plan must be filed, served, and upon whom such objections must be served, and (iii) the date on which the Bankruptcy Court will hold a hearing on whether to confirm the Plan (the "Confirmation Hearing").

A holder of a Claim in an impaired Class will be entitled to have a vote counted if:

(i) a Claim as to which a Proof of Claim was filed on or before the Bar Date of May 8, 2009 against the Debtor in a liquidated amount, and which is not the subject of a Claim Objection, shall be deemed allowed, solely for the purpose of voting on the Plan and for no other purpose, in the amount in which such Claim has been filed;

(ii) a Claim listed on the Debtor's Schedules, but which is not scheduled as either contingent, unliquidated or disputed, and which has not been superseded by a Proof of Claim or a request for payment of administrative expense filed on or before the Bar Date of May 8, 2009, shall be deemed allowed, solely for the purpose of voting on the Plan and not for any other purpose, in the amount in which such Claim has been listed on the Schedules;

(iii) any other Claim against the Debtor – including any claim which is asserted in an undetermined amount or is the subject of a pending objection by the Debtor or any other party in interest – shall be deemed provisionally disallowed; the holder thereof shall not be entitled to vote on the Plan, except as otherwise provided by order of the Bankruptcy Court; and

(iv) a completed ballot has been received by Stevens & Lee, P.C., attorneys for the Trustee, 485 Madison Avenue, 20th Fl, New York, New York 10022, Attention: Alec P. Ostrow, Esq., by the close of business on __________ __, 2009.

The holders of Allowed Claims in Class 4 will be allowed to express a preference among the three options for a reorganization transaction among:

(A) Option A – Sale of Chinese JVs;

(B) Option B – Combined Sale and Restructure; and

(C) Option C – Stock for Debt.

Option C is the Option that will be selected if either no other Option wins a majority among the preferences expressed, or no other Option appears to the reasonable satisfaction of the Trustee able to be consummated. Option C is therefore the "default" or "fall back" Option. The ballot will contain preference selections as follows:

___ Option A, and if Option A cannot be consummated as of the Effective Date, then Option C;

___ Option B, and if Option B cannot be consummated as of the Effective Date, then Option C; or

___ Option C (without attempting to consummate Option A or B.

Preferences are expressed by putting a check in the appropriate blank or box on the ballot. The expression of a preference is optional, and more than one preference may be expressed.

D. <u>Confirmation Hearing</u>

As stated in the accompanying notice, the Confirmation Hearing has been scheduled for ___________, 2009, at 10:00 a.m. at the Bankruptcy Court. Creditors may attend the Confirmation Hearing. At the Confirmation Hearing, the Bankruptcy Court will consider, among other things, whether the Plan has been accepted by the requisite majorities of each impaired Class entitled to vote on the Plan, and whether the Plan meets the requirements for confirmation set forth in section 1129 of the Bankruptcy Code. As set forth in the accompanying notice, objections, if any, to confirmation of the Plan must be filed with the Bankruptcy Court and served upon counsel for the Trustee, the Ad Hoc Committee of Noteholders and the Office of the United States Trustee on or before ___________, 2009.

E. **<u>Disclaimer Regarding Solicitation</u>**

This Disclosure Statement has been approved by United States Bankruptcy Judge James M. Peck as containing adequate information to enable the holders of Claims and Interests to make an informed judgment whether to accept or reject the Plan; it is the only authorized statement about the Plan. Although the Bankruptcy Court has approved this Disclosure Statement, such approval does not intend to imply that the Court has recommended the Plan to the holders of Claims and Interests.

THIS DISCLOSURE STATEMENT IS MADE BY THE TRUSTEE, WHO HAS PROVIDED THE INFORMATION CONTAINED HEREIN UNLESS OTHERWISE EXPRESSLY STATED. THE TRUSTEE AND HIS REPRESENTATIVES BELIEVE THAT THE INFORMATION CONTAINED HEREIN IS ACCURATE TO THE BEST OF THEIR ABILITY TO DETERMINE, BASED ON THE CONDITIONS DESCRIBED HEREIN. AS OF THE DATE OF THIS DISCLOSURE STATEMENT, THE TRUSTEE ONLY JUST RECEIVED THE FIRST SHIPMENT OF THE DEBTOR'S BOOKS AND RECORDS. THE TRUSTEE HAS REVIEWED SUCH BOOKS AND RECORDS OF THE DEBTOR AS HAVE BEEN MADE AVAILABLE TO HIM. CONSEQUENTLY, THE TRUSTEE IS RELYING ON INFORMATION THAT IS PUBLICLY AVAILABLE AND HAS BEEN SUPPLIED BY PARTIES IN INTEREST IN THE CASE. THE TRUSTEE HAS ATTEMPTED TO PRESENT THE BEST INFORMATION AVAILABLE TO HIM. NEVERTHELESS, THE TRUSTEE MAKES NO REPRESENTATION AS TO THE ACCURACY OF THE INFORMATION CONCERNING THE DEBTOR THAT IS CONTAINED IN THIS DISCLOSURE STATEMENT. THE TRUSTEE HAS NOT AUTHORIZED ANY PERSON TO GIVE ANY INFORMATION, OR MAKE ANY REPRESENTATIONS, IN CONNECTION WITH

SOLICITING ACCEPTANCES OR REJECTIONS OF THE PLAN, OTHER THAN THOSE CONTAINED IN THIS DISCLOSURE STATEMENT. HOLDERS OF CLAIMS AND INTERESTS MAY NOT RELY UPON SUCH INFORMATION OR REPRESENTATIONS (IF GIVEN OR MADE) AS HAVING BEEN DULY AUTHORIZED BY THE TRUSTEE. THIS DISCLOSURE STATEMENT MAY NOT BE RELIED UPON FOR ANY PURPOSE OTHER THAN TO DETERMINE HOW TO VOTE ON THE PLAN, AND NOTHING CONTAINED HEREIN SHALL BE DEEMED ADVICE TO ANY PARTY IN INTEREST, INCLUDING CREDITORS OR INTEREST HOLDERS, ON THE TAX CONSEQUENCES (OR OTHER LEGAL CONSEQUENCES) OF THE PLAN.

THE STATEMENTS CONTAINED IN THIS DISCLOSURE STATEMENT ARE MADE ONLY AS OF THE DATE HEREOF; THE TRUSTEE DOES NOT INTEND TO IMPLY THAT THE INFORMATION CONTAINED HEREIN IS CORRECT AT ANY TIME HEREAFTER.

F. Disclaimer Regarding Tax Consequences

Implementation of the Plan may have federal, state and local tax consequences for the Debtor, as well as the creditors and existing shareholders. Because of the rights that certain creditors have to elect treatment under the Plan, and because of certain contingencies contained within the Plan, the Debtor cannot say with certainty what the tax consequences are to the Debtor, the creditors, and the existing shareholders.

CREDITORS AND SHAREHOLDERS ARE THEREFORE ADVISED TO CONSULT WITH THEIR OWN TAX ADVISORS REGARDING THE TAX CONSEQUENCES TO THEM OF THE TRANSACTIONS CONTEMPLATED BY THE PLAN, INCLUDING FEDERAL, STATE, LOCAL TAX CONSEQUENCES.

G. Recommendation

THE TRUSTEE BELIEVES THAT THE PLAN IS IN THE BEST INTERESTS OF THE HOLDERS OF CLAIMS AND INTERESTS, AND RECOMMENDS THAT ALL HOLDERS OF CLAIMS VOTE TO ACCEPT THE PLAN.

II. BACKGROUND AND REASONS FOR FILING CHAPTER 11

Except as noted, the information contained in this Part II of the Disclosure Statement is paraphrased from the document filed with the Bankruptcy Court by the Ad Hoc Committee of Noteholders on December 10, 2008 for the purpose of requesting that the Bankruptcy Court enter an order (i) limiting certain actions of the Debtor during the gap period pursuant to sections 105 and 303(f) of the Bankruptcy Code; (ii) appointing an interim Chapter 11 trustee pursuant to 11 U.S.C. § 1104(a) and Fed. R. Bankr. P. 2007.1; and (iii) scheduling a hearing on (A) the appointment of a Chapter 11 trustee on a permanent basis or, alternatively, (B) termination of the Debtor's exclusivity periods pursuant to 11 U.S.C. § 1121.

A. Capital Structure

According to its public filings, Terra Nostra Resources Corp. was incorporated under the name Renegade Recreational Rentals, Inc. in the State of Nevada on February 7, 1994 and changed its name to Terra Nostra Resources Ltd. on January 25, 2002. On April 1, 2003, the Debtor changed its name to Terra Nostra Technology Ltd., and on January 20, 2005, the Debtor changed its name to Terra Nostra Resources Corp.

The Debtor's principal executive office is located at 790 E. Colorado Blvd., 9th Floor, Pasadena, California 91101. However, the Debtor's prior website (www.tnr-corp.com) indicated that it maintained an office in New York City.

In April 2005, the Debtor undertook a reverse merger with RTO Investments Corp. pursuant to which the Debtor acquired an interest in two Sino Foreign joint venture companies in the People's Republic of China ("PRC").

The Debtor's primary assets are 51% direct ownership interests in each of Shandong Jinpeng Copper Co. Ltd. ("STJMC") and Shandong Quanxin Stainless Steel Co., Ltd. ("SQSS," together with STJMC, the "Chinese JVs"). The Debtor also has an indirect ownership of SQSS, through its 51% ownership of STJMC, which in turn owns 49% of SQSS, which results in an effective ownership position by the Debtor of 75.99% of SQSS.

B. Operations of the Debtor

STJMC is a producer, seller and distributor of electrolytic copper, low oxygen copper, value-added copper products and precious metals, with production locations in Changshan Town and Dongying City, Shandong Province, PRC. Previously, STJMC sold approximately 16,000 MT per annum of electrolytic copper, 6,000 MT per annum of low-oxygen copper rod, and 6,000 MT per annum of no-oxygen copper rod. The amount of gold and silver sold varies widely from year to year based on the mix of scrap and ore used in the production process and precious mineral content of the raw materials. Sales of precious metals typically make up less than 1% of total sales. STJMC's principal products are electrolytic copper and non-oxygen copper rod. Historically, all of STJMC's products were sold in the Chinese domestic market with a large percentage of the products being sold in the Shandong Province. Upon information and belief, as of approximately October 2008, STJMC's copper production locations were dormant.

