

Exhibit B, C and D

CERTIFICATE OF MERGER

MERGING

**BRITT LUMBER CO., INC. (a California Corporation)
SALMON CREEK LLC (a Delaware Limited Liability Company)
SCOTIA DEVELOPMENT LLC (a Texas Limited Liability Company)
SCOTIA INN INC. (a Delaware Corporation)**

WITH AND INTO

THE PACIFIC LUMBER COMPANY

(a Delaware Corporation)

Pursuant to the Delaware General Corporation Law (the “DGCL”), The Pacific Lumber Company, a Delaware corporation (“Palco”), certifies as follows:

FIRST: The name and state of jurisdiction of incorporation of each of the constituent corporations that are to merge are as follows:

<u>Name</u>	<u>State of Domicile</u>
The Pacific Lumber Company.	Delaware
Britt Lumber Co., Inc.	California
Salmon Creek LLC	Delaware
Scotia Development LLC	Texas
Scotia Inn Inc.	Delaware

SECOND: An Agreement and Plan of Merger (the “Merger Agreement”) between Palco, Britt Lumber Co., Inc. (“Britt”), Salmon Creek LLC (“Salmon Creek”), Scotia Development LLC (“Scotia Development”) and Scotia Inn Inc. (“Scotia Inn” and collectively with, Palco, Britt, Salmon Creek, Scotia Development, the “Constituent Corporations”), has been approved, adopted, certified, executed and acknowledged by each of the Constituent Corporations in accordance with the provisions of Section 251 of the DGCL providing for the merger of Britt, Salmon Creek, Scotia Development and Scotia Inn with and into Palco, with Palco being the surviving corporation (the “Merger”).

THIRD: The name of the surviving corporation of the Merger is The Pacific

Lumber Company.

FOURTH: The certificate of incorporation of Palco in effect immediately prior to the Merger will not be amended, restated or otherwise affected by the Merger and will be the certificate of incorporation of the Surviving Corporation until such time as it may be amended, modified or otherwise changed in accordance with applicable law.

FIFTH: The executed Merger Agreement is on file at the principal place of Palco, the address of which is [], [], [] [].

SIXTH: A copy of the Merger Agreement will be furnished by Palco, on request and without cost, to any stockholder of the Constituent Corporations.

SEVENTH: The Merger will become effective at the time of filing with the Secretary of State of the State of Delaware.

[Remainder of page intentionally left blank; signature page follows.]

IN WITNESS WHEREOF, Palco has caused this Certificate of Merger to be duly executed on March __, 2008.

THE PACIFIC LUMBER COMPANY

By: _____
[_____]
President and Chief Executive Officer

**EXHIBIT 5 – SUPPLEMENT TO THE DEBTORS' SECOND AMENDED JOINT PLAN OF
REORGANIZATION**

CERTIFICATE OF MERGER FOR PALCO DEBTORS

CERTIFICATE OF MERGER

MERGING

BRITT LUMBER CO., INC. (a California Corporation)
SALMON CREEK LLC (a Delaware Limited Liability Company)
SCOTIA DEVELOPMENT LLC (a Texas Limited Liability Company)
SCOTIA INN INC. (a Delaware Corporation)

WITH AND INTO

THE PACIFIC LUMBER COMPANY

(a Delaware Corporation)

Pursuant to the Delaware General Corporation Law (the “DGCL”), The Pacific Lumber Company, a Delaware corporation (“Palco”), certifies as follows:

FIRST: The name and state of jurisdiction of incorporation of each of the constituent corporations that are to merge are as follows:

<u>Name</u>	<u>State of Domicile</u>
The Pacific Lumber Company.	Delaware
Britt Lumber Co., Inc.	California
Salmon Creek LLC	Delaware
Scotia Development LLC	Texas
Scotia Inn Inc.	Delaware

SECOND: An Agreement and Plan of Merger (the “Merger Agreement”) between Palco, Britt Lumber Co., Inc. (“Britt”), Salmon Creek LLC (“Salmon Creek”), Scotia Development LLC (“Scotia Development”) and Scotia Inn Inc. (“Scotia Inn” and collectively with, Palco, Britt, Salmon Creek, Scotia Development, the “Constituent Corporations”), has been approved, adopted, certified, executed and acknowledged by each of the Constituent Corporations in accordance with the provisions of Section 251 of the DGCL providing for the merger of Britt, Salmon Creek, Scotia Development and Scotia Inn with and into Palco, with Palco being the surviving corporation (the “Merger”).

THIRD: The name of the surviving corporation of the Merger is The Pacific Lumber Company.

FOURTH: The certificate of incorporation of Palco in effect immediately prior to the Merger will not be amended, restated or otherwise affected by the Merger and will be the

certificate of incorporation of the Surviving Corporation until such time as it may be amended, modified or otherwise changed in accordance with applicable law.

FIFTH: The executed Merger Agreement is on file at the principal place of Palco, the address of which is _____.

SIXTH: A copy of the Merger Agreement will be furnished by Palco, on request and without cost, to any stockholder of the Constituent Corporations.

SEVENTH: The Merger will become effective at the time of filing with the Secretary of State of the State of Delaware.

[Remainder of page intentionally left blank; signature page follows.]

IN WITNESS WHEREOF, Palco has caused this Certificate of Merger to be duly executed on _____, 2008.

THE PACIFIC LUMBER COMPANY

By: _____
[]
President and Chief Executive Officer

**EXHIBIT 6 – SUPPLEMENT TO THE DEBTORS’ SECOND AMENDED JOINT PLAN OF
REORGANIZATION**

**AMENDED AND RESTATED CERTIFICATE OF INCORPORATION FOR REORGANIZED
PALCO**

**AMENDED AND RESTATED
CERTIFICATE OF INCORPORATION

OF

THE PACIFIC LUMBER COMPANY**

The undersigned, _____ and _____, hereby certify that:

1. They are the duly elected and acting President and Secretary, respectively, of The Pacific Lumber Company, a Delaware corporation.
2. The Certificate of Incorporation of this corporation was originally filed with the Secretary of State of Delaware on November 6, 1985.
3. The Certificate of Incorporation of this corporation shall be amended and restated to read in full as follows:

ARTICLE I

“The name of this corporation is The Pacific Lumber Company (the “Corporation”).

ARTICLE II

The address of the Corporation’s registered office in the State of State of Delaware is 615 South Dupont Highway, Dover, County of Kent. The name of its registered agent at such address is Capitol Services Inc.

ARTICLE III

The purpose of the Corporation is to engage in any lawful act or activity for which corporations may be organized under the Delaware General Corporation Law.

