



July 1, 2008

To All Employees:

Activity in the bankruptcy proceeding has been pretty low since our last update of June 10<sup>th</sup>. Hearings resumed yesterday afternoon in Corpus Christi. Indications are that the current timeline might stretch out longer by a week or so. As the hearings progress we will increase the frequency of these letter updates to you.

As we have mentioned previously in a variety of forums, the intent of our reorganization of Pacific Lumber and Scotia Pacific is based on a desire to duplicate what has worked well for us at **MRC** and its affiliates. When we named **Mendocino Redwood Company** almost 10 years ago, it was with a desire to have a name that reflected the nature of our business and to recognize the important role of the local community associated with a timber business. Thinking of a name with the same importance and symbolism we have chosen the name "**Humboldt Redwood Company, LLC**" for the newly reorganized company that will own the timberlands and Scotia mill going forward. The new company will have its own website; [www.hrcllc.com](http://www.hrcllc.com) to communicate directly with everyone interested in the mill, the town and timberlands. This site provides email addresses to key representatives of our management team who can answer questions or concerns as they arise.

Recent various declarations by others have been submitted to the court referencing the MRC/Marathon plan. Errors in their submissions to the court are getting some attention. Our plan and approach remain the same. Here are some of the key points:

- We have had a limited amount of time to observe the Palco mill in operation. If we are successful in court we intend to begin operating the mill immediately to complete our assessment, and detail with greater precision the improvements we want to make.
- MRC will operate the Scotia mill as two mills; one large log and one small log.
- MRC will operate the planer at Scotia as well as dry lumber in kilns. However some products will not require drying and others will be air-dried to save energy. Kilns require very little labor but large amounts of energy.
- MRC will mill multiple species of redwood, hem fir, and douglas fir. Currently MRC and affiliates are the largest distributors of hem fir lumber products in the Western US, as well as a major distributor of redwood.
- MRC has publically stated the desire to match mill operations to log flows from Humboldt and surrounding counties, just as we have done at MRC, thus helping preserve the viability of local mills.
  - During a recent town hall meeting with sixty plus Humboldt County timberland owners, MRC expressed an interest in running two shifts at Scotia; providing this can be accomplished by shipping logs from reasonable distances into the mill. Rising fuel rates make long shipments prohibitively expensive, and raise environmental questions.

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- We believe landowners will be best served by having more than one good and close mill to sell logs to. Early on MRC considered and abandoned the idea of modifying the Scotia operation into a multi shift Super-Mill to preserve fair local competition. Other nearby family owned mills would find it difficult to compete.
- MRC will invest in the Scotia mill to the level necessary to make it efficient and competitive. MRC has a 10-year track record demonstrating the ability to mill and distribute redwood, hem fir and douglas fir while operating a single shift in a profitable manner.
- MRC has the capability to supply wood chips to the Scotia CoGen from its Ukiah mill and Scotia mill, providing these arrangements are favorable for the CoGen owner/operator. Chips available for the CoGen to purchase are a function of the volume of local logs harvested and milled rather than who owns the mill.
- MRC will operate the fenceline operation at Scotia which employs approximately 20 workers.
- Current Palco and ScoPac employees will be given first opportunity for jobs at Humboldt Redwood Co.
- Humboldt Redwood Co. will seek to become FSC Chain of Custody certified as quickly as possible. Our hope is to work with small landowners who want to manage their lands to the FSC standard, and to provide a chain of custody outlet for the logs of landowners who meet the FSC stewardship principles.

The bankruptcy process is going on longer than most expected, and it remains difficult to predict a schedule of resolution. We continue to do our best to complete a plan of reorganization as quickly as possible to allow the new Humboldt Redwood Company, and its employees to begin to move forward. There may be other new twists and turns before everything is resolved; it's the nature of the legal system. Thank you for your support and patience.

Sincerely,

Richard Higgenbottom

CEO

Mendocino Redwood Company, LLC