

Summary Statement about temporary shortage of pellets

Not surprisingly, the popularity of pellet fuel and appliances have historically gone up and down with the price of oil and gas. Up until May 2008, we had plenty of inventory and were making next day deliveries on orders from our dealers. Suddenly, in mid-May, our orders went up by 200% and rapidly depleted our inventory as consumers throughout the Northeast responded to the surging price of home heating oil. Pellet appliance sales also went up dramatically depleting those inventories as well. We have responded by increasing our production at both pellet facilities to 24/7, 100% capacity and are seeking pellets from outside the area to help meet demand. Based on what we know now, there *is* enough pellet fuel for the year *but*, we need the whole year to make the pellets. This means not everybody can buy their year's worth of pellets this summer.

So, what can you do?

1. Work with your dealer to buy your pellets over the heating year, as we will as be making a lot more fuel for the year.

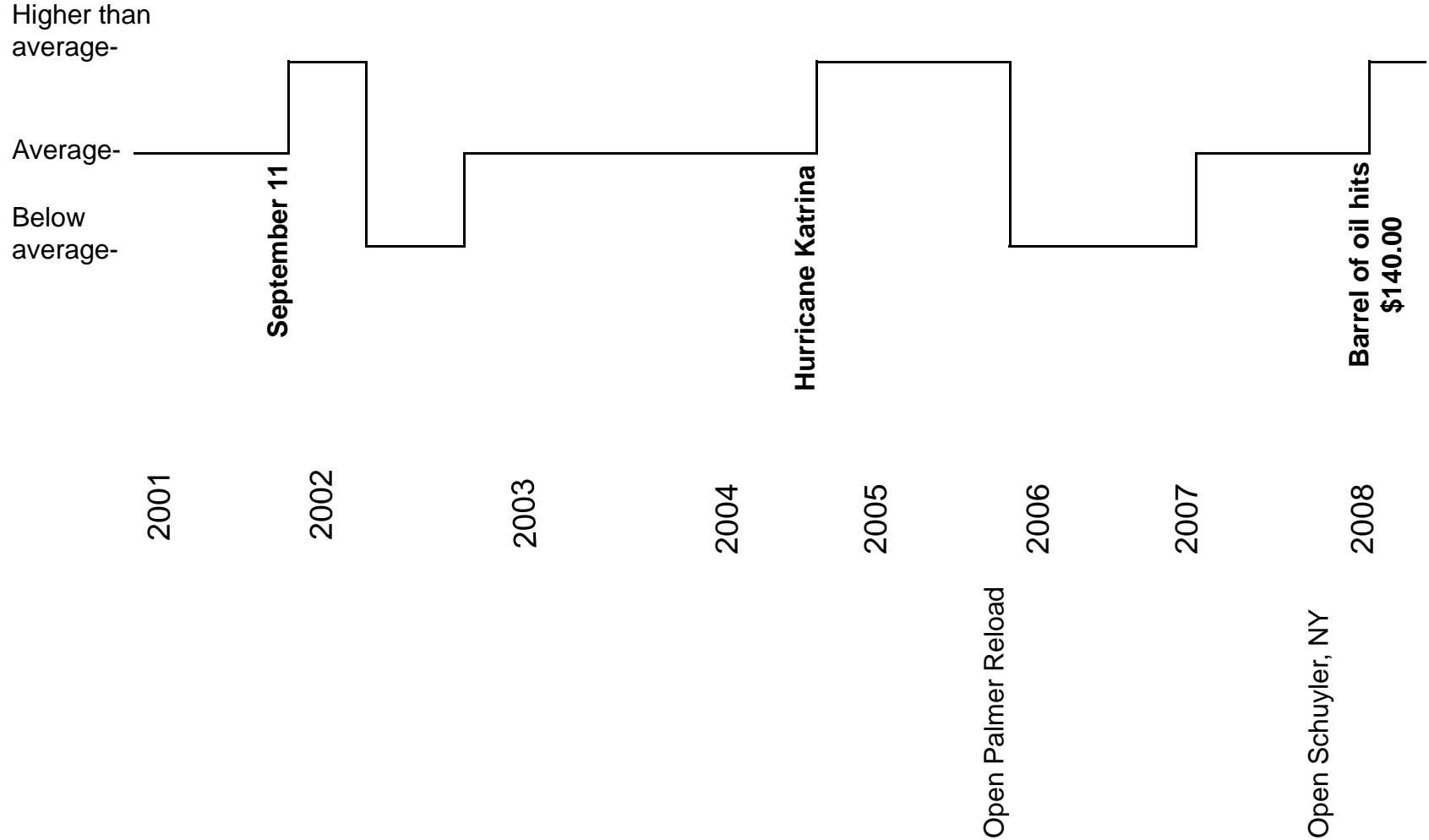
2. Please do not purchase more pellet fuel than you really need, as this may mean someone goes without. This also tends to drive prices up for everybody involved.