ARTICLE IV

The total number of shares of stock which the Corporation is authorized to issue is One Hundred (100) shares of Common Stock, par value One Cent (\$0.01) per share.

The Corporation shall not issue any nonvoting equity securities.

ARTICLE V

All decisions of the Board will require a simple majority, except for the following which shall require the affirmative vote or written consent of four of the five members of the Board: (i) amend or repeal any provision of the Corporation’s Bylaws and Certificate of Incorporation; (ii) authorize or effect the payment of dividends on any

capital stock, or the redemption or repurchase of any capital stock; (iii) authorize or effect the issuance of any shares of capital stock or rights to acquire capital stock; (iv) authorize or effect (a) any sale, lease, transfer or other disposition of a material asset of the Corporation outside of the ordinary course of business; (b) any merger or consolidation or other reorganization of the Corporation with or into another corporation; (c) the acquisition of another entity by means of a purchase of all or substantially all of the capital stock or assets of the Corporation; (d) a Qualified Public Offering (as defined below); or (e) a liquidation, winding up, dissolution or adoption of any plan for the same; (v) reclassify, cancel or in any manner alter or change the terms, designations, powers, preferences or relative, optional or other rights, or the qualifications, limitations or restrictions thereof, of any capital stock of the Corporation; (vi) incur, either through the issuance of debt securities or the borrowing of money, unsecured indebtedness in excess of \$10 million in the aggregate; (vii) guarantee the indebtedness of any third party outside of the ordinary course of business in excess of \$1 million in the aggregate; (viii) enter into or engage in any business or activity outside of the ordinary course of business or otherwise not contemplated by the annual operating or capital budget or business plan approved by the Board; (ix) spend or commit to spend fifteen percent (15%) in excess of the aggregate amount specified in the budget approved for each year by the Board in expenditures that are or should be classified as "capital expenditures" under U.S. generally accepted accounting principles; (x) acquire any single asset or group of related assets in a single transaction or series of related transactions for an aggregate consideration (including any indebtedness incurred in connection therewith) in excess of \$10 million; (xi) enter into any transaction, other than employment agreements on a basis consistent with past practice, with any officer, director or beneficial owner of five percent (5%) or more of the capital stock of the Corporation; (xii) grant registration rights with respect to any security or shares of capital stock of the Corporation; or (xiii) enter into any agreement or commitment or otherwise become bound or obligated to do or perform any of the foregoing actions.

For purposes hereof, "Qualified Public Offering" shall mean an underwritten public offering pursuant to an effective registration statement under the Securities Act of 1933, as amended, covering the offer and sale of Common Stock for the account of the Corporation, to the public generally in which the aggregate net proceeds to the Corporation are not less than \$10 million, and as a result of which shares of Common Stock are designated for trading on The New York Stock Exchange, The American Stock Exchange or the Nasdaq National Market.

ARTICLE VI

Elections of directors need not be by written ballot unless otherwise provided in the Bylaws of the Corporation.

The number of Directors of the Corporation shall be comprised of seven members and at all times shall include (i) four representatives designated by Marathon Structured Finance Fund L.P. (each, a "Marathon Director"), (ii) two representatives designated by MAXXAM Group Inc. (each, an "MGI Director"), and (iii) the Chief Executive Officers

of the Corporation, who shall be jointly agreed upon by the Marathon Directors and the MGI Directors.

ARTICLE VII

(A) To the fullest extent permitted by the Delaware General Corporate Law, as the same exists or as may hereafter be amended, a director of the Corporation shall not be personally liable to the Corporation or its stockholders for monetary damages for breach of fiduciary duty as a director.

(B) The Corporation shall indemnify to the fullest extent permitted by law any person made or threatened to be made a party to an action or proceeding, whether criminal, civil, administrative or investigative, by reason of the fact that he, his testator or intestate is or was a director or officer of the Corporation or any predecessor of the Corporation, or serves or served at any other enterprise as a director or officer at the request of the Corporation or any predecessor to the Corporation.

(C) Neither any amendment nor repeal of this Article VI, nor the adoption of any provision of the Corporation's Certificate of Incorporation inconsistent with this Article VI, shall eliminate or reduce the effect of this Article VI in respect of any matter occurring, or any action or proceeding accruing or arising or that, but for this Article VI, would accrue or arise, prior to such amendment, repeal or adoption of an inconsistent provision."

* * *

The foregoing Amended and Restated Certificate of Incorporation has been duly adopted by this corporation's Board of Directors and stockholders in accordance with the applicable provisions of Sections 228, 242 and 245 of the Delaware General Corporation Law.

Executed at _____, California, on _____, _____.

_____, President

_____, Secretary

**EXHIBIT 7 – SUPPLEMENT TO THE DEBTORS' SECOND AMENDED JOINT PLAN OF
REORGANIZATION**

AMENDED AND RESTATED BYLAWS FOR REORGANIZED PALCO

**AMENDED AND RESTATED BY-LAWS
OF
THE PACIFIC LUMBER COMPANY**
(a Delaware corporation)

Amended _____, 2008

ARTICLE I
Stockholders

Section 1. Place of Meetings. Meetings of stockholders shall be held at such place, either within or without the State of Delaware, as shall be designated from time to time by the Board of Directors.

Section 2. Annual Meetings. Annual meetings of stockholders shall be held at such time as shall be designated from time to time by the Board of Directors. At each annual meeting the Section 2. Annual Meetings. Annual meetings of stockholders shall be held at such time as shall be designated from time to time by the Board of Directors. At each annual meeting the stockholders shall elect a Board of Directors by plurality vote and transact such other business as may be properly brought before the meeting.

Section 3. Special Meetings. Special meetings of the stockholders may be called by the Board of Directors.

Section 4. Notice of Meetings. Written notice of each meeting of the stockholders stating the place, date and hour of the meeting shall be given by or at the direction of the Board of Directors to each stockholder entitled to vote at the meeting at least ten, but not more than sixty, days prior to the meeting. Notice of any special meeting shall state in general terms the purpose or purposes for which the meeting is called.

Section 5. Quorum: Adjournments of Meetings. The holders of a majority of the issued and outstanding shares of the capital stock of the corporation entitled to vote at a meeting, present in person or represented by proxy, shall constitute a quorum for the transaction of business at such meeting; but, if there be less than a quorum, the holders of a majority of the stock so present or represented may adjourn the meeting to another time or place, from time to time, until a quorum shall be present, whereupon the meeting may be held, as adjourned, without further notice, except as required by law, and any business may be transacted thereat which might have been transacted at the meeting as originally called.

