

OFFICIAL COMMITTEE OF UNSECURED CREDITORS OF

THE PACIFIC LUMBER COMPANY
BRITT LUMBER CO., INC.
SALMON CREEK LLC
SCOTIA INN INC.
SCOTIA DEVELOPMENT LLC
SCOTIA PACIFIC COMPANY LLC

February 29, 2008

TO UNSECURED CREDITORS OF THE PACIFIC LUMBER COMPANY
AND THE ABOVE-REFERENCED AFFILIATED DEBTORS (THE "DEBTORS")

Dear Unsecured Creditor:

We are the Official Committee of Unsecured Creditors (the "Committee") appointed in the Debtors' bankruptcy cases pending in the United States Bankruptcy Court for the Southern District of Texas, Corpus Christi Division.

You will find enclosed with this letter a package of materials describing the competing plans of reorganization proposed by three separate sets of plan proponents. (The position statements of each of the respective Plan Proponents are attached to the Joint Disclosure Statement as Exhibits A-3, B-2 and C-5.)

The purpose of this letter is to urge you to:

Vote in Favor of the *First Amended Joint Plan of Reorganization for the Debtors* (the "MRC/Marathon Plan"), proposed by Mendocino Redwood Company, LLC ("MRC") and Marathon Structured Finance Fund L.P. ("Marathon"); and

Vote Against the *First Amended Chapter 11 Plan for Scotia Pacific Company, LLC* ("the Indenture Trustee Plan"), proposed by The Bank of New York Trust Company, N.A. (the "Indenture Trustee"), Indenture Trustee for the Timber Notes; and

Vote Against the *Second Amended Joint Plan of Reorganization for the Debtors* (the "Debtors Plan"), and alternatively, the *First Alternative Plan of Reorganization for the Palco Debtors* (the "Palco Alternative Plan") and the *First Alternative Plan of Reorganization for Scotia Pacific Company LLC* (the "Scopac Alternative Plan"), proposed by the Debtors, together with MAXXAM Inc. ("MAXXAM"), MAXXAM Group Holdings Inc., and MAXXAM Group Inc.

For the reasons below, the Committee strongly believes that the MRC/Marathon Plan provides the best option available for maximizing returns to unsecured creditors in these cases.

Background

The Committee consists of the following members: (1) Pacific Coast Trading (chair); (2) Steve Wills Trucking & Logging; (3) SHN Consulting Engineers & Geologists; (4) Environmental Protection Information Center; (5) Pension Benefit Guaranty Corporation; (6) United Steelworkers; and (7) Steve Cave.

The Committee is charged by law with the duty of representing the interests of all unsecured creditors in these cases. The Committee's primary goal is to maximize recoveries by unsecured creditors. To this end, the Committee has actively participated in the Debtors' cases and has studied the various plans in detail.

The Competing Plans

Based on the Committee's analysis of the plans and its experience, the Committee has concluded that only the MRC/Marathon Plan is in the best interests of unsecured creditors and should be confirmed by the Bankruptcy Court.

In the Committee's view, you should **vote in favor** of the MRC/Marathon Plan for the following reasons:

- The MRC/Marathon Plan provides for an immediate cash payment for the benefit of unsecured creditors in the amount of \$10,600,000, which will result in substantial recoveries for unsecured creditors.
- The MRC/Marathon Plan provides for a re-consolidation of the Scotia mill with the commercial timberlands in a new company that will be run by MRC, an experienced and respected timber operator. The new company will be well-funded and commercially viable.
- By re-combining the mill and the timberlands, the MRC/Marathon Plan will preserve the sustainability of the Scotia mill and preserve jobs. The MRC/Marathon Plan will also provide trade creditors with the opportunity to continue to do business with a viable reorganized forest products company under the management of MRC.
- The MRC/Marathon Plan will assume and continue the Debtors' existing pension plan -- allowing current and future retirees to receive full benefits.
- The MRC/Marathon Plan provides for the creation of a litigation trust that will be funded with \$500,000 and controlled by unsecured creditors for the purpose of resolving and paying unsecured claims and pursuing certain litigation actions.
- The MRC/Marathon plan will effectuate a change of control so that MAXXAM will no longer control or have ownership interests in the Debtors.

The Committee recommends that unsecured creditors **vote against** the other plans for the following reasons:

- The Indenture Trustee Plan does not provide a global solution. It only addresses Scotia Pacific Company LLC and ignores the Scotia mill and the creditors of the remaining debtors, including Palco. If the Indenture Trustee Plan were confirmed, the Committee believes that Palco's unsecured creditors would receive very little, if any, recovery on their claims. In addition, Palco's Scotia mill would likely be shut-down and perhaps liquidated (along with the town of Scotia and the Debtors' remaining assets).
- The Indenture Trustee estimates that, under its Plan, recoveries to Scopac's unsecured creditors would be 100%. Under the MRC/Marathon Plan, recoveries to Scopac's unsecured creditors are estimated to be 75% to 90%, but the Debtors' pension plan would be assumed. The Committee disagrees with the Indenture Trustee's recovery estimates.
- The Committee does not believe that Debtors' various plans are workable. They each require even further borrowing or presume that there is sufficient value in the Debtors' assets for one creditor's collateral to be used to pay off another. The Committee does not believe that the Debtors' proposals are economically feasible given the company's existing debts. Notably, under the Debtors Plan and the Palco Alternative Plan (but not the Scopac Alternative Plan), unsecured creditors would have to wait at least seven years before they are paid on the principal amount of their claims.

Recommendation

For the reasons above, the Committee strongly urges you to:

Vote in Favor of the MRC/Marathon Plan; and

Vote Against the Indenture Trustee Plan; and

Vote Against the Debtors Plan, the Palco Alternative Plan and the Scopac Alternative Plan.

Sincerely,

/s/

Official Committee of Unsecured Creditors
By: Miles Crail, Pacific Coast Trading
Title: Chairperson