SQSS owns and operates an integrated stainless steel plant in Zibo, Shandong Province, PRC. The stainless steel facility is newly constructed and came into production in

early 2007. The downstream strip rolling mill was phased in during 2007 and has a production capability of 150,000 MT per annum. SQSS's principal products are billets and strips. SQSS produces for its customers based on sales specifications. Production is mainly 300+ grade, as it is the most common grade ordered by SQSS's customers. Production is typically pre-sold and produced for local markets. The majority of SQSS's customers are located in the Shandong province and other nearby provinces in the PRC. However, upon information and belief, the SQSS stainless steel plant never operated above 50% of its production capability and was, as of October 2008, dormant.

C. Factors Leading to the Involuntary Chapter 11 Protection

From August 2007 through December 2007, the Debtor issued $24,925,000 in aggregate principal amount of 10% Senior Secured Promissory Notes (the "Notes"). The Notes were generally due nine months from the issuance date. In connection with the issuance of the Notes, Sun Liu James Po, the then-Chief Executive Officer and Chairman of the Debtor's Board of Directors, pledged 27,096,138 shares of Common Stock to a collateral agent in order to secure the Debtor's obligations under the Notes.

Beginning in July 2008, the Debtor failed to repay the principal amount of the Notes resulting in an event of default under the Notes (the "Default"). Upon information and belief, beginning around the same time as the Default, the Debtor also failed to pay its other general unsecured creditors as its debts became due. Beginning in September 2008, certain holders of the Notes formed the Ad Hoc Committee of Noteholders (the "Committee") to negotiate with the Debtor regarding a restructuring of the Debtor's repayment of the Notes.

Upon information and belief, the Debtor's common stock, including the stock pledged to the Noteholders by Mr. Po, has no value. As a result, the Noteholders are unsecured creditors of the Debtor for the full amount of the Notes plus interest and fees.

On August 15, 2008, the Debtor filed a Form 12b-25 with the SEC disclosing that it would not be able to timely file its annual report on Form 10-K because its independent public accountants identified certain "anomalies" within the Chinese JVs' financial reporting related to reported earnings and pre-paid expenses. The Debtor further disclosed that it identified further possible "anomalies" with respect to the annual filing requirements for SQSS. Management reviewed the requirements that would allow the Debtor to repatriate its share of profits from the Chinese JVs' operations, and management identified that SQSS was delinquent in filing certain government tax returns in the PRC, thus precluding the Debtor from repatriating profits.

On August 29, 2008, the Debtor filed a Form 8-K disclosing that it was still unable to file its annual report and that additional testing was being undertaken to determine the nature and extent of the anomalies discovered by the Debtor's independent public accountants within the Chinese JVs' financial reports. The Debtor disclosed that it expected to report operating results that would be significantly different than its results of operations from the same period in the previous year. The Debtor also disclosed that a quantitative estimate of the change could not be made at the time due to the financial statements not being completed.

To date, the audit of the Debtor's financial reporting has not been completed, and the Debtor's annual report has not been filed. Further, upon information and belief, the PRC tax returns have not been completed in order to allow any repatriation of funds from SQSS. As a result of the Debtor's failure to file its SEC reports, the Debtor's common stock is no longer

traded on the OTC Bulletin Board and is now only quoted on the Pink Sheets, thereby further limiting the Debtor's capital raising possibilities.

In October 2008, before he was removed as the Debtor's Chief Executive Officer and as Chairman of the Chinese JVs., Mr. Po made a presentation of the current state of affairs of the Chinese JVs, including the difficulty he was having extracting cooperation and financial information about the Chinese JVs from the 49% partner in the Chinese JVs. Notwithstanding the lack of information, Mr. Po presented a restructuring plan to the Noteholders that the Noteholders found unacceptable.

At the end of October, after Mr. Po's removal, certain Noteholders traveled to China on a fact-finding mission and met with the Debtor's joint venture partner and with a director of the Debtor. On this trip, the Noteholders learned that the copper and stainless steel plants owned by the China JVs had been dormant for several months and would not be producing a revenue stream to TNRO in the near term. In communications with a partner in the China JVs, the Noteholders were advised that TNRO never provided sufficient working capital for the China JVs to achieve optimal factory utilization rates and, as a result, TNRO missed the window of opportunity to take advantage of the historic demand during the past few years for base metals in China. Further, the Noteholders received information that Mr. Po had purported to commit the Debtor to $2.1 million of debts.

During this trip, on November 28, 2008, the Noteholders obtained an agreement with the TNRO's Joint Venture partner, Mr. Zhang Ke, to sell the Debtor's Joint Venture assets to him or his corporate designee for $30,000,000.[3]

[3] The information in this paragraph is not taken from the document filed by the Ad Hoc Committee of Noteholders on December 10, 2008.

Accordingly, on November 25, 2008, the Noteholders, who, at that time, collectively represented over 75% of the outstanding principal amount of the Notes, filed an involuntary petition against the Debtor for relief under Chapter 11 of the Bankruptcy Code. On December 9, 2008, DD Growth Premium Master Fund filed a Joinder to the involuntary petition. Thus, the petitioning Noteholders represent over 93% of the Debtor's outstanding Notes.

III. EVENTS DURING CHAPTER 11

A. Involuntary Petition and Appointment of Trustee

As stated above, the Petitioning Creditors filed an involuntary case under Chapter 11 of the Bankruptcy Code on November 25, 2008.

On December 10, 2008, the ad hoc Committee of the Noteholders filed a motion seeking, among other things, the appointment of a Chapter 11 trustee. Shortly thereafter, on December 17, 2008, the Debtor consented to relief under Chapter 11, but opposed the motion for the appointment of a Chapter 11 trustee.

On December 17, 2008, the Bankruptcy Court entered an Order for Relief and Order to File Schedules and Other Documents (the "Order for Relief") directing the Debtor to file all schedules, statements, lists and other documents that are required under the Federal and Local Rules of Bankruptcy Procedure within fifteen days (15) days from the date of entry of the Order for Relief, with the exception of a proposed case conference order, which was to be filed within thirty (30) days from the date of entry of the Order for Relief.

On December 18, 2008, the Bankruptcy Court granted the Noteholders' motion for a trustee and entered an order directing the United States Trustee for the Southern District of New York (the "U.S. Trustee") to appoint a Chapter 11 trustee in the case in accordance with the provisions of 11 U.S.C. § 1104(d). On December 23, 2008, the U.S. Trustee filed a notice of

appointment of George M. Kelakos as Chapter 11 trustee of the Debtor's estate. Thereafter, on December 31, 2008, the Bankruptcy Court entered an order approving the appointment of George M. Kelakos as Trustee. The Trustee qualified in accordance with 11 U.S.C. § 322(a) on January 5, 2009 by filing his bond.

On February 5, 2009, the Bankruptcy Court entered orders (i) establishing procedures for monthly compensation and reimbursement of expenses of professionals; (ii) authorizing the trustee to (a) file the Debtor's schedules and statement of financial affairs and (b) extending the time to file to April 15, 2009; (iii) redirecting mail; and (iv) enforcing the automatic stay and directing all persons in possession, custody or control of Debtor's books and records to immediately turnover estate property.

Soon after his appointment, the Trustee filed the Debtor's corporate monthly operating report ("MOR") for the initial period of December 23-31 of 2008 and continues to file MORs on a monthly basis. The MORs, however, did not attach any of the accompanying schedules because during the earlier reporting periods the Trustee did not have in his possession, custody or control, any books and records of the Debtor. The Trustee had to rely on information that was either publicly filed or provided to him by counsel for the Petitioning Creditors and the ad hoc Committee of Noteholders. The Trustee continued to seek, locate and obtain as many of the Debtor's records as possible, and on March 23, 2009 the Trustee filed the Debtor's schedules and statement of financial affairs.

B. <u>Retention of Professionals</u>

Estate fiduciaries, including debtors in possession and committees, must seek Bankruptcy Court authorization to retain professionals. The Trustee retained the following professionals to assist him: (i) Stevens & Lee, P.C. as general bankruptcy counsel; (ii) Getzler

Henrich & Associates as financial advisors; (iii) King & Wood as special Chinese counsel; and (iv) the Law Offices of David C. McGrail ("McGrail") as special counsel.

C. Post-Petition Financing from Certain Noteholders

After the involuntary Chapter 11 petition was filed against the Debtor, and upon the subsequent appointment of the Trustee, the Debtor's most pressing need was to obtain post-petition financing to enable the Trustee to perform what was labeled a triage operation, consisting principally of the Trustee's preliminary investigation of the estate's interest in the Chinese JVs, their factories, and the ability to obtain value for the estate's interest in these entities. Some of the Petitioning Creditors/Noteholders indicated a willingness to provide some funding for the Trustee to carry out his duties under the Bankruptcy Code.

The Trustee could not obtain financing from other sources because the Debtor had no tangible collateral to offer to a third-party lender. The Trustee is not aware of any physical assets belonging to the Debtor in the United States of any significant value, or any ongoing business operations of the Debtor in the United States. Thus, the only available lenders were those parties interested in pursuing a recovery of their existing claims against or interests in the Debtor. The Trustee negotiated the best terms he could and entered into a post-petition loan and security agreement (the "Financing Agreement") with Photon Global, Ltd., Sofaer Capital, Inc., DD Growth Premium Master Fund, Cheyne Global Emerging Markets Fund LP, Anthony Giammalva, Kristoffer Andenaes, Holland Park Emerging Markets Fund – In Voluntary Liquidation, Alpha Capital Anstalt, Paragon Capital LP, and Chestnut Ridge Partners, LP (collectively, the "Lenders"), to provide a secured, super-priority post-petition lump-sum loan in the aggregate amount of $120,000.00 (the "First Loan") to pay fees and expenses in connection with the Trustee's administration of the Chapter 11 Case, budgeted as follows: (1) $10,000 for

expenses of Trustee and his proposed general counsel incurred during investigatory trip to China; (2) $25,000 for Trustee's proposed general counsel fees incurred during investigatory trip to China; (3) $35,000 for Trustee's proposed general counsel fees for domestic matters; (4) $45,000 for Trustee's proposed special Chinese counsel fees for Chinese law-related matters; and (5) $5,000 for miscellaneous expenses such as record retrieval, website, phones, United States Trustee fees, and reserve for Chapter 11 trustee fees (the "Budget").

As collateral for the First Loan, the Trustee committed all of Debtor's personal property, including all owned real property, real property leaseholds, accounts receivable, chattel paper (including tangible chattel paper and electronic chattel paper), Equity Interests, goods (including equipment, machinery, inventory and fixtures), instruments (including promissory notes); investment property, documents, deposit accounts, letter of credit rights, contract rights, all cash and cash equivalents, all claims and rights of action, general intangibles (including payment intangibles and software), supporting obligations, other assets (including inventions, discoveries, trade secrets, intellectual property rights, patents, trademarks, trade names, service marks and copyrights, registrations of and applications relating to any of the foregoing, and all associated goodwill), the Debtor's books relating to each of the foregoing assets, and any proceeds (including, without limitation, insurance proceeds, refunds and premium rebates) and products of, and accessions to, each of the foregoing assets (the "Collateral").