Section 6. Voting. At any meeting of the stockholders, every registered owner of shares entitled to vote may vote in person or by proxy and, except as otherwise provided by statute, in the Certificate of Incorporation or these By-Laws, shall have one vote for each such share standing in his name on the books of the corporation. Except as otherwise required by statute, the Certificate of Incorporation or these By-Laws, all matters, other than the election of directors, brought before any meeting of the stockholders shall be decided by a vote of a majority in interest of the stockholders of the corporation present in person or by proxy at such meeting and voting thereon, a quorum being present.

Section 7. Inspectors of Election. The Board of Directors, or, if the Board shall not have made the appointment, the chairman presiding at any meeting of stockholders, shall have power to appoint one or more persons to act as inspectors of election at the meeting or any adjournment thereof, but no candidate for the office of director shall be appointed as an inspector at any meeting for the election of directors.

Section 8. Chairman of Meetings. The Chairman of the Board or, in his absence, the President shall preside at all meetings of the stockholders. In the absence of both the Chairman of the Board and the President, a majority of the members of the Board of Directors present in person at such meeting may appoint any other officer or director to act as chairman of the meeting.

Section 9. Secretary of Meetings. The Secretary of the corporation shall act as secretary of all meetings of the stockholders. In the absence of the Secretary, the chairman of the meeting shall appoint any other person to act as secretary of the meeting.

ARTICLE II

Board of Directors

Section 1. Number of Directors. The number of Directors of the corporation shall be comprised of seven members and at all times shall include (i) four representatives designated by Marathon Structured Finance Fund L.P. (each, a "Marathon Director"), (ii) two representatives designated by MAXXAM Group Inc. (each, an "MGI Director"), and (iii) the Chief Executive Officers of the Company, who shall be jointly agreed upon by the Marathon Directors and the MGI Directors.

Section 2. Vacancies. Whenever any vacancy shall occur in the Board of Directors by reason of death, resignation, removal, increase in the number of directors or otherwise, it may be filled by a majority of the directors then in office, although less than a quorum, or by a sole remaining director, for the balance of the term, or, if the Board has not filled such vacancy, it may be filled by the stockholders.

Section 3. First Meeting. The first meeting of each newly elected Board of Directors, of which no notice shall be necessary, shall be held immediately following the annual meeting of stockholders or any adjournment thereof at the place the annual meeting of stockholders was held at which such directors were elected, or at such other place as a majority of the members of the newly elected Board who are then present shall determine, for the election or appointment of officers for the ensuing year and the transaction of such other business as may be brought before such meeting.

Section 4. Regular Meetings. Regular meetings of the Board of Directors, other than the first meeting, may be held without notice at such times and places as the Board of Directors may from time to time determine.

Section 5. Special Meetings. Special meetings of the Board of Directors may be called by . order of the Chairman of the Board, the President or any two directors. Notice of the time and place of each special meeting shall be given by or at the direction of the person or persons calling the meeting by mailing the same at least three days before the meeting or by telephoning,

telegraphing or delivering personally the same at least twenty-four hours before the meeting to each director. Except as otherwise specified in the notice thereof, or as required by statute, the Certificate of Incorporation or these By-Laws, any and all business may be transacted at any special meeting.

Section 6. Place of Conference Call Meeting. Any meeting at which one or more of the members of the Board of Directors or of a committee designated by the Board of Directors shall participate by means of conference telephone or similar communications equipment shall be deemed to have been held at the place designated for such meeting, provided that at least one member is at such place while participating in the meeting.

Section 7. Organization. Every meeting of the Board of Directors shall be presided over by the Chairman of the Board, or, in his absence, the President. In the absence of the Chairman of the Board and the President, a presiding officer shall be chosen by a majority of the directors present. The Secretary of the corporation shall act as secretary of the meeting, but, in his absence, the presiding officer may appoint any person to act as secretary of the meeting.

Section 8. Quorum: Vote. A majority of the directors then in office (but in no event less than one-third of the total number of directors) shall constitute a quorum, for the transaction of business, but less than a quorum may adjourn any meeting to another time or place from time to time until a quorum shall be present, whereupon the meeting may be held, as adjourned, without further notice.

All decisions of the Board will require a simple majority, except for the following which shall require the affirmative vote or written consent of four of the five members of the Board:

1. amend or repeal any provision of the Corporation's Bylaws and Certificate of Incorporation;
2. authorize or effect the payment of dividends on any capital stock, or the redemption or repurchase of any capital stock;
3. authorize or effect the issuance of any shares of capital stock or rights to acquire capital stock;
4. authorize or effect (a) any sale, lease, transfer or other disposition of a material asset of the Corporation outside of the ordinary course of business; (b) any merger or consolidation or other reorganization of the Corporation with or into another corporation; (c) the acquisition of another entity by means of a purchase of all or substantially all of the capital stock or assets of the Corporation; (d) a Qualified Public Offering (as defined below); or (e) a liquidation, winding up, dissolution or adoption of any plan for the same;
5. reclassify, cancel or in any manner alter or change the terms, designations, powers, preferences or relative, optional or other rights, or the qualifications, limitations or restrictions thereof, of any capital stock of the Corporation;
6. incur, either through the issuance of debt securities or the borrowing of money, unsecured indebtedness in excess of \$10 million in the aggregate;

7. guarantee the indebtedness of any third party outside of the ordinary course of business in excess of \$1 million in the aggregate;
8. enter into or engage in any business or activity outside of the ordinary course of business or otherwise not contemplated by the annual operating or capital budget or business plan approved by the Board;
9. spend or commit to spend fifteen percent (15%) in excess of the aggregate amount specified in the budget approved for each year by the Board in expenditures that are or should be classified as "capital expenditures" under U.S. generally accepted accounting principles;
10. acquire any single asset or group of related assets in a single transaction or series of related transactions for an aggregate consideration (including any indebtedness incurred in connection therewith) in excess of \$10 million;
11. enter into any transaction, other than employment agreements on a basis consistent with past practice, with any officer, director or beneficial owner of five percent (5%) or more of the capital stock of the Corporation;
12. grant registration rights with respect to any security or shares of capital stock of the Corporation; or
13. enter into any agreement or commitment or otherwise become bound or obligated to do or perform any of the foregoing actions.

For purposes hereof, "Qualified Public Offering" shall mean an underwritten public offering pursuant to an effective registration statement under the Securities Act of 1933, as amended, covering the offer and sale of Common Stock for the account of the Pacific Lumber Company, a Delaware corporation, to the public generally in which the aggregate net proceeds to the Corporation are not less than \$10 million, and as a result of which shares of Common Stock are designated for trading on The New York Stock Exchange, The American Stock Exchange or the Nasdaq National Market.

Section 9. Removal of Directors. Anyone or more of the directors shall not be subject to removal with or without cause at any time by the stockholders.