3. Do not panic and pay a ridiculous price for pellet fuel. There is not a long-term shortage. There are plenty of pellet producers to meet demand. It just can't be done all at once.

Remember:

Oil and gas companies control the inventory of their products. In the case of pellet fuel, the consumer controls the inventory. Your buying decisions dramatically and instantly impact the industry as a whole.

Demand for pellets over the past 8 years and corresponding events



Understanding factors in supply / demand / price with pellet fuel

- We strive to maintain our factories at full capacity: running 24 hours a day, 7 days a week, maintaining enough inventory to make next day deliveries through out the Northeast.
- Normally, we offer a discounted price in the spring to encourage sales in the off season. This has proven to be an effective mechanism to keep our factories running without building expensive, excessive inventory. We call this the “early buy program”.
- If about 25% of all pellet consumers purchase a full year of pellets, typically 3-4 tons in the spring, this works out perfectly.
- This year, something happened that has never happened before. We estimate at least 50% of pellet users went to purchase pellets in the spring. This has led to us temporarily being unable to meet demand.

Q) Why can't you make more pellets to meet demand?

A) To keep the cost of pellets down, we run our factories at or near 100% capacity. It would cost much more for pellets if we had a factory capacity

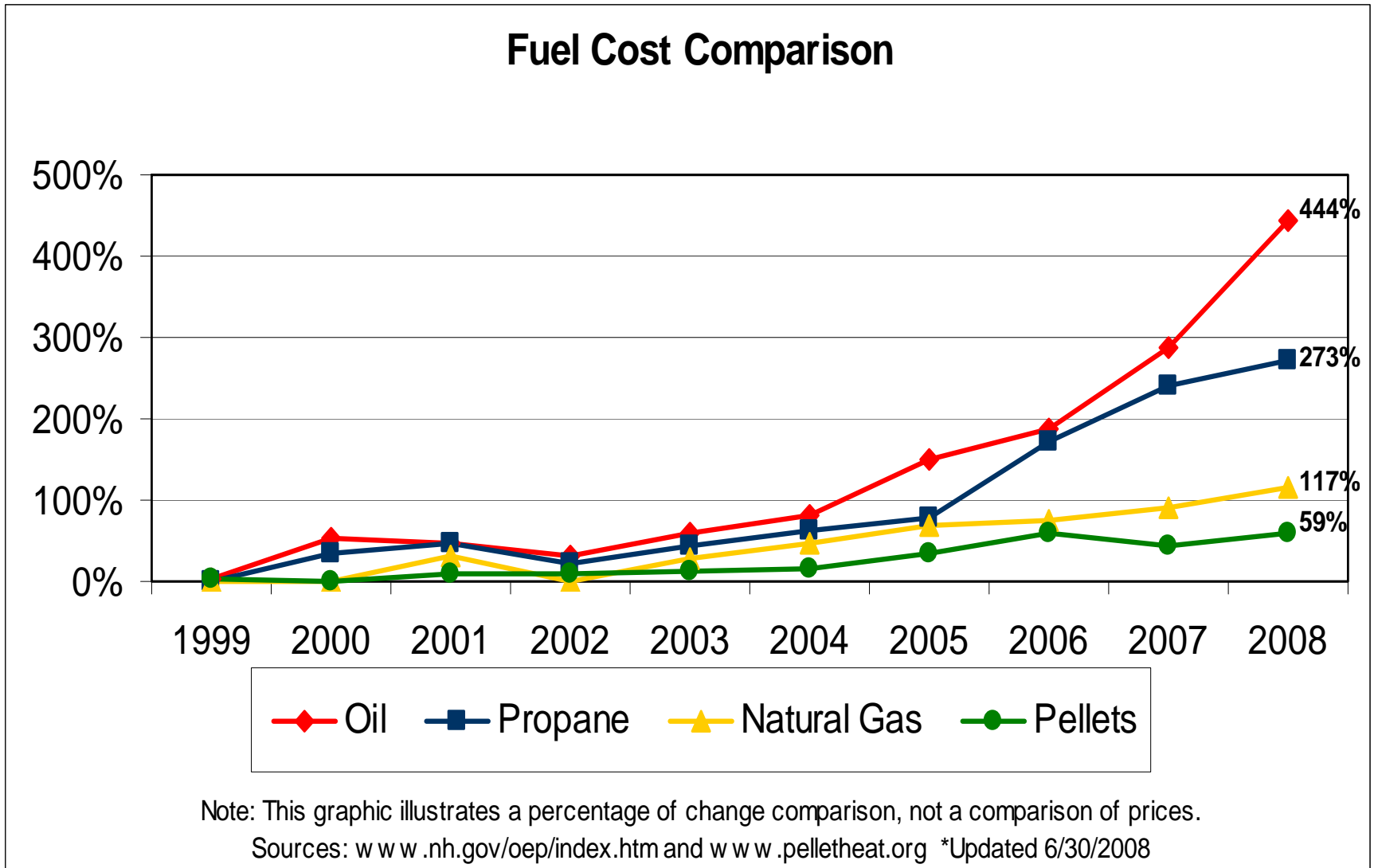
just waiting for a surge like this. To build more capacity takes 2 to 3 years. However, factory capacity is not the problem. It's simply when people want to buy their pellets vs. when they need to buy their pellets.