Pursuant to Section 364(c)(2) of the Bankruptcy Code, the First Loan was secured by a perfected first priority lien on all of the Collateral; and pursuant to Section 364(c)(3) of the Bankruptcy Code, secured by a perfected junior lien on all property of the Estate that is subject to valid, perfected and non-avoidable liens in existence at the time of the commencement of the Case or to valid liens in existence at the time of such commencement that are perfected

subsequent to such commencement as permitted by Section 546(b) of the Bankruptcy Code (the "Liens").

All Obligations under the Financing Agreement constitute allowed administrative expense claims in the Debtor's case with a priority under Section 364(c)(1) of the Bankruptcy Code over any and all other administrative expenses of the kind specified or ordered pursuant to any provision of the Bankruptcy Code, including, but not limited to, Sections 105, 326, 328, 503(b), 507(a), 507(b) and 726 of the Bankruptcy Code. However, the liens and super-priorities granted are subject to carve-outs for (1) all U.S. Trustees fees and interest on unpaid U.S. Trustee fees; and (2) reasonable post-conversion expenses of a Chapter 7 trustee, in the event the case is converted to Chapter 7 not to exceed $50,000 (the "Carve Out").

Additionally, the Financing Agreement provides that all reasonable fees and expenses of the Noteholders and their counsel incurred from and after November 23, 2008 in connection with enforcing the default on the Notes and commencement and prosecution of this Case will be recognized by the Trustee as a "substantial contribution," as that term is defined in 11 U.S.C. § 503(b)(3)(D), and, subject to approval of the Bankruptcy Court on notice to parties in interest, will be afforded administrative expense priority in the Case.

On February 5, 2009, the Bankruptcy Court entered an interim order (1) authorizing incurrence by the Debtor of post-petition secured, super-priority indebtedness, (2) granting liens, and (3) modifying the automatic stay (the "Interim Order"), and on February 19, 2009, the Bankruptcy Court entered a final order approving the Financing Agreement (the "Final Order").

The Petitioning Creditors/Lenders indicated that they were willing to continue providing funding while the Trustee formulates and negotiates a feasible plan of reorganization

and carries out his duties under the Bankruptcy Code. Thus, the Trustee and the Lenders entered into a second post-petition financing agreement (the "Second Financing Agreement") and moved for authorization of what was essentially a new financing in the amount of $90,500 (the "Second Loan")[4], with the same Lenders on the same terms and conditions as previously approved by the Bankruptcy Court. Additionally, the parties moved for approval of streamlined procedures for future funding, which permits the Trustee and Lenders to amend the Second Financing Agreement by stipulation and presentment of order (the "Streamlined Procedures"). The Bankruptcy Court approved the Second Financing Agreement and the Streamlined Procedures by order dated March 26, 2009.

On May 6, 2009, the Trustee sought approval in accordance with the Streamlined Procedures for a Third Loan in the amount of $192,500 with budgets for March and April 2009. The terms of the Third Loan are the same as the Second Loan. The stipulation and order for approval of the Third Loan is scheduled to be presented to the Bankruptcy Court on May 21, 2009.

D. The Trustee's Investigation

Immediately after his appointment in this case, the Trustee met with his proposed legal teams--Stevens & Lee as general bankruptcy counsel and King & Wood as special Chinese counsel-- at their respective offices in New York to discuss "triage" efforts and strategies to be pursued to preserve and maximize the value of the Debtor's assets. As set forth in an affidavit of

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[4] The Budget for the Second Loan provided funding for (i) preparation of the Debtor's schedules and state of financial affairs; (ii) fees and expenses of King & Wood, the Debtor's special Chinese counsel, for defense of litigation pending in China and negotiations with Chinese parties for an asset sale; (iii) fees and expenses of Stevens & Lee, the Debtor's general counsel, for domestic matters, including formulating, negotiating and filing a plan of reorganization; (iv) expenses of the Trustee in connection with the Hong Kong trip to meet with Debtor's shareholders; (v) a forensic accounting; and (vi) miscellaneous costs for, inter alia, records, storage, and United States Trustee fees.

Donald Nicholson filed in connection with the Debtor's opposition to the Noteholders' motion to appoint a Chapter 11 trustee, the Debtor had no operations and no employees. Additionally, the Trustee was advised that the Debtor's estate had no cash. Since the primary assets of the Debtor's estate consisted of joint venture interests in the Chinese JV entities, it was apparent to the Trustee that he and his general counsel would need to travel to China to (i) meet with Mr. Zhang Ke, the Debtor's Joint Venture partner; (ii) view the "shuttered" steel and copper plants in Shandong Province to ensure that the facilities and assets are properly maintained and preserved; (iii) meet with Chinese counsel to discuss the myriad of international legal issues identified by the Trustee and his general counsel; (iv) meet with representatives of the Noteholders, Shareholder representatives, former officers of the Debtor and their advisor, Y.P. Chan in Zibo City, Shandong Province; and (v) meet with professional contacts of the Trustee and of the Noteholders to solicit assistance with the Trustee's efforts to preserve the value of the Debtor's estate and to craft an exit strategy for the Chapter 11 case.

The Trustee made a considerable effort to gather and review all publicly available materials regarding the background of the Debtor and its management team. Additionally, the Trustee and his counsel participated in numerous conference calls with Shareholder and Noteholder representatives and their counsel to discuss each constituency's perspective of the case and strategies for a successful reorganization. Moreover, the Trustee reached an agreement with certain of the Noteholders to secure the first tranche of financing for administrative fees and costs of administering the Chapter 11 case.

In mid January 2009, using the post-petition funds provided by Noteholder Lenders, the Trustee and his general counsel traveled to China for the purposes outlined above.

While in China, the Trustee and his general counsel engaged in numerous telephone and email communications with Noteholder representatives, Shareholder representatives and the Trustee's Chinese counsel in an effort to meet the fact-finding goals. For example, soon after arriving in China, the Trustee met with his Chinese contacts to obtain an overview of the country's current economic conditions and to discuss general strategy in dealing with the estate's Chinese Joint Venture partner. Additionally, the Trustee and his general counsel attended various meetings with Noteholder representatives, Jamie Stevenson and Kristoffer Andenaes, and with George Zhao, a lawyer in the Noteholders' counsel's Beijing office. As a result, the Trustee obtained vital background information on the Noteholder representatives' prior meetings with the Debtor's Joint Venture partner, including details of prior discussions regarding an agreement to sell the Joint Venture assets to Mr. Zhang Ke or his corporate designee for $30,000,000.

The Trustee and his general U.S. counsel met with the Trustee's Chinese counsel to discuss the background of the case, logistical and strategic issues; and thereafter, the Trustee and his general and Chinese counsel met with Noteholder representatives and their counsel from Morrison & Foerster's Beijing office to discuss, among other things, corporate governance issues relative to the Chinese JVs; replacement of three of the five current members of the Chinese board; and strategic and legal issues in connection with trying to either move the $30 Million agreement with Zhang Ke for the sale and acquisition of the Debtor's Chinese joint venture interests, or pursuing other alternatives in this case.

The Trustee had planned to spend two days in Shandong Province viewing the facilities and meeting with parties involved in the case before traveling to Shanghai for additional meetings with Noteholder representatives and professional contacts to discuss the current economic climate, as well as other prospects for the disposition of the Joint Venture assets,

including a possible sale to third parties. The two copper facilities are located in towns between Jinan and Zibo City. The Trustee, his general and Chinese counsel, two Noteholder representatives, and their counsel traveled to Jinan, the provincial capital of Shandong Province, about 90 kilometers north of Zibo City, where the Quanxin Steel facility is located. On the drive to Zibo City, the Trustee observed that many factories and plants visible from the road appeared to be shuttered and closed.

Soon after the group's arrival in Zibo City, they met with Zhang Ke at the administrative offices of the Quanxin Steel facility located within Zibo City limits. Upon entering the massive complex, the Trustee observed that (i) there appeared to be tight security, with the entire facility surrounded by fence and the main point of ingress through a gate with a security guard station; (ii) the grounds appeared to be manicured and well-kept; and (iii) the buildings appeared to be relatively new and well-maintained.

During the meeting with Zhang Ke, which was translated by the Trustee's and Noteholders' respective Chinese counsel, the Trustee relayed the background of his appointment as Chapter 11 Trustee, the powers and mandate of the Trustee, and his goals for the trip. Mr. Ke had previously negotiated the $30 Million acquisition of the Joint Venture interests with the two Noteholder representatives present at the meeting. Mr. Ke was joined in the meeting by his assistant/advisor who also did not appear to speak English; they listened to the Trustee's presentation and Mr. Ke expressed his personal views and concerns on the failure of the Debtor's management to bring in additional investments to the Chinese businesses, and on the deterioration of the Chinese economy.

After the meeting, the Trustee, his counsel and the Noteholder representatives toured the steel facilities. The Trustee observed that the equipment and buildings appeared to be

in good shape and well-maintained and that there did not appear to be any steel inventory or raw material in the buildings they toured. Throughout the following day, the parties continued discussions with Zhang Ke, during which time the Trustee tried to facilitate discussions with Noteholders to determine whether Zhang Ke would honor his earlier commitment for the acquisition of the Debtor's interests in the Joint Ventures for $30,000,000 in cash; however, Mr. Ke continued to note China's economic downturn and the plummeting prices for steel and copper and signaled that he wanted to renegotiate the purchase price.

The following day, the Trustee met with Y.P. Chan and two Shareholder representatives, Felix Chung and George Chua (a former officer and director of the Debtor) in Zibo City. The Trustee was advised that James Po had accompanied the group and would attend the meeting with Zhang Ke and his advisor. While that meeting progressed, the Trustee's counsel, Noteholder representatives and their counsel met with Zhang Ke in a separate conference room in the same hotel.

The Trustee also attended a meeting with Zhang Ke, Shareholder Representatives, and James Po. Again, he advised the group of his role and mandate in the Chapter 11 case and reiterated that the Trustee was the sole duly authorized representative of the Debtor's estate under U.S. law. The Trustee made it clear that he is the only party with authority to convey the estate's Joint Venture interests to Zhang Ke or his designee.

The Shareholder and Noteholder representatives remained in the meeting room while the Trustee continued discussions on the sale and purchase of the Joint Venture interests with Zhang Ke and his advisor in a conference room across the hall. During this meeting, the Trustee was advised that a judge and two law clerks from the Zibo People's Intermediate Court had attempted to serve process on the Debtor by personal service on James Po with respect to an

action and seizure order obtained on December 24, 2008 (the day after the Trustee's appointment) against the Debtor by Shandong Jintai Petrochemical for an alleged debt of over $1.8 Million.