ARTICLE III **Committees**

Section 1. Executive Committee. The Board of Directors may, by resolution passed by a majority of the whole Board, designate from among its members an Executive Committee to consist of three or more members and may designate one of such members as chairman. The Board may also designate one or more of its members as alternates to serve as a member or members of the Executive Committee in the absence of a regular member or members. Except as provided in Section 4 of this Article III, the Executive Committee shall have and may exercise all the powers and authority of the Board of Directors in the management of the business and affairs

of the corporation, and the Executive Committee may authorize the seal of the corporation to be affixed to all papers which may require it.

Section 2. Other Committees. The Board of Directors, acting by a majority of the whole Board, may also appoint from among its own members or otherwise such other committees as the Board may determine, to have such powers and duties as shall from time to time be prescribed by the Board and which, in the discretion of the Board, may be designated as committees of the Board.

Section 3. Quorum and Discharge. A majority of the entire committee shall constitute a quorum for the transaction of business of any committee and may fix its rules of procedure. The Board of Directors may discharge any committee either with or without cause at any time.

Section 4. Powers of Committees. No committee designated or appointed by the Board of Directors shall have the power or authority of the Board in reference to (a) amending the Certificate of Incorporation, (b) adopting an agreement of merger or consolidation, (c) recommending to the stockholders the sale, lease or exchange of all or substantially all of the corporation's property and assets, (d) recommending to the stockholders a dissolution of the corporation or a revocation of dissolutions, (e) amending the By-Laws of the corporation, (f) declaring dividends, (g) designating committees, (h) filling vacancies among committee members or (i) removing officers. The Executive Committee shall have the power and authority of the Board to authorize the issuance of shares of capital stock of the corporation of any class or any series of any class.

Section 5. Committee Meetings. Regular meetings of any committee designated or appointed by the Board of Directors shall be held at such times and places and on such notice, if any, as the committee may from time to time determine. Special meetings of any committee designated or appointed by the Board may be called by order of the Chairman of the Board, Vice Chairman of the Board, President of the corporation, Chairman of the committee or any two members of any such committee. Notice shall be given of the time and place of each special meeting by mailing the same at least two days before the meeting or by telephoning, telegraphing or delivering personally the same at least twenty-four hours before the meeting to each committee member. Except as otherwise specified in the notice thereof or as required by law, the Certificate of Incorporation or these By-Laws, any and all business may be transacted at any regular or special meeting of a committee. The Secretary of the corporation shall keep the minutes of the meetings of all committees designated or appointed by the Board of Directors and shall be the custodian of all corporation records.

ARTICLE IV

Officers

Section 1. General. The Board of Directors shall elect the officers of the corporation, which shall include a President, a Secretary and a Treasurer and such other or additional officers (including, without limitation, a Chairman of the Board, one or more Vice Chairmen of the Board, Vice Presidents, Assistant Vice Presidents, Assistant Secretaries and Assistant Treasurers) as the Board of Directors may designate.

Section 2. Term of Office: Removal and Vacancy. Each officer shall hold his office until his successor is elected and qualified or until his earlier resignation or removal. Any officer or agent shall be subject to removal with or without cause at any time by the Board of Directors. Vacancies in any office, whether occurring by death, resignation, removal or otherwise, may be filled by the Board of Directors.

Section 3. Powers and Duties. Each of the officers of the corporation shall, unless otherwise ordered by the Board of Directors, have such powers and duties as generally pertain to his respective office as well as such powers and duties as from time to time may be conferred upon him by the Board of Directors. Unless otherwise ordered by the Board of Directors after the adoption of these By-Laws, the Chairman of the Board, or, when the office of Chairman of the Board is vacant, the President, shall be the chief executive officer of the corporation.

Section 4. Power to Vote Stock. Unless otherwise ordered by the Board of Directors, the Chairman of the Board and the President each shall have full power and authority on behalf of the corporation to attend and to vote at any meeting of stockholders of any corporation in which this corporation may hold stock, and may exercise on behalf of the corporation any and all of the rights and powers incident to the ownership of such stock at any such meeting and shall have power and authority to execute and deliver proxies, waivers and consents on behalf of the corporation in connection with the exercise by the corporation of the rights and powers incident to the ownership of such stock. The Board of Directors, from time to time, may confer like powers upon any other person or persons.

ARTICLE V

Capital Stock

Section 1. Certificates of Stock. Certificates for stock of the corporation shall be in such form as the Board of Directors may from time to time prescribe and shall be signed by the Chairman of the Board or a Vice Chairman of the Board or the President or a Vice President and by the Treasurer or an Assistant Treasurer or the Secretary or an Assistant Secretary.

Section 2. Transfer of Stock. Shares of capital stock of the corporation shall be transferable on the books of the corporation only by the holder of record thereof, in person or by duly authorized attorney, upon surrender and cancellation of certificates for a like number of shares, with an assignment or power of transfer endorsed thereon or delivered therewith, duly executed, and with such proof of the authenticity of the signature and of authority to transfer, and of payment of transfer taxes, as the corporation or its agents may require.

Section 3. Ownership of Stock. The corporation shall be entitled to treat the holder of record of any share or shares of stock as the owner thereof in fact and shall not be bound to recognize any equitable or other claim to or interest in such shares on the part of any other person, whether or not it shall have express or other notice thereof, except as otherwise expressly provided by law.

Section 4. Nonvoting Equity Stock. To the extent required by Section 1123(a) of the Bankruptcy Code the Company shall not issue any nonvoting equity securities.

ARTICLE VI
Miscellaneous

Section 1. Corporate Seal. The seal of the corporation shall be circular in form and shall contain the name of the corporation and the year and state of incorporation.

Section 2. Fiscal Year. The Board of Directors shall have power to fix, and from time to time to change, the fiscal year of the corporation.

ARTICLE VII
Amendment

The Board of Directors shall have the power to make, alter or repeal the By-Laws of the corporation subject to the power of the stockholders to alter or repeal the By-Laws made or altered by the Board of Directors.

ARTICLE VIII
Indemnification

The corporation shall indemnify any director, manager or officer of the corporation or any of its wholly owned subsidiaries, to the full extent permitted by Delaware law, as in effect from time to time, (but, in the case of any amendment of the Delaware General Corporation Law or the Delaware Limited Liability Company Act, only to the extent such amendment permits this corporation to provide broader indemnification rights than said laws permitted this corporation to provide prior to such amendment). Without limiting the generality of the foregoing, each director, manager or officer of the corporation or any of its wholly owned subsidiaries, shall be indemnified by the corporation against all costs, expenses and liabilities reasonably incurred by him in connection with or resulting from any action, suit or proceeding to which he may be made a party by reason of his being or having been a director, manager or officer of the corporation or any of its wholly owned subsidiaries, except in relation to matters which shall have been occasioned by the willful misconduct or dishonesty of such officer, manager or director. The foregoing right of indemnification shall cover amounts paid in settlement of any such action, suit or proceeding when such settlement appears to be in the interest of the corporation. The foregoing right of indemnification shall not be exclusive of other rights to which he may be entitled as a matter of law.