Q) Is the price of pellets going to go up like oil did?

A) Predicting the future is always a dangerous business, so I can't promise anything. However, there are dramatic differences between oil and pellets:

1. Much more pellet fuel can be produced-*not the case with oil and gas.*
2. Currently, there is much more capacity to produce pellets than are being consumed in the US- *not the case with oil and gas.*
3. Pellets are renewable and can be produced indefinitely-*not the case with oil and gas.*
4. Pellets are generally locally produced and locally consumed-*not the case with oil and gas.*
5. There is a large cost to the air emissions of oil and gas that is not currently being charged to the fuel-*not the case with pellet fuel.*
(We have experienced increased costs of transportation, wood, bags, etc. which we need to pass along. However, these increases have been minor relative to cost increases of gas and oil.)

6. What I can show you is the price changes of the past 10 years:



Questions & Answers

Q) Why did we open new dealers?

A) When we opened new dealers, we had very large inventories and we were not even running our new Schuyler, NY plant anywhere near capacity. For two years, we have had excess inventory.

Q) How can I get your pellets if the dealer is out?

A) As of July 1, we have only made 25% of the pellets for this heating season. So, with 75% to go, we recommend working with your dealer to take delivery of your pellets over the course of the season.

Q) Why did we add the Warm Front Brand?

A) The Warm Front brand was added to provide former dealers from our Palmer facility with a product option which they could sell. It was also added for the purpose of supplying “distributors” that cover large areas. The new label was designed as an alternative to protect the investments of dealers who have strived to build the New England Wood Pellet brand name in their region.

Q) Are we selling our product to big box stores like Wal-Mart?

A) No, I have never found the large chain stores to be efficient at moving pellet fuel. Even our smallest specialty stores take multiple tractor trailer loads of pellets annually, have low overhead and experienced staff. How can you beat that?

Q) Why have we chosen to sell to internet-based distributors?

A) Increasingly consumers turn to the internet to locate products and services. As our region expands along with the demand for our products we have many underserved areas that have no dealer, or dealers who do not offer home delivery. This is the only solution we have to those situations.

Q) Do you have enough wood?

A) Yes. There is plenty of wood available. The challenge is to buy clean, high quality wood at a good price while also taking into consideration the logistics involved in getting that wood. The future of sustainable forestry is critical to our industry and the environment. So, we are very involved in a long-term policy for the Northeastern forests. I believe a much, much larger quantity of wood is available on a sustainable basis. Wood pellets are a very efficient use of that resource and likely will also get wood from other less efficient users.

Palmer Packaging & Reload Center

Our Palmer, Massachusetts, packaging and reload facility was opened in response to the increase in demand after Hurricane Katrina (2005) as a means to bring in additional pellets to the Northeast. Subsequently, however, warm temperatures and falling oil prices resulted in lackluster sales which in turn generated escalated inventories and mounting costs. Despite increasing acceptance of our brand labels Green Supreme and New England Wood Pellet Canadian these high costs undermined our original intentions in support of the pellet industry as a whole. As a company, it cost us substantially at a critical time when we were beginning to build the Schuyler, NY facility. To make matters worse, logistics with our rail link to Western Canada and the pellet manufacturer itself became untenable forcing us to temporarily close Palmer earlier this spring. We are actively seeking suppliers and trying to work with the railroads to bring Palmer back online, but for now we have not worked out a program that will work from a business perspective.

How we distribute our products:

We look for the most efficient way to get our product from our factory to the end customer, while maintaining a high level of service. In the case of our bagged products, we try to have a retailer within 10-20 minutes from anywhere in NY and New England. We look for qualified retail outlets that sell and service pellet appliances and can receive full tractor trailer loads of pellets. Second, we look for retailers experienced with handling palletized material and who are service oriented. Third, we look for distributors who will provide home delivery to any location.

With bulk (loose) pellets, if an end user can take delivery of 20 tons or more, delivered by tractor trailer, we consider that commercial and will make direct deliveries from our factories. For anyone that does not have the ability to receive at least 20 tons by tractor trailer, we provide delivery by a 10 ton truck, however, we are actively seeking delivery companies to make these smaller deliveries. We believe independent delivery companies will be able to provide a less expensive and better service in this case. Efficiency is critical in all areas to provide the lowest costs possible to the customer!