As a result of this disruption, the Trustee lost valuable time shuttling back and forth between the parties to determine what was going on and how best to proceed; however, the Trustee later resumed discussions with Zhang Ke in an attempt to facilitate further discussions with the Noteholders with respect to reaching an accord on an adjusted acquisition price. After a series of meetings, Zhang Ke, the Noteholders and the Trustee reached a written accord whereby Zhang Ke agreed to proceed with an acquisition of the Joint Venture interests for an adjusted purchase price of $27 Million. The agreement further provided, among other things, that the parties would retain their rights under the prior agreement that had been reached in October of 2008 and that Zhang Ke would submit a new proposal "within three days".

In view of the attempted service of process on the Debtor and based on the advice of Chinese counsel, after a brief "signing" ceremony with Zhang Ke, the Trustee, his counsel, the Noteholders and their counsel traveled directly to the airport and decided to forego a "tour" of the copper facilities to avoid any further complications. The Trustee and his general counsel proceeded on to Shanghai with the two Noteholder to meet with professional contacts of the Trustee and the Noteholders to discuss the general circumstances of the case and to obtain "in country" intelligence on the Chinese economy, doing business in Zibo City, and other relevant matters.

Next, the Trustee and his general counsel traveled to Hong Kong for meetings with the Trustee's Chinese counsel and professional contacts who could assist in maximizing the value of the Joint Venture interests. The Trustee and his counsel also met with James Po and

Y.P. Chan to discuss the Shareholder Group's position with respect to the case and the most recent offer received from Zhang Ke. The Shareholder representatives requested an opportunity to conduct further meetings with the Trustee in Asia to generate a proposal acceptable to the Noteholders, who hold the bulk of the unsecured claims in this case. The Trustee indicated a willingness to return to Asia for such discussions and advised that he would discuss the request with the Noteholder representatives on his return to the United States.

The Trustee believes that the fact-finding trip was successful in that the Trustee determined the following:

- The plant facilities (in particular, Quanxin Steel), appear to be well-maintained by Zhang Ke;
- The shuttered plants and plant closings in Shandong Province coupled with the impact of China's economic downturn would clearly have an impact on the Trustee's ability to monetize the Joint Venture interests;
- Zhang Ke, the Debtor's Joint Venture partner, is extremely well-connected in Zibo City and in Shandong Province and any disposition of the Joint Venture assets would likely have to be accomplished with his consent of Zhang Ke;
- Zhang Ke has not shared any information on the current financial status of the Chinese Joint Ventures and as a result, the Trustee is unable to determine the nature and extent of the Joint Venture entities' long term and current liabilities;
- While the Trustee communicated with various Chinese and U.S. prospects in the steel and copper industries to see whether they might have an interest in acquiring the Debtor's estate's interests in the Joint Venture, almost all of these prospects passed on this opportunity for a number of reasons, including the downturn in the copper and steel markets and because of the reluctance to step into a structure where they would have to deal with an uncooperative local Joint Venture partner; and
- The meetings with Zhang Ke and Shareholder representatives were productive in that they have led to the two separate proposals that are reflected in the Plan.

E. The Trustee's Plan Negotiation

Upon the Trustee's return from the fact-finding trip to China, he followed up with the Shareholder representatives and Zhang Ke with respect to prior discussions with these parties in China to elicit proposals that the Trustee could review and discuss with the Noteholder group and their counsel. At the February 5, 2009 status conference and hearing on various matters in the Bankruptcy Court, the Trustee provided a summary of his fact-finding trip and his investigations to the Bankruptcy Court and to the representative of the U.S. Trustee's office. The Trustee also discussed some of the plan alternatives, including the possibility of a proposal from certain Shareholders, the proposal from Zhang Ke and the possibility of a debt-for-equity swap plan as a plan option.

Following that hearing, the Trustee and his general counsel met with Y.P. Chan, the representative of the Shareholder group, and it was agreed that the Trustee would travel to Hong Kong later in the month to meet with the Shareholder representatives that were considering making a proposal to the Trustee for the acquisition of the Debtor's Joint Venture interests. During this time period, the Trustee also met and spoke with several domestic prospects who had initially expressed an interest in the Debtor's assets; the Trustee is continuing discussions with one of these prospects. In addition, the Trustee, by his Chinese counsel, reached out to Zhang Ke to follow up on his written agreement to provide a new proposal to the Trustee; the Trustee would not hear back from Zhang Ke until after March 1, 2009.

In late February 2009, the Trustee traveled to Hong Kong to meet with his Chinese counsel and the Shareholder representatives. During the trip, the Trustee met with Y.P. Chan, George Chua, Felix Chung, Li Wei Chuan and Manna Hung (a former director of the Chinese Joint Ventures) to review and discuss a draft proposal. After extensive discussions the

Trustee asked the Shareholder group to refine their proposal to present to the Noteholders for review and comment. In the following days, the Trustee met with his Chinese counsel in Hong Kong to discuss the Shareholder's draft proposal. He also met with professional resources of the Trustee to discuss the results of their own "fact-finding" investigations regarding the facilities in Shandong Province because the Trustee had not heard back directly from Zhang Ke since the January meetings in Zibo City. Prior to leaving Hong Kong, the Trustee engaged in further discussions with Y.P. Chan to discuss the Shareholder's draft proposal and the Trustee's suggestions for improving the proposal so that it might be accepted by the Noteholder group. The Trustee also spent a considerable amount of time on the telephone with Noteholder representatives discussing the essential elements of the Shareholder's draft proposal and next steps in the case.

In the first week of March 2009, the Trustee's Chinese counsel provided the Trustee with an English translation of a letter dated March 1, 2009 from Zhang Ke, which outlined a proposal for the acquisition of the Debtor's Chinese Joint Venture interests through an installment purchase for a total purchase price of $27 Million. After discussing the offer with his general and Chinese counsel, and with Noteholder representatives, the Trustee crafted a response to Zhang Ke's letter. On March 9, 2009 the Trustee's Chinese counsel provided an English translation of Zhang Ke's March 8, 2009 response letter in which Zhang Ke proposed further changes to his offer. During this time, Y.P. Chan, on behalf of the Shareholder group, sent an email to the Trustee setting forth in "bullet point" form the Shareholder's proposal for the acquisition and disposition of the Debtor's Joint Venture interests.

After further discussions with counsel and with the Noteholders and their representatives, the Trustee decided to move this case forward by proposing a plan that would

include both the Shareholder proposal and Zhang Ke's proposal, as well as a debt-for-equity swap option. While the Trustee recognized that all parties would likely continue their plan discussions, the Trustee concluded that it would be in the best interests of the Debtor's estate to move the process along by filing a plan that could be later amended, if necessary.

F. Bar Date and Claims Resolution Procedure

The Trustee filed the Debtor's Schedules on March 23, 2009. By motion, dated March 23, 2009, the Trustee asked the Bankruptcy Court to set May 8, 2009 as the Bar Date, i.e., the deadline by which proof of all claims and interests, including certain administrative expense claims, must be filed in order to share in a distribution from the Debtor's estate, subject to certain exceptions: claims or interest which had already been filed; claims or interest which the Debtor had listed in the Schedules, but not as disputed, contingent or unliquidated; administration claims of professionals retained pursuant to court order; and claims for which specific deadlines have been previously fixed by the Bankruptcy Court.

By order dated March 31, 2009, the Bankruptcy Court set May 8, 2009 as the Bar Date, as the Trustee requested. After entry of this order, the Trustee caused notice of the Bar Date to be sent by first Class mail to all known Creditors and Interest holders, and to be published in The Wall Street Journal.

The Trustee was required by the First Loan to review the validity of the claims of the Noteholders who participated as lenders and to determine whether the estate had any offsets, defenses, claims, objections, challenges, or causes of action against these Noteholders, and to do so by a so-called "Challenge Deadline," which was fixed as 60 days after the final approval of the First Loan. The Challenge Deadline was extended by agreement. After the Trustee had reviewed the books and records of the Debtor that had been made available to him, as well as the

Schedules and Statement of Financial Affairs, the Trustee entered into a stipulation with these Noteholders to (i) fix the general unsecured claims of each of the Petitioning Noteholders pursuant to the Bar Date Order, and (ii) confirm that the Trustee does not challenge the amount or validity of those claims. In this stipulation, these Noteholders confirmed that they have not received any transfers from the Debtor in the ninety (90) days before November 25, 2008. The stipulation and an application to approve it were filed prior to the Bar Date on May 8, 2009. The stipulation is scheduled to be presented to the Bankruptcy Court for approval on May 18, 2009.

The Trustee has also agreed to deem timely filed an unsecured claim by a creditor who contacted counsel for the Trustee one business day after the Bar Date, and explained circumstances that, in the Trustee's view, amounted to excusable neglect to permit the late claim to be considered timely.

G. Appointments Relating to Chinese JVs

The governing documents of the Chinese JVs give the Debtor the right to name three of the five members of each of board of directors for the Chinese JVs. In January 2009, the Debtor's designees to these boards resigned, and sent their resignations to the Trustee. On April 2, 2009, the Trustee filed a motion with the Bankruptcy Court seeking authority to exercise the Debtor's rights to name board members, and specifically, to appoint three representatives of the Noteholders, James Galloway Stevenson, Kristoffer Erling Andenaes and Andrew Graham, to be his designated appointees to the boards of the Chinese JV's. In addition, the Trustee sought authority to appoint certain of the Debtor's former officers and directors, George Chua, Manna Hung and James Poe, as special agents of the Debtor to sign documents for presentation in the PRC to effectuate the appointment of the new Chinese JV board members. The Bankruptcy Court granted the Trustee the authority he sought in an order, dated April 23, 2009. The Trustee

and his counsel are in the process of implementing the Bankruptcy Court's order. As of the date hereof, however, the appointment of the new Chinese JV board members has not been effected.

IV. DESCRIPTION OF THE PLAN

THE FOLLOWING IS ONLY A SUMMARY DESCRIPTION OF THE TREATMENT OF ADMINISTRATIVE EXPENSES, PRIORITY CLAIMS, SECURED CLAIMS, GENERAL UNSECURED CLAIMS AND INTERESTS UNDER THE PLAN, AS WELL AS OTHER PROVISIONS OF THE PLAN. A REVIEW OF THE PLAN IN ITS ENTIRETY IS NECESSARY FOR A COMPLETE UNDERSTANDING OF THE TERMS AND PROVISIONS OF THE PLAN.