**EXHIBIT 8 – SUPPLEMENT TO THE DEBTORS' SECOND AMENDED JOINT PLAN OF
REORGANIZATION**

**AMENDED AND RESTATED CERTIFICATE OF FORMATION FOR REORGANIZED
SCOPAC**

**AMENDED AND RESTATED
CERTIFICATE OF FORMATION**

OF

SCOTIA PACIFIC COMPANY LLC

This Amended and Restated Certificate of Formation of Scotia Pacific Company LLC (the "Company") has been duly executed and is being filed by the undersigned, as an authorized person, in accordance with the provisions of 6 Del. C. §18-208, to amend and restate the original Certificate of Formation of the Company, which was filed under the name Scotia Pacific Company LLC on May 29, 1998, with the Secretary of State of the State of Delaware (the "Original Certificate"), to form a limited liability company under the Delaware Limited Liability Company Act (6 Del. Co. §18-101, et seq.) (the "Act").

The Original Certificate is hereby amended and restated in its entirety to read as follows:

ARTICLE I

The name of the Company is Scotia Pacific Company LLC (the "Company").

ARTICLE II

The address of the Company's registered office in the State of Delaware is 615 South Dupont Highway, Dover, County of Kent. The name of its registered agent at such address is Capitol Services Inc.

ARTICLE III

The purpose of the Company is to engage in any lawful act or activity for which Companies may be organized under the Act.

ARTICLE IV

No member of the limited liability company may bind the limited liability company except in accordance with the limited liability company agreement of the Company as in effect from time to time.

ARTICLE V

(A) To the fullest extent permitted by the law, a manager of the Company shall not be personally liable to the Company or its stockholders for monetary damages for breach of fiduciary duty as a manager.

(B) The Company shall indemnify to the fullest extent permitted by law any person made or threatened to be made a party to an action or proceeding, whether criminal, civil, administrative or investigative, by reason of the fact that he, his testator or intestate is or was a manager or officer of the Company or any predecessor of the Company, or serves or served at any other enterprise as a director or officer at the request of the Company or any predecessor to the Company.

(C) Neither any amendment nor repeal of this Article VII, nor the adoption of any provision of the Company's Certificate of Formation inconsistent with this Article VII, shall eliminate or reduce the effect of this Article VII in respect of any matter occurring, or any action or proceeding accruing or arising or that, but for this Article VII, would accrue or arise, prior to such amendment, repeal or adoption of an inconsistent provision."

* * *

IN WITNESS WHEREOF, said limited liability company has caused this
Amended and Restated Certificate of Formation to be executed by an authorized officer.

Executed at _____, [California], on _____, _____.

_____, President

**EXHIBIT 9 – SUPPLEMENT TO THE DEBTORS' SECOND AMENDED JOINT PLAN OF
REORGANIZATION**

**AMENDED AND RESTATED LIMITED LIABILITY COMPANY AGREEMENT FOR
REORGANIZED SCOPAC**

AGREEMENT OF LIMITED LIABILITY COMPANY, effective as of _____, 2008 (the “Agreement”), of Scotia Pacific Company LLC (the “Company”), by The Pacific Lumber Company (“Pacific Lumber”), as the sole member of the Company.

Preliminary Statement

Pacific Lumber desires to operate the Company under the Delaware Limited Liability Company Act (as amended from time to time, the “Act”) to carry on any lawful business, purpose or activity not restricted by the Act or any other applicable law or the Agreement.

In that connection, Pacific Lumber desires to enter into a written agreement, in accordance with the Act, as to the affairs of the Company and the conduct of its business.

ARTICLE I

Definitions

1.1 As used in this Agreement, the following terms shall have the following meanings:

“Act” means the Delaware Limited Liability Company Act and any successor statute, as amended from time to time.

“Additional Timber Property” shall have the meaning for such term set forth in the New Indenture.

“Affiliate” of any specified Person means any other Person directly or indirectly controlling or controlled by or under direct or indirect common control with such specified Person. For the purposes of this definition of “Affiliate,” “control,” when used with respect to any specified Person, means the power to direct the management and policies of such Person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise, and the terms “controlling” and “controlled” have meanings correlative to the foregoing.

“Additional Timber Notes” shall have the meaning for such term in the Indenture.

“Agreement” means this Agreement of Limited Liability Company as originally adopted and as amended from time to time in accordance with the terms of this Agreement.

“Bankruptcy Law” shall have the meaning for such term set forth in the Indenture.

“Bankrupt or Insolvent” and “Bankruptcy or Insolvency” shall have the meaning for such term set forth in the Indenture.

“Business Day” means any day other than a Saturday, a Sunday, or a holiday on which national banking associations in the State of Delaware or the City of New York are permitted or required by law or administrative order to be closed.

“Capital Account” shall have the meaning set forth in Section 6.3.

“Capital Contribution” means any capital contribution by a Member of cash or the fair market value of property to the Company.

“Certificate of Formation” means the Amended and Restated Certificate of Formation of the Company as originally filed with the Secretary of State of the State of Delaware on _____, 2008 and as amended from time to time.

“Closing Date” means the date the Timber Notes are originally issued.

“Code” means the Internal Revenue Code of 1986 and any successor statute, as amended from time to time.

“Common Stock” shall mean the common stock of the Company, par value \$0.01 per share.

“Company Owned Timberlands” shall have the meaning for such term set forth in the Indenture.

“Company Timber” shall have the meaning for such term set forth in the Indenture.

“Company Timber Rights” shall have the meaning for such term set forth in the Indenture.

“Deed of Trust” means the deed of trust dated as of the Closing Date by the Company in favor of State Street Bank and Trust Company, as collateral agent and Fidelity National Title Insurance Company, as trustee.

“DGCL” means that Delaware General Corporation Law and any successor statute, as amended from time to time.

“Fiscal Year” means the Company's fiscal year, which shall be the calendar year.

“Indenture” means the indenture, dated as of the [], to be entered into between the Company and [] as trustee (the “Trustee”), pursuant to which the Company shall issue the Timber Notes, as the same may be amended, modified or supplemented in accordance with the terms thereof.

“Indebtedness” shall have the meaning for such term set forth in the Indenture.

“Independent Manager” means a Person who, on any date on which a determination thereof is to be made:

(a) is not an Affiliate of the Company (otherwise than to the extent such Person may be deemed an Affiliate of the Company by virtue of such position as a manager or as a director of the Company or of any entity merged with or consolidated into the Company) or Pacific

Lumber, or an employee, officer or director of Pacific Lumber, or an employee or officer of the Company;

(b) has not received, directly or indirectly, at any time during the two years immediately preceding such date, material compensation or payment from the Company or Pacific Lumber or from any Affiliate of the Company or Pacific Lumber (except for director's or manager's fees and expense reimbursement for serving as such); and

(c) does not own, directly or indirectly, any beneficial or other interest in the Company or Pacific Lumber.

"Manager" means any Person hereafter elected to act as a manager of the Company as provided in this Agreement (each in the capacity as a manager of the Company), including each Manager as set forth in Section 3.2, but does not include any Person who has ceased to be a manager of the Company.

"Member" means any holder of Common Stock, any holder of Preferred Stock, any Person executing this Agreement as of the date of this Agreement as a member of the Company or any Person hereafter admitted to the Company as a member as provided in this Agreement (each in the capacity as a member of the Company), but does not include any Person who has ceased to be a member of the Company. "Members" shall refer to each and every Member (in their capacity as such) collectively and, should there be only a single Member, to such Member (in its capacity as such) .

"Mortgaged Properties" shall have the meaning for such term set forth in the Indenture.

"New Additional Services Agreement" shall have the meaning for such term set forth in the Indenture.

"Non-Recourse Timber Acquisition Indebtedness" shall have the meaning for such term set forth in the Indenture.

"Operative Documents" shall have the meaning for such term set forth in the Indenture.

"Person" includes an individual, partnership, limited partnership, limited liability company or partnership, foreign limited liability company, trust, estate, corporation, custodian, trustee, executor, administrator, nominee or entity in a representative capacity.

"Preferred Stock" shall mean the Preferred Stock of the Company, par value \$0.01 per share.

"Proceeding" means any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative, arbitative, or investigative.

"Substitute Timber Property" shall have the meaning for such term set forth in the Indenture.

"Timber Notes" shall have the meaning for such term set forth in the Indenture.

1.2 Related Definitions. Any capitalized terms contained within definitions in this Section 1.1 that are defined by reference to the Indenture shall have the meanings assigned to such terms in the Indenture.

ARTICLE II

Organization

2.1 Name and Formation. The name of the Company shall be “Scotia Pacific Company LLC”, and all Company business shall be conducted in such name or such other names that comply with applicable law as the Board of Managers may select from time to time. The Company was formed upon the filing of the original Certificate of Formation of the Company by the Secretary of State of the State of Delaware on May 29, 1998, pursuant to the Act.

2.2 Principal Place of Business. The principal place of business of the Company shall be at 125 Main Street, 2nd Floor, P.O. Box 712, Scotia, California 95565. The Company may locate its place(s) of business at any other place or places as the Board of Managers may from time to time deem necessary or advisable.

2.3 Registered Office and Registered Agent. The Company's initial registered agent and office in the State of Delaware is Corporation Service Company, and the post office address of the registered agent is Delaware is 615 South Dupont Highway, Dover, County of Kent. The Company may change its registered office to any other place or places as the Board of Managers may from time to time deem necessary or advisable. The Company may change its registered agent to any other Person as the Board of Managers may from time to time deem necessary or advisable.

2.4 Term. The Company shall have a perpetual existence, unless the Company is earlier dissolved in accordance with the provisions of this Agreement.

2.5 Purposes and Powers. The purpose of the Company is to engage in (i) the operation, management, sale and maintenance of the Company Owned Timberlands, the Company Timber Rights and the Company Timber as provided by the Operative Documents, (ii) issuing and selling Timber Notes and any Additional Timber Notes pursuant to the Indenture, (iii) acquiring Additional Timber Property, (vi) sales of Company Owned Timberlands, Company Timber Rights or Company Timber or transfers of Company Owned Timberlands or Company Timber Rights in exchange for Substitute Timber Property in accordance with the procedures set forth in the Indenture, and (vii) actions reasonably incidental to the foregoing which do not, individually or in the aggregate, have a Material Adverse Effect. Notwithstanding any other provision of this Agreement, the Certificate of Formation, and any provision of law that otherwise so empowers the Company, for so long as any Timber Notes, or any Additional Timber Notes shall remain outstanding, the Company shall not engage in any business or activity other than those set forth in this Section 2.5 and those otherwise permitted by the Indenture.

2.6 Lack of Authority of Members.

2.6.1 No Member (other than a Manager or an officer of the Company in his or her capacity as such) shall have the authority or power to act for or on behalf of the Company, to do any act that would be binding on the Company, or to incur any expenditures, debts, liabilities or obligations on behalf of the Company.

2.6.2 Without limiting the foregoing, no Member, acting individually or with other Members, shall have any power or authority to institute any proceedings to cause the Company to become Bankrupt or Insolvent or to cause any Bankruptcy or Insolvency to occur or exist with respect to the Company.

2.7 Liability to Third Parties. No Member or Manager shall be liable for the debts, obligations or liabilities of the Company (whether arising in contract, tort or otherwise), including without limitation under a judgment, decree or order of a court, by reason of being a member or acting as a manager of the Company.

2.8 No Personal Liability of Members. Managers. Etc. No Member of the Company shall be subject in such capacity to any personal liability whatsoever to any Person in collection with the assets or the acts, obligations or affairs of the Company. Members shall have the same limitation of personal liability as is extended to stockholders of a private corporation for profit incorporated under the DGCL. To the extent permitted by the Act, no Manager or officer of the Company shall be subject in such capacity to any personal liability whatsoever to any Person, in connection with the assets or the acts, obligations or affairs of the Company, save only liability to the Company or its Members arising from bad faith, willful misfeasance, gross negligence or reckless disregard for his or her duty to such Person; and, subject to the foregoing exception, all such Persons shall look solely to the assets of the Company for satisfaction of claims of any nature arising in connection with the affairs any Member.

2.9 Business Transactions of a Member with the Company. In accordance with Section 18-107 of the Act, a Member may transact business with the Company and, subject to applicable law, shall have the same rights and obligations with respect to any such matter as a person who is not a Member.

2.10 Member Representations.

Each Member hereby represents and warrants to the Company and each Manager that (a) if it is a corporation, it is duly organized, validly existing, and in good standing under the law of the state of its incorporation and is duly qualified and in good standing as a foreign corporation in the jurisdiction of its principal place of business (if not incorporated therein); (b) that such Member has full corporate or other applicable power and authority to execute and deliver this Agreement and to perform its obligations hereunder and all necessary actions by the board of directors, shareholders, managers, members, partners, trustees, beneficiaries, or other Persons necessary for the due authorization, execution, delivery, and performance of this Agreement by such Member have been duly taken; (c) that the Member has duly executed and delivered this Agreement; and (d) that such Member's authorization, execution, delivery, and performance of

this Agreement do not conflict with any other agreement or arrangement to which such Member is a party or by which it is bound.