A. Summary of the Plan

As stated above, the Plan contains Trustee's proposal for the sale and rehabilitation of Debtor's business and the payment of the Creditors' Claims. The Trustee submits that the Plan will afford Creditors a superior return on account of their Claims than would a liquidation of the Debtor under Chapter 7 of the Bankruptcy Code. In sum, the Plan is a reorganization transaction that provides three options, to be selected by the holders of Allowed Claims in Class 4, as follows:

OPTION A – Sale of the Chinese JVs to Zhang Ke, a natural citizen of the PRC, or his designees, for $27,000,000, payable in installments that allow the Plan Administrator, as of the Effective Date, to satisfy all Administrative Expense Claims, Gap Period Claims, Priority Tax Claims, and the amounts necessary to fund distributions to all Claimants (whether or not such Claimants hold Allowed Claims) in Classes 1 and 3; with the remaining installments to made commencing August 2009 and concluding December 2010. The Reorganized Debtor will

retain its interest in the Chinese JVs, or obtain a security interest in the assets of the Chinese JVs and the purchaser's interest in the Chinese JVs to secure the payment of purchase price. The Reorganized Debtor will be owned by the holders of Allowed Claims in Class 4, and New Common Stock will be issued pro rata to such holders. If Option A is consummated, Class 4 proceeds will be the shares of New Common Stock in the Reorganized Debtor (including the right to receive distributions from the Reorganized Debtor of the proceeds of the installment payments of the sale, plus the net proceeds of the non-released Causes of Action. A condition precedent to the selection of Option A is that a deposit of not less than $1 million shall have been made with the Trustee as of the date of the Confirmation Hearing;

OPTION B – A combined sale and restructure consisting of transferring Debtor's interest in SQSS and dividing STJMC into two facilities, one of which will be transferred to Zhang Ke or his designees, and the other of which the Reorganized Debtor will retain a 90% interest. The Reorganized Debtor will get $16,470,000; will make capital improvements to its facility; and the joint venture agreements for the Chinese JVs will be deemed rejected with no Claims for damages asserted. The Shareholder Investor Group will contribute $10,000,000 in exchange for the New Common Stock in the Reorganized Debtor, of which $7,210,000 will be used to fund operations of the Reorganized Debtor. $17,790,000 will be paid to the Plan Administrator to satisfy all Administrative Expense Claims, Gap Period Claims, Priority Tax Claims, and the amounts necessary to fund distributions to all Claimants (whether or not such Claimants hold Allowed Claims) in Classes 1 and 3; and thereafter to fund pro rata distributions to holders of Allowed Claims in Class 4. If Option B is consummated, Class 4 proceeds will be the cash remaining from the $17,790,000 after payment of all Administrative Expense Claims, Gap Period Claims, Priority Tax Claims, and all Allowed Claims in Classes 1 and 3, plus the net

proceeds of the non-released Causes of Action. A condition precedent to the selection of Option B is that a deposit of not less than $1 million shall have been made with the Trustee as of the date of the Confirmation Hearing;

OPTION C – A debt-for-equity swap whereby the Funding Noteholders will pay to the amount necessary to satisfy all allowed Administrative Expense Claims,[5] Gap Period Claims, Priority Tax Claims and the amounts necessary to fund distributions to all Claimants in Classes 1 and 3, and the Debtor's current stock will be exchanged for debt with the members of the Funding Noteholders receiving pro rata 100% of the mandatorily redeemable preferred stock in the Reorganized Debtor in exchange for the amount of their funding contributions plus interest. The New Common Stock will be issued pro rata to the holders of Allowed Claims in Class 4. The Plan Administrator shall pursue the Causes of Action, and pay the proceeds of such Causes of Action to the Reorganized Debtor for further distribution to the holders of Allowed Claims in Class 4. If Option C is consummated, Class 4 proceeds will be the shares of New Common Stock in the Reorganized Debtor, plus the net proceeds of the Causes of Action.

The Plan also provides that on the Effective Date, holders of Administrative Expense Claims and Gap Period Claims will receive Cash on account of such Claims to the extent that they are Allowed Claims as of the Effective Date. Priority Tax Claims that are allowed as of the Confirmation Date shall be paid at the Reorganized Debtor's election either in full in Cash on the Effective Date or in installments no later than 5 years from the Relief Date, with accrued interest at the statutory interest rate applicable to such taxing authority or, if no such rate exists, at 6% per annum. To the extent such Administrative Expense and Priority Tax

[5] The Plan contains a condition to the Effective Date that the total amount of Administrative Expense Claims, Gap Period Claims, Priority Tax Claims and Class 3 Claims that are either Allowed Claims or Disputed Claims does not exceed $1 million.

Claims are neither Allowed Claims nor paid as of the Effective Date, such Claims will only be paid pursuant to Final Order of the Bankruptcy Court.

The fees of Professional Persons pursuant to sections 330 and 503(b)(4) of the Bankruptcy Code shall be paid after entry of a Final Order by the Bankruptcy Court awarding such compensation and reimbursement of expenses. Additionally, the services of the Committee in obtaining the appointment of the Trustee, including all related preparation and litigation, and the services of the lenders in connection with the Post-Petition Financing Agreements shall be deemed to have made a substantial contribution in the Reorganization Case pursuant to section 503(b)(3)(D) of the Bankruptcy Code. Pursuant to section 503(b)(4), counsel for the Committee and the lenders in connection with the Post-Petition Financing Agreements shall be entitled to reasonable compensation for services related to the filing of the involuntary petition and prosecution of the Chapter 11 Case. The amount of such reasonable compensation shall be determined by the Bankruptcy Court in accordance with the procedures in this Reorganization Case governing payment of Professional Fees.

B. <u>Organization of the Plan</u>

The Plan is organized into Articles. Article I contains the definition of terms used in the Plan and Rules of interpretation. Article II sets forth the treatment to be received by those entities holding Claims and expenses that are not required to be classified under the Bankruptcy Code (i.e., Administrative Expenses and Priority Tax Claims). Article III classifies the Claims of all Creditors and the Interests of equity holders that the Bankruptcy Code requires to be classified. Article IV specifies the treatment afforded under the Plan to each unimpaired Class of Claims. Article V specifies the treatment afforded under the Plan to each impaired Class of Claims or Interests.

Article VI specifies the voting options for holders of Allowed Class 4 Claims and the means of implementing the Plan. In sum, the Ballot for holders of Allowed Claims in Class 4 will contain provisions for the holders to express their preferences for a reorganization transaction among the three options as described above in Part I.C of this Disclosure Statement. Article VII provides for the rejection of all executory contracts or unexpired leases unless otherwise previously assumed (by either Bankruptcy Court order or pursuant to other Plan provisions), and the procedures for resolving claims asserting damages based on the Trustee's rejection of executory contracts and unexpired leases. Article VII also provides if Option A or B, described in Section 6.2(a) or 6.2(b) of the Plan is consummated, the joint venture agreements for the Chinese JVs shall be deemed rejected and no Claim for rejection damages shall be Allowed. If Option C, as described in Section 6.2(c) of the Plan is consummated, the joint venture agreements concerning the Chinese JVs shall be assumed.

Article VIII concerns the Reorganized Debtor's post-confirmation business, and the manner in which the Reorganized Debtor's board of directors and management will be selected post-confirmation. Article IX contains provisions for the Debtor's discharge and release under the Plan from any and all debt that arises prior to the Confirmation Date. Article X provides for the manner in which distributions shall be made under the Plan. Article XI contains provisions for interpreting the Plan, voting on the Plan and confirming the Plan in the event that there is a dissenting Class of claims. Article XII contains the provisions for the Bankruptcy Court to retain jurisdiction until all matters relating to the Debtor's estate are resolved. Article XIII provides for certain conditions, other than those required under the Bankruptcy Code, for confirmation and consummation of the Plan, as well as conditions to the Effective

Date. Finally, Article XIV contains miscellaneous provisions that do not lend themselves to any other Article of the Plan.

C. Definitions

The definitions contained in Article I fall primarily into two categories. One category sets forth terms of art in bankruptcy practice. Every effort has been made to make such definitions correspond to the definitions used in the Bankruptcy Code, the Bankruptcy Rules or general bankruptcy practice. Definitions such as "Claim" and "Person" are examples of definitions in the first category. The second category consists of shorthand labels or phrases to refer to a name, a group, or a concept that would take longer to express. Definitions such as "Chinese JVs" and "Petitioning Creditors" are examples of definitions in the second category.

D. Treatment of Administrative Claims, Gap Period Claims and Priority Tax Claims

Article II of the Plan provides for the payment of Allowed Administrative and Gap Period Claims in full, in Cash, on the Effective Date (or pursuant to the ordinary terms of payment applicable to such an Administrative Claim). The Reorganized Debtor may elect to pay Allowed Priority Tax Claims either in full in Cash on the Effective Date or over a period of five (5) years from the earlier of the date of assessment or the Effective Date, with accrued interest at either six percent (6%) per annum or the statutory interest rate applicable to such taxing authority holding an Allowed Priority Tax Claim.

Generally, Administrative Expenses are the costs of conducting the Chapter 11 Case and post-Filing Date operations, and include the fees and expenses of professionals retained by the Debtor and the Committee and fees payable to the United States Trustee pursuant to 28 U.S.C. § 1930. The payment of professional fees is subject to the entry of an order of the Bankruptcy Court granting a specific allowance upon application therefor by each professional.

As of the Confirmation Date, Administrative Expenses are estimated to aggregate approximately $1 million , consisting principally of Professional Fees and the Trustee's Commissions.

Gap Period Claims are Claims that were incurred in the ordinary course of business between the time the involuntary chapter 11 petition was filed on November 28, 2008, and the date the Bankruptcy Court granted an Order for Relief on December 17, 2008. Such Claims are entitled to priority under section 507(a)(3) of the Bankruptcy Code. Gap Period Claims were required to be filed by the Bar Date, and $21,951.83 in timely-filed in Gap Period Claims have been docketed to date by the clerk of the Bankruptcy Court.

Priority Tax Claims consist of those Claims entitled to priority under section 507(a)(8) of the Bankruptcy Code. The Trustee is currently not aware of any Priority Tax Claims asserted against the Debtor.

E. Classification and Treatment of Claims and Interests

1. Classification

Article III of the Plan divides all Claims (except Administrative Expenses, Gap Period Claims and Priority Tax Claims) and Interests into Classes. The Classes consist of Claims and Interests, rather than Creditors and Interest holders, because one Creditor or Interest holder may hold more than one kind of Claim or Interest. The Bankruptcy Code requires the designation of Classes, and that Claims or Interests placed in the same Class be substantially similar to each other. Finally, the Bankruptcy Code requires that all Claims or Interests in the same Class receive the same treatment, unless a holder of a Claim or Interest in such Class agrees to a less favorable treatment.