ARTICLE III

Management

3.1 Management by the Board of Managers. The powers of the Company shall be exercised by or under the authority of, and the business and affairs of the Company shall be managed under the direction of, a Board of Managers.

3.2 Number and Classification: Chairman. The Board of Managers shall be comprised of five members, and at all times shall include (i) two representatives designated by the Trustee (each, a “Noteholder Director”), (ii) two representatives designated by The Pacific Lumber Company (each, a “Palco-Designated Director”), and (iv) the Chief Executive Officer of the Company who shall be jointly agreed upon by the Noteholder Directors and the Palco-Designated Directors.

The Board of Managers shall appoint a Chairman to serve at the pleasure of the Board. The Chairman of the Board shall initially be _____.

3.3 Actions Requiring Super-Majority Vote of Managers.

All decisions of the Board of Managers will require a simple majority, except for the following which shall require the affirmative vote or written consent of four of the five members of the Board of Managers:

- amend or repeal any provision of this Agreement or the Company’s Certificate of Formation, as the case may be;
- authorize or effect the payment of dividends on any capital stock, or the redemption or repurchase of any capital stock;
- authorize or effect the issuance of any shares of capital stock or rights to acquire capital stock;
- authorize or effect (a) any sale, lease, transfer or other disposition of a material asset of the Company outside of the ordinary course of business; (b) any merger or consolidation or other reorganization of the Company with or into another corporation; (c) the acquisition of another entity by means of a purchase of all or substantially all of the capital stock or assets of such entity; or (d) e) a liquidation, winding up, dissolution or adoption of any plan for the same;
- reclassify, cancel or in any manner alter or change the terms, designations, powers, preferences or relative, optional or other rights, or the qualifications, limitations or restrictions thereof, of any capital stock of the Company;

- incur, either through the issuance of debt securities or the borrowing of money, unsecured indebtedness in excess of \$10 million in the aggregate;
- guarantee the indebtedness of any third party outside of the ordinary course of business in excess of \$1 million in the aggregate;
- enter into or engage in any business or activity outside of the ordinary course of business or otherwise not contemplated by the annual operating or capital budget or business plan approved by the Board of Managers;
- spend or commit to spend fifteen percent (15%) in excess of the aggregate amount specified in the budget approved for each year by their respective Boards in expenditures that are or should be classified as “capital expenditures” under U.S. generally accepted accounting principles;
- acquire any single asset or group of related assets in a single transaction or series of related transactions for an aggregate consideration (including any indebtedness incurred in connection therewith) in excess of \$10 million;
- enter into any transaction, other than employment agreements on a basis consistent with past practice, with any officer, director or beneficial owner of five percent (5%) or more of the capital stock of the Company;
- grant registration rights with respect to any security or shares of capital stock of the Company; or
- enter into any agreement or commitment or otherwise become bound or obligated to do or perform any of the foregoing actions.

3.4 Term. Each Manager shall hold office until his or her successor shall be elected and qualified or until his or her earlier death, resignation or removal as provided in this Agreement.

3.5 Vacancy. Any Manager position to be filled by reason of an increase in the number of Managers may be filled by election at a meeting of the Members called for that purpose. Any vacancy occurring in the Board of Managers other than by reason of an increase in the number of Managers may be filled in accordance with Section 3.2.

3.6 Removal. At any meeting of the Members at which a quorum of Members is present called expressly for such purpose, any Manager, other than an Independent Manager, may be removed at any time, with or without cause, by the affirmative vote of a majority of all the Members represented in person, by telephone or by proxy at such meeting. Except as may otherwise be provided by the Act, any Independent Manager may be removed only with cause; provided, however, that the removal of an Independent Manager shall not be effective until a replacement Independent Manager has been appointed.

3.7 Resignation. Any Manager may resign at any time. Such resignation shall be made in writing and shall take effect at the time specified therein or, if no time is specified therein, at the time of its receipt by the remaining Managers; provided, however, that the resignation of an Independent Manager shall not be effective until a replacement Independent Manager has been appointed. The acceptance of a resignation shall not be necessary to make it effective, unless so expressly provided in the resignation.

3.8 Place of Meetings of Managers. Meetings of the Board of Managers may be held either within or without the State of Delaware at such place or places as shall be determined from time to time by resolution of the Board of Managers.

3.9 Meetings of Managers. Meetings of the Board of Managers may be held when called by the Chairman of the Board of Managers or by a majority of the Board of Managers. The Manager or Managers calling any meeting shall cause notice to be given of such meeting, including therein the time, date and place of such meeting, to each Manager at least two Business Days before such meeting. The business to be transacted at, or the purpose of, any meeting of the Board of Managers shall be specified in the notice or waiver of notice of any such meeting. If fewer than all the Board of Managers are present in person, by telephone or by proxy, business transacted at any such meeting shall be confined to the business or purposes specifically stated in the notice or waiver of notice of such meeting.

3.10 Quorum: Majority Vote. At all meetings of the Board of Managers, the presence in person, by telephone or by proxy of a majority of the Board of Managers shall be necessary and sufficient to constitute a quorum for the transaction of business unless a greater number is required by law, the Certificate of Formation or the terms of this Agreement. The act of a majority of the Board of Managers present in person, by telephone or by proxy at a meeting at which a quorum is present in person, by telephone or by proxy shall be the act of the Board of Managers, except as otherwise provided by law, the Certificate of Formation, the terms of this Agreement or, so long as any Timber Notes or Additional Timber Notes are outstanding, the Indenture. If a quorum shall not be present in person, by telephone or by proxy at any meeting of the Board of Managers, the Board of Managers present in person, by telephone or by proxy at the meeting may adjourn the meeting from time to time, without notice other than announcement at the meeting, until a quorum shall be present in person, by telephone or by proxy.

3.11 Methods of Voting: Proxies. A Manager may vote either in person, by telephone or by proxy executed in writing by the Manager; provided, however, that the Person designated to act as proxy shall be a Manager; provided, further, that the Person designated to act as proxy for an Independent Manager must be an Independent Manager. A telegram, telex, cablegram or similar transmission by the Manager, or a photographic, photostatic, facsimile or similar reproduction of a writing executed by the Manager shall be treated as an execution in writing for purposes of this Section 3.11. Proxies for use at any meeting of Managers or in connection with the taking of any action by written consent shall be filed with the Chairman of the Board of Managers, before or at the time of the meeting or execution of the written consent, as the case may be. All proxies shall be received and taken charge of and all ballots shall be received and canvassed by the Chairman of the Board of Managers, who shall decide all questions touching upon the qualifications of voters, the validity of the proxies, and the acceptance or rejection of

votes. No proxy shall be valid after 30 calendar days from the date of its execution unless otherwise provided in the proxy.