2. **<u>Treatment of Classes of Claims and Interests</u>**

(A) **<u>Class 1: Post-Petition Secured Claims (Unimpaired)</u>**

Class 1 consists of the post-petition Secured Claims incurred in connection with the Post-Petition Financing Agreements and related amendments. The Allowed Amount of the Claims in this Class as of May 31, 2009 is projected to be $403,000.00, plus interest. Class 1 is Unimpaired by the Plan and, therefore, each holder of an Allowed Class 1 Claim is deemed to have accepted the Plan and is not entitled to vote to accept or reject the Plan. The Plan leaves unaltered the legal, equitable, and contractual rights to which the holders of Claims in Class 1 are entitled. On the Effective Date, each holder of an Allowed Claim in Class 1 shall receive Cash equal to 100% of the allowed amount of such Class 1 Claim, together with interest, if any, to which each holder may be entitled under applicable law on such Class 1 Claim. In the event Option C is selected, to the extent that a member of the Funding Noteholders is also the holder of an Allowed Class 1 Claim, the Allowed Class 1 Claim may be satisfied in whole or in part by a setoff against the required funding contribution of the such member of the Funding Noteholders.

(B) **<u>Class 2: Other Secured Claims (Impaired)</u>**

Class 2 consists of all Secured Claims against the Debtor not included in Class 1. The Trustee does not believe there is any Claim in this Class. This Class has been established as a "placeholder" Class, in the event that a currently unknown secured claim is filed. In accordance with section 1129(a)(9)(D) of the Bankruptcy Code, a Secured Claim which would is excluded from Class 2, and is treated as a Priority Tax Claim. Each holder of a Claim in Class 2 is considered as though it were placed in a separate Class for purposes of voting and distribution under the Plan. Class 2 is Impaired by the Plan and, therefore, each holder of an Allowed Class 2 Claim is and is entitled to vote to accept or reject the Plan. A holder of an Allowed Claim in

Class 2 shall receive on the Effective Date, at the election of the Reorganized Debtor, one of the following alternatives: (a) cash equal of the Allowed Amount of its Claim; (b) a surrender of the collateral securing the Allowed Claim; or (c) the holder's legal, equitable and contractual rights unaltered by the Plan.

(C) <u>Class 3: Priority Claims (Unimpaired)</u>

Class 3 consists of all unsecured Claims entitled to priority pursuant to sections 507(a)(3), 507(a)(4), 507(a)(5), 507(a)(6), 507(a)(7) or 507(a)(9) of the Bankruptcy Code. These sections provide priority for pre-petition wages and employee benefit plan contributions, as well as Claims for grain storage, fishermen, consumer deposits, and Claims of federal banking regulators. Class 3 is Unimpaired by the Plan and, therefore, each holder of an Allowed Class 3 Claim is deemed to have accepted the Plan and is not entitled to vote to accept or reject the Plan. The Plan leaves unaltered the legal, equitable, and contractual rights to which the holders of Claims in Class 3 are entitled. The Schedules show Claims in this Class amounting to $33,000.00. On the Effective Date, each holder of an Allowed Claim in Class 3 shall receive Cash equal to 100% of the allowed amount of such Class 3 Claims, together with interest, if any, to which each holder may be entitled under applicable law on such Class 3 Claims.

(D) <u>Class 4: General Unsecured Claims (Impaired)</u>

Class 4 consists of all General Unsecured Claims against the Debtor. The Schedules show Claims in this Class amounting to $29,317,436.64. The Trustee entered into a Stipulation with the Noteholders allowing their general unsecured claims in the aggregate amount of $29,015,453.06; therefore, the amount of undisputed, and thus Allowed, Class 4 Claims as of the date of this Disclosure Statement totals $30,506,718.56. Additionally, another

$2,029,333.78 in Disputed Claims have been timely filed by creditors. Class 4 is Impaired by the Plan and, therefore, each holder of an Allowed Class 4 Claim is entitled to vote to accept or reject the Plan. A holder of an Allowed Claim in Class 4 shall receive a pro rata distribution of the Class 4 proceeds set forth in Section 6.3(f) of the Plan. What the Class 4 proceeds are depend upon which reorganization transaction is selected.

(A) If Option A (Sale of Chinese JVs) is selected, the Class 4 proceeds are: a pro rata distribution of the New Common Stock in the Reorganized Debtor (which will receive the sale proceeds of $27,000,000 after satisfaction of all priority and secured claims and expenses) plus the net proceeds of the Causes of Action pursued by the Plan Administrator.

(B) If Option B (Combined Sale and Restructure) is selected, the Class 4 proceeds are: a pro rata distribution of $17,790,000 after satisfaction of all priority and secured claims and expenses plus net proceeds of the Causes of Action pursued by the Plan Administrator.

(C) If Option C (Stock of Debt) is selected, the Class 4 proceeds are: a pro rata distribution of the New Common Stock in the Reorganized Debtor (which will receive the sale proceeds of $27,000,000 after satisfaction of all priority and secured claims and expenses) plus the net proceeds of the Causes of Action pursued by the Plan Administrator.

(E) <u>Class 5: Interests (Impaired)</u>

Class 5 consists of all Interests, including the Old Common Stock, of the Debtor. Each holder of Claims and/or Interests in Class 5 shall not receive or retain any property under the Plan and, therefore, is deemed to have rejected the Plan and, therefore, each holder of Claims and/or Interests in Class 5 is not entitled to vote to accept or reject the Plan. On the Effective Date, the holders of Interests in the Debtor will neither receive nor retain any property of the

Debtor on account of their Interests. In particular, there will be no distribution to holders of Interests on account of such Interests and all Old Common Stock of the Debtor will be canceled.

(F) Other Provisions of the Plan

(1) Rejection of Executory Contracts

Article VII of the Plan provides for the rejection of all the Debtor's remaining executory contracts and unexpired leases, unless the Debtor assumes any such contract or lease pursuant to either an order of the Bankruptcy Court or has pending before the Bankruptcy Court an application for such an order authorizing assumption. The Plan provides for the ability of the Trustee to file a Schedule of Assumed Contracts not less than ten (10) days prior to the Confirmation Hearing. Parties to executory contracts or unexpired leases that appear on the Schedule of Assumed Contracts will receive at least ten (10) days notice of such assumption and of any proposed amount necessary to cure a default. If Option C, as described in Section 6.2(c) of the Plan is consummated, the joint venture agreements concerning the Chinese JVs will be assumed.

Any party to an executory contract or unexpired lease that the Trustee rejects, in accordance with Article VII of the Plan, will have thirty days from the date of entry of an order of the Bankruptcy Court, rejecting such contract or lease, to file a proof of Claim for damages arising from such rejection (the "Rejection Claims"). The Trustee believes that the dollar amount of Rejection Claims, to be treated as Class 4 Unsecured Claims, will not be significant.

(2) Debtor's Post-Confirmation Business

Article VIII of the Plan provides that the Reorganized Debtor will continue to operate its business after consummation of the Plan. The selection of directors and officers of the Reorganized Debtor will depend upon which reorganization transaction is consummated. If

Option A is consummated, the directors and officers will be selected by the Lenders of the Post-Petition Financing Agreements. If Option B is consummated, the directors and officers will be selected by the Shareholder Investor Group. If Option C is consummated, the directors and officers will be selected by the Funding Noteholders.

The individuals selected, and the compensation of any insider selected, will be identified in a document filed with the Bankruptcy Court prior to the Confirmation Hearing. The individuals selected will continue in office until an election of directors is held in accordance with the corporate charter of the Reorganized Debtor.

3. Debtor's Discharge from all Pre-Confirmation Debts

In conjunction with section 1141(d)(1) of the Bankruptcy Code, Article IX of the Plan provides that on the Effective Date, the Debtor shall be discharged from any debt that arose prior to the Confirmation Date, as well as any debt of a kind specified in sections 502(g), 502(h), or 502(i) of the Bankruptcy Code, irrespective of whether (a) a proof of Claim based on such a debt has been filed, or deemed to have been filed, under sections 501 or 1111(a) of the Bankruptcy Code, (b) such Claim is allowed under section 502 of the Bankruptcy Code, or (c) the holder of the Claim has accepted the Plan.

4. Injunction and Exculpation Provision

Article IX of the Plan contains three additional provisions concerning the effect of the Plan. The first, at section 9.2 of the Plan, is an injunction that prohibits all Creditors, Interest holders and other entities who are bound by the Plan from commencing or continuing any judicial or administrative proceeding, or employing any judicial or administrative process, to interfere with either the Plan's implementation and consummation or the payments to be made thereunder. The second provision, which is

applicable only if Option B is selected as the reorganization transaction, contains a release by the holders of Allowed Claims in Class 4 in favor of the members of the Shareholder Investor Group, Felix Chung, George Chua, Manna Hung, Zhang Ke, and the holders of the Notes, and provides for an injunction to enforce this release. The Office of United States Trustee has requested that creditors be notified that it may object to this provision as impermissible under the Bankruptcy Code and applicable case law, such as *In re Metromedia Fiber Network, Inc.*, 416 F.3d 136 (2d Cir. 2005). **The third provision, at section 9.5 of the Plan, provides exculpation from liability to the Trustee, the Committee, the Funding Noteholders and their Agents, including their post-petition officers, directors, employees, Professional Persons, representatives and agents, and their respective successors and assigns, for any act or omission in connection with or arising out of the Plan, or the property to be distributed under the Plan, or the performance of the duties of debtor in possession; provided however, that such exculpation from liability will not apply to actions or omissions (a) in bad faith, (b) as a result of recklessness, willful misconduct, negligence, gross negligence or breach of fiduciary duty, or (c) arising after the Confirmation Date.**

The first injunction provision is a standard one. It is aimed at preventing actions that interfere with the consummation of the Plan. The second injunction provision is part of the bargained-for consideration of Option B, and is essential for Option B to be consummated. The exculpation provision is also standard and appropriate, because the Bankruptcy Court has the authority to determine the conduct of the reorganization case within its jurisdiction, and thus the acts of any fiduciaries or professionals in connection with the case, which could give rise to liability to any third person, should be raised with the Bankruptcy Court prior to confirmation of the Plan.

5. Distributions

All payments required under the Plan will be made in U.S. dollars by checks drawn on a domestic bank selected by the Trustee, or by wire transfer from a domestic bank, at the Option of the Trustee.

6. Conditions to Confirmation and Consummation on the Effective Date

Article XIII of the Plan contains separate conditions to confirmation and consummation on the Effective Date, which the Trustee and 70% of the lenders of the Post-Petition Financing Agreements may waive in writing. The conditions to confirmation and consummation of the Plan on the Effective Date are as follows: (a) entry of a Final Order of the Bankruptcy Court finding that this Disclosure Statement contains adequate information, pursuant to section 1125 of the Bankruptcy Code; (b) entry of the Confirmation Order in form and substance reasonably acceptable to the Trustee, which Confirmation Order shall have become final and nonappealable; (c) all necessary consents, authorizations and approvals shall have been given for the transfers of property and the payments provided for or contemplated by the Plan; and (d) the non-Disallowed Claims that are Administrative Expense Claims, Gap Period Claims, Priority Tax Claims and Class 3 Claims (other priority claims) do not exceed $1 million.

Additionally, if Option A or Option B is selected to proceed to consummation, then the Trustee shall have received an amount not less than the sum that is necessary to (1) satisfy all Administrative Expense Claims, Gap Period Claims, Priority Tax Claims, (2) fund all distributions to all Claimants (whether or not such Claimants hold Allowed Claims) in Classes 1 and 3, and (3) fund a reserve, in an amount to be determined by the Trustee, to pursue the Causes of Action.

The Trustee has every reason to believe that it will satisfy all of the above conditions for both confirmation and consummation of the Plan on the Effective Date.

G. <u>Implementation of the Plan; The Reorganization Transaction Options</u>

The Plan will implement a reorganization transaction, chosen by the holders of Allowed Claims in Class 4, from the following three options: (A) sale of the Chinese JVs; (B) combined sale of the Chinese JVs and restructure of the Debtor; or (C) debt for equity swap. These options are described above in Part IV.A of this Disclosure Statement. The Ballot for holders of Allowed Claims in Class 4, in addition to the designation of acceptance or rejection of the Plan, contain the following preferences for those voting to accept the Plan: (1) Option A, and if Option A cannot be consummated as of the Effective Date, then Option C; (2) Option B, and if Option B cannot be consummated as of the Effective Date, then Option C; or (3) Option C (without attempting to consummate Option A or B. The Ballot is described above in Part I.C of this Disclosure Statement.

Option A or B will be considered eligible if a preference that includes such Option is selected by two-thirds in dollar amount and a majority in number of the holders of Allowed Claims in Class 4 that select a preference. Option C is deemed eligible irrespective of the selection of preferences.

H. <u>Plan Administrator</u>

The Plan provides for the current Trustee to serve in a new capacity, as Plan Administrator, when the Plan becomes effective. The Plan Administrator will have two essential functions: the distribution function, and the prosecution of certain lawsuits ("Causes of Action") function. He will make most of the distributions of cash and all of the distributions of New Common Stock required by the Plan. (If Option A is selected, any distributions in cash from the

sale proceeds will be made by the Reorganized Debtor.) He will also hold in reserve cash or New Common Stock with respect to Disputed Claims, until the dispute is resolved, as described below. The Plan Administrator will also pursue the Causes of Action, as described below.

I. Reserves for Disputed Claims

The Plan provides that, on the Effective Date, the Plan Administrator, shall reserve for the account of each holder of a Disputed Claim (i) the property which would otherwise be distributable to such holder on such date in accordance with the Plan were such Disputed Claim an Allowed Claim on such date, in the face amount thereof, or such other amount as ordered by the Bankruptcy Court, or (ii) such other property as such holder and the Reorganized Debtor may agree. If and when the Reorganized Debtor makes distributions to holders of New Common Stock, the distributions on account of New Common Stock allocated to Disputed Claims shall be paid to the Plan Administrator, and held in reserve by the Plan Administrator in accordance with the provisions of Section 6.14 of the Plan. Property reserved under this section will be set aside and segregated by Class of Claims. To the extent such Disputed Claim becomes an Allowed Claim, the property so reserved for the holder thereof shall be distributed to such holder pursuant to, and to the extent provided for in, the Plan. Upon any Disputed Claim becoming a Disallowed Claim in whole or in part, the property reserved for the payment of the Disallowed portion of such Disputed Claim, including any interest or dividends attributable thereto, shall become available for distribution to holders of Allowed Claims in accordance with the provisions of the Plan

J. Causes of Action

Under the Plan, "Causes of Action" means any and all Claims, rights, defenses, offsets, recoupments, actions in law or equity or otherwise, choses in action, suits, damages,

rights to legal or equitable remedies, judgments, third-party Claims, counterclaims and cross-claims against any Person, whether arising under the Code or federal, state, common, or other law, regardless of whether such Cause of Action is the subject of pending litigation or proceedings on the Confirmation Date, the Effective Date, or thereafter, including, without limitation, as to Causes of Action of the Debtor: (a) all Claims arising under sections 510, 541, 542, 543, 544, 545, 547, 548, 549, 550 or 553 of the Bankruptcy Code; (b) all other Claims in avoidance, recovery, and/or subordination; and (c) all other actions described in the Schedules, the Plan, a Plan Supplement, or herein.

The following are among the specific categories of Causes of Action that may be pursued:

As Against Officers, Directors, Controlling Shareholders and Partners of Terra Nostra, and Their Relatives and Corporations and Entities Owned or Controlled by Them ("Insiders"): (1) Insider preferences, which are payments (or transfers of property) to or for the benefit of Insiders, on account of antecedent debt, made while Terra Nostra was insolvent, within one year prior to the Filing Date of November 28, 2008, that enabled such Insiders to receive more than they would have received had the payments(or transfers of property), not been made, Terra Nostra were liquidated under chapter 7 of the Bankruptcy Code, and the Insiders received payments on account of such antecedent debts under the provisions of chapter 7 of the Bankruptcy Code; (2) Fraudulent transfers, which are payments or transfers of property made either with actual intent to hinder, delay or defraud creditors of Terra Nostra, or payments or transfers of property made while Terra Nostra was insolvent, had unreasonably small capital, or knew it would incur debts beyond its ability to pay when such debts matured, and for which Terra Nostra did not receive reasonably equivalent value in exchange; including improper or

excess compensation or corporate benefits or perquisites; gratuitous transfers, such as gifts or payments by Terra Nostra of the obligations of Insiders; or redemptions or purchases of Terra Nostra stock; (3) Breaches of fiduciary duty or aiding and abetting breaches of fiduciary duty, for approving, permitting, or substantially assisting in the Terra Nostra's making an Insider preference described in (1) or fraudulent transfer described in (2); (4) Unauthorized post-petition transfers, for obtaining any transfer of property of Terra Nostra after the Filing Date of November 25, 2008, if the transfer was unauthorized by the Bankruptcy Code or by the Bankruptcy Court; and (5) Equitable subordination, to subordinate, based on inequitable conduct, the Claims of Insiders, so that such Claims receive no distribution under the Plan.

As Against Any Person Holding Money or Property, Including Books and Records of Terra Nostra: A turnover action, compelling such person to turn such money, property, or books and records, over to the Plan Administrator or the Reorganized Debtor.

As Against Any Person Having Received, Attaching or Attempting to Attach the Interests or Property of Terra Nostra in the PRC: Any action in the nature of a preference (whether or not an Insider preference), fraudulent transfer or unauthorized post-petition transfer.

As Against Terra Nostra Partners in the Chinese JVs: Any action under the applicable joint venture agreements or the law of the PRC, and any action in the nature of a preference (whether or not an Insider preference), fraudulent transfer or unauthorized post-petition transfer.

The Plan Administrator may continue or resolve Causes of Action that are not the subject of releases granted during the Reorganization Case or pursuant to the Plan. In accordance with the various reorganization transaction options to be selected under the Plan, Causes of Action may be waived as to certain parties, or pursued by the Plan Administrator and the

proceeds of such (minus certain fees and expenses) paid to the Reorganized Debtor for further distribution to the holders of Allowed Claims in Class 4.

K. Remaining Plan Provisions

The remaining provisions of the Plan have already been summarized in Part IV.B of the Disclosure Statement, but since the summary is not long, it will be repeated here. Article XI contains provisions for interpreting the Plan, voting on the Plan and confirming the Plan in the event that there is a dissenting Class of claims. Article XII contains the provisions for the Bankruptcy Court to retain jurisdiction until all matters relating to the Debtor's estate are resolved. Finally, Article XIV contains miscellaneous provisions that do not lend themselves to any other Article of the Plan.

V. FEASIBILITY OF THE PLAN

A. Required Commitments Under the Plan

The Bankruptcy Code provides that a plan may be confirmed only if confirmation is not likely to be followed by a liquidation or the need for further financial reorganization, unless such liquidation or reorganization is expressly provided for in the plan. In essence, this provision requires that the Bankruptcy Court find that the Reorganized Debtor is capable of fulfilling its commitments in the Plan, or put simply, that the Plan is feasible.

The principal commitments under the Plan are: (1) the payment in full of Administrative Expenses, Gap Period Claims, Priority Tax Claims, Class 1 Post-Petition Secured Claims, and Class 3 Priority non-tax Claims that are allowed as of the Effective Date; (2) payment to Class 2 Claims that are allowed as of the Effective Date, at the election of the Reorganized Debtor, one of the following alternatives: (a) cash equal of the Allowed Amount of its Claim; (b) a surrender of the collateral securing the Allowed Claim; or (c) the holder's legal,

equitable and contractual rights unaltered by the Plan; and (3) payment to each holder of an Allowed Class 4 Claim of a pro rata distribution of Class 4 Proceeds based upon consummation of one of three plan options.

B. Risk Factors

General Considerations

The following risk factors should be taken into account irrespective of which option is chosen for the Reorganization Transaction.

- Risks related to operating a business in the PRC include
  - Governmental intervention may change economic conditions
  - The PRC still does not have a comprehensive system of commercial law or reliable interpretation and enforcement of existing laws
  - Environmental issues or regulations may increase the costs of doing business
  - Foreign currency exchange rates and control systems may limit profitability and the ability to export funds from the PRC

- Risks related to being in a competitive business include
  - The copper and stainless steel industries are highly competitive
  - The facilities may not achieve yields, volumes and cost basis necessary to generate profits
  - The inability to operate efficiently may be detrimental to the continuation in business

- Risks related to operations include
  - Historically, the Debtor has never paid cash dividends and is not likely to do so in the foreseeable future
  - Looking forward, the ability to generate profits is related to the quality of management operating the facilities

- Risks related to value of an investment include
    - There is a limited trading market for the stock of the Debtor
    - The price of the stock is subject to volatility irrespective of financial performance

Risks Related to Options A and B

The Plan lists three options: Option A (Sale of Chinese Joint Venture interests); Option B (combined sale and restructuring); and Option C (Stock for Debt). While Option C is the "default" option, the risk factors associated with Options A and B are summarized below:

Option A (Sale of Chinese JV Interests). The purchase offer that is described in this Plan Option presents the following risks:

- There is no signed, binding commitment with Zhang Ke as of the date of this Disclosure Statement to implement this option. (There is, however, a binding agreement, signed by Mr. Ke on November 14, 2008, which is discussed above.)
- The Trustee has not been given financial disclosure from Zhang Ke to demonstrate his financial ability to implement this option.
- The ability to enforce the arrangement in the PRC is subject to risks, costs and delays inherent in international transactions.
- Since the offer expresses a preference for a "China-based" transaction (with payments made in China in RMB as opposed to US Dollars) there may be foreign exchange issues that will need to be considered.

Option B (Combined Sale and Restructuring). The proposal offer that is described in this Plan Option presents the following risks:

- There is no signed, binding commitment with Zhang Ke and the Shareholder Investor Group as of the date of this Disclosure Statement to implement this option.
- There is no indication that Zhang Ke has accepted the terms of the proposal put forth by the Shareholder Investor Group.

- The Trustee has not been given financial disclosure from Zhang Ke and the Shareholder Investor Group to demonstrate their financial ability to implement this option.

- The ability to enforce the arrangement in the PRC is subject to risks, costs and delays inherent in international transactions.

- Since the offer expresses a preference for a "China-based" transaction (with payments made in China in RMB as opposed to US Dollars) there may be foreign exchange issues that will need to be considered.

- The proposal includes releases of certain former officers, directors and insiders of the Debtor; Class 4 claimants will need to consider the benefits offered by this proposal against the risk of waiving potentially valuable claims of the Debtor's estate against these parties; and the Bankruptcy Court may find that the release is impermissible under the Bankruptcy Code and applicable case law.

C. Plan Implementation Pursuant to the Reorganization Options

Before selecting an option to proceed to confirmation, the Trustee must be assured that he will have sufficient funds on hand to make the payments due on the Effective Date to holders of Administrative Claims, Gap Period Claims, Priority Tax Claims, Class 1 Post-Petition Secured Claims, Class 3 Priority non-tax Claims, and Class 2 cure payments (plus any amounts that may have to be reserved on account of Priority Claims and Administrative Expenses not yet allowed and/or paid as of the Effective Date). The funds needed to make the payments due on the Effective Date will be generated from any of the three Reorganization Transaction Options.

As to the consummation of the Reorganization Transaction, it must be first observed that if Option A or Option B is provisionally selected, based on the expressed preferences of the holders of Allowed Claims in Class 4, the Trustee has committed not to select such Option, if it appears to his reasonable satisfaction that such Option cannot be closed. As stated above, Option C is the "default" or "fall back" option. The ability to issue New Common Stock is within the Trustee's control, after the Bankruptcy Court confirms the Plan. A condition

precedent of all three options is a good-faith deposit of not less than $1 million made with the Trustee as of the date of the Confirmation Hearing. As a result of the foregoing, the Trustee believes that the Plan is feasible.

VI. POSSIBILITY OF CONFIRMATION NOTWITHSTANDING REJECTION

A. General Considerations

The Bankruptcy Code generally requires that for a plan to be confirmed it must be accepted by all impaired Classes. The impaired Classes are 2, 4 and 5. For impaired Classes of Creditors to accept, the holders of two-thirds of the amount of Claims in each Class and more than one-half the number of Claims in each Class, based on Creditors who actually vote, must vote to accept the Plan.

Nevertheless, even if the Plan is not accepted by all of the impaired Classes, but is accepted by at least one impaired Class of Claims, then the Plan may still be confirmed. The Bankruptcy Code has what have been nicknamed "cramdown" provisions in such an eventuality. The Bankruptcy Code makes different cramdown provisions applicable to Classes of Secured Claims, unsecured Claims, and for Interest holders. Under this Plan, the Class 2 Secured Claims, the Class 4 General Unsecured Claims and the Class 5 Interests are impaired under the Plan; however, Class 5 is deemed to reject the Plan and is not entitled to vote.

B. Cramdown on Classes of Interest Holders

Generally, a plan may be confirmed or "crammed down" notwithstanding its rejection by a Class of equity security holders if the plan is fair and equitable, does not discriminate unfairly and provides for one of two alternatives: either (a) the shareholders are allocated property that has a value on the effective date of the plan equal to the greater of any fixed liquidation price or fixed redemption price; or (b) no junior Class of equity security holders

receives any distribution of property. These two alternatives for shareholders restate the absolute priority rule.

Under the Plan, the impaired Class of Interests is Class 5, which includes the Debtor's Old Common Stock. There is no Class of junior interests under the Plan; accordingly, the Plan provides for alternative (b) above, in that "no junior Class of equity security holders receives any distribution of property" under the Plan. Moreover, the Trustee believes that the Debtor is insolvent and that irrespective of which Reorganization Transaction is selected, the holders of Allowed Claims in Class 4 will not receive value sufficient to constitute full payment of their Claims. Thus, the Trustee believes that the Plan is fair and equitable to Class 5. As such, the Plan can be confirmed, even though Class 5 Interest holders are deemed to reject the Plan, so long as Class 4 votes to accept the Plan.

C. <u>No Cramdown on Class of Unsecured Creditors</u>

A plan may be confirmed or "crammed down" notwithstanding its rejection by a Class of unsecured creditors if the plan is fair and equitable, does not discriminate unfairly and provides for one of two alternatives: either (a) the creditors are allocated property that has a value on the effective date of the plan sufficient to pay their claims in full; or (b) no junior Class of creditors or equity security holders received any distribution of property. These two alternatives for unsecured creditors restate the absolute priority rule.

The impaired Class of unsecured Creditors is Class 4. The only Class junior to this Class, the equity holders in Class 5, will receive no distribution. Thus, although the Trustee believes that at least one of the alternative requirements is satisfied, the Plan may not be confirmed if Class 4 votes to reject the Plan, because there will not be an impaired, accepting Class of Claims.

D. Cramdown on Class of Secured Creditors

A plan may be confirmed or "crammed down" notwithstanding its rejection by a Class of secured creditors if the plan is fair and equitable, does not discriminate unfairly and provides for one of three alternatives: (a) the secured creditors retain their liens and receive deferred cash payments totaling at least the allowed amount of their claims, having a present value of at least the value of their collateral; (b) the collateral is sold, subject to the secured creditors' right to bid in their secured claims at the sale, with the liens to attach to the proceeds of sale, and the proceeds treated in accordance with alternatives (a) and (c) listed in this paragraph; or (c) the secured creditors receive the "indubitable equivalent" of their claims.

The impaired Class of Secured Creditors is Class 2. Class 2, which as stated above, is currently not believed to contain any Claims and is established as a "placeholder" class. Each holder of a Claim in this Class, if any, is treated as though such holder in its own separate Class. Such holder receives, at the election of the Reorganized Debtor, one of the following: (a) Cash equal to the Allowed Amount of its Claim; (b) a surrender of the collateral securing the Allowed Claim; or (c) the holders legal, equitable and contractual rights unaltered by the Plan. The Trustee believes that the first two alternative treatments constitute the "indubitable equivalent" of such Allowed Claim, and therefore satisfy one of the alternative the "cram down" criteria. The third alternative treatment leaves the Claim unimpaired, in which case, the holder is deemed to accept the treatment. Consequently, the Trustee believes that the Plan may be confirmed notwithstanding the rejection of any holder in Class 2.

E. Conclusion

Consequently, the Trustee believes the Plan satisfies the cramdown criteria with respect to Classes 2 and 5, but not Class 4. The vote of the holders of claims in Class 4 is important, and the Trustee urges Creditors to vote for the Plan.

VII. THE ALTERNATIVE OF A CHAPTER 7 LIQUIDATION

The Bankruptcy Code requires that unless all members of an impaired Class actually vote to accept a plan, these creditors and equity security holders must receive a distribution under the plan that is at least as much as the distribution they would receive if the Debtor were liquidated under Chapter 7 of the Bankruptcy Code.

In a Chapter 7 liquidation, Secured Creditors are entitled to their collateral or the proceeds of sale of their collateral in reduction of their debts. Holders of Unsecured Claims are paid only from assets not subject to valid liens, and then only after the administrative costs incurred in the Chapter 7 proceeding, the superseded Chapter 11 case, and all Priority Claims are paid in full.

No special liquidation analysis needs to be prepared to establish that the Plan provides at least as good a distribution to the holders of all impaired Classes of Claims and Interests. It is to be remembered that, so far as the Trustee has been able to determine, as of the Petition Date, the Debtor had no assets or operations in the United States. All funds available in the administration of the Reorganization Case were supplied as loans under the Post-Petition Financing Agreements. These loans are secured by all assets of the Debtor. A Chapter 7 liquidation would likely result in these lenders being granted relief from the automatic stay to foreclose on their collateral. Since the collateral is located in the People's Republic of China, this foreclosure will likely be costly and uncertain. It is safe to say, that the prospect that these

lenders' Class 1 Claims will be satisfied after recouping their costs is conjectural at best. The prospect of a surplus available to be turned over to Chapter 7 trustee is extremely remote. In such eventuality, the Chapter 7 trustee would have to use such surplus to pay his or her own costs of administering the estate, including her or her own retained professionals, and then have to pay, in order of statutory priority, the Administrative Expense Claims, Gap Period Claims, Priority Tax Claim and other Allowed Priority Claims, prior to making any distribution to unsecured creditors. Moreover, it is doubtful that a Chapter 7 trustee would hold the Chapter 7 case open without assets long enough to see if a surplus after foreclosure in China by the secured lenders were indeed possible. For this reason, the Trustee believes that the likely outcome of a Chapter 7 liquidation would be no distribution at all to holders of general, unsecured claims, and to holders of Interests.

Based on the foregoing, the Trustee respectfully submits that all Creditors will fare far better under the Plan than under a liquidation of assets under Chapter 7 of the Bankruptcy Code.

VIII. CONCLUSION AND SOLICITATION OF ACCEPTANCES

After evaluating the differences between the Plan and its alternatives, the Trustee submits that the Plan offers the best chance of a substantial distribution to all Creditors and parties in interest. Consequently, the Trustee believes that the Plan is the best alternative for the Creditors and Interest holders, far better than a liquidation under Chapter 7 of the Bankruptcy Code; accordingly, the Trustee strongly urges Creditors and Interest holders to vote to accept the Plan.

Dated: New York, New York
May 19, 2009

/s/ George M. Kelakos
George M. Kelakos
Chapter 11 trustee

STEVENS & LEE, P.C.

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