3.12 Order of Business. At any meeting of the Board of Managers, business shall be transacted in the order as the Chairman of the Board of Managers may determine from time to time (and in the absence of the Chairman, such other person so designated by the Board of Managers). The secretary of the meeting shall prepare minutes of the meeting and such minutes shall be placed in the minute book of the Company.

3.13 Attendance and Waiver of Notice. Attendance of a Manager at any meeting shall constitute a waiver of notice of such meeting, except where a Manager attends a meeting for the express purpose of objecting to the transaction of any business on the ground that the meeting is not lawfully called or convened.

3.14 Compensation of Managers. Managers may receive any stated amount for their services, as determined by the Board of Managers, and expenses of attendance, if any, may be allowed for attendance at each meeting of the Board of Managers. Nothing contained in this Agreement shall be construed to preclude any Manager (other than an Independent Manager) from serving the Company or any Affiliate in any other capacity and receiving compensation for such service.

3.15 Committees. The Managers may, by resolution, designate (i) from among the Board of Managers one or more committees, each of which shall be comprised of at least one Manager, and (ii) one or more of the Board of Managers as alternate members of any committee, who may, subject to any limitations imposed by the Board of Managers, replace absent or disqualified Managers at any meeting of that committee. Such committee shall have and may exercise all of the authority of the Board of Managers, subject to the limitations set forth in the Act and this Agreement.

3.16 Actions Without a Meeting. Except as otherwise provided by law, the Certificate of Formation or this Agreement, any action required or permitted to be taken at a meeting of the Board of Managers or any committee thereof may be taken without a meeting, without prior notice, and without a vote, if a consent in writing, setting forth the action so taken, is signed by the Board of Managers or members of the committee, as the case may be, having not fewer than the minimum number of votes that would be necessary to take the action at a meeting at which all Managers or committee members, as the case may be, entitled to vote on the action were present and voted. Such consent shall have the same force and effect, as of the date stated therein, as a vote of such Managers or members of the committee, as the case may be, and may be stated as such in any document or instrument filed with the Secretary of State of the State of Delaware or in any certificate or other document delivered to any person or entity. The signed consent shall be placed in the minute book of the Company.

3.17 Telephone and Similar Meetings. The Managers, or members of any committee thereof, may participate in and hold meetings by means of conference telephone or similar communications equipment by means of which all persons participating in the meeting can hear each other. Such participation in any such meeting shall constitute presence in person at such meeting, except where a Person participates in such meeting for the express purpose of objecting

to the transaction of any business on the ground that such meeting is not lawfully called or convened.

3.18 Presumption of Assent. A Manager, or any member of a committee thereof, who is present in person, by telephone or by a general proxy at a meeting. of the Board of Managers or a committee thereof at which action on any matter is taken shall be presumed to have assented to the action unless his or her dissent is entered in the minutes of the meeting or unless he files his or her written dissent to such action with the Person acting as secretary of the meeting before the adjournment thereof. Such right to dissent shall not apply to a Manager or committee member who voted in favor of such action.

ARTICLE IV

Officers

4.1 Designation: Term: Qualifications. The Board of Managers may, from time to time, designate one or more Persons to be officers of the Company. Any officer so designated shall have such authority and perform such duties as the Board of Managers may, from time to time, delegate to them. In the absence of any such delegation, the applicable officer shall have the authority and duties that are normally associated with that office. Each officer shall hold office for the term for which such officer is designated and until his successor shall be duly designated and shall qualify or until his death, resignation or removal as provided in this Agreement. Any Person may hold any number of offices. No officer need be a Manager, a Member, a Delaware resident, or a United States citizen. Designation of a Person as an officer of the Company shall not of itself create any contract rights. The original officers of the Company shall be the persons set forth in Exhibit A hereto.

4.2 Removal and Resignation. Any officer of the Company may be removed as such, with or without cause, by the Board of Managers. Any officer may resign at any time. Such resignation shall be made in writing and shall take effect at the time specified therein or, if no time is specified therein, at the time of its receipt by the Chairman of the Board of Managers. The acceptance of a resignation shall not be necessary to make it effective, unless so expressly provided in the resignation.

4.3 Vacancies. Any vacancy occurring in any office of the Company may be filled by the Board of Managers.

ARTICLE V

Meetings of Members

5.1 Meetings of Members. A meeting of the Members may be called at any time by the Chairman of the Board of Managers, by the Board of Managers or by the holders of not less than 20% of the Common Stock. The date, time and place of the meeting shall be designated by the Person(s) calling such special meeting and shall be stated in the notice of such meeting or in a duly executed waiver of notice of such meeting. If fewer than all holders of Common Stock are present in person, by telephone or by proxy, business transacted at any such meeting shall be

confined to the business or purposes specifically stated in the notice or waiver of notice of such meeting.

5.2 Place of Meetings of Members. All meetings of the Members shall be held at the principal office of the Company unless another place is designated for meetings in the manner provided in Section 5.1 of this Agreement.

5.3 Notice of Meetings of Members. Except as otherwise provided by applicable law, written or printed notice stating the place, day and hour of each meeting of the Members, and the purpose or purposes for which the meeting is called, shall be delivered not less than ten Business Days nor more than 60 calendar days before the date of the meeting, either personally or by mail, by or at the direction of the Board of Managers or Members calling the meeting, to each Member of record entitled to vote at such meeting.

5.4 Record Date for Notice and Voting.

5.4.1 Matters Other than Consents to Action. For the purpose of determining the Members entitled to notice of, or to vote at, any meeting of the Members or any adjournment thereof, or entitled to receive a distribution, or in order to make a determination of the Members for any other proper purpose (other than determining the Members entitled to consent to action by the Members proposed to be taken without a meeting of the Members), the Board of Managers may fix in advance a date as the record date for any such determination of the Members, such date in any case to be not more than 60 calendar days and not less than ten Business Days prior to the date on which the particular action requiring such determination of the Members is to be taken. If no record date is fixed for the determination of the Members entitled to notice of, or to vote at, a meeting of the Members, the date on which the notice of the meeting is mailed shall be the record date for such determination of the Members. When a determination of the Members entitled to vote at any meeting of the Members has been made as provided in this Section 5.4.1, such determination shall apply to any adjournment thereof.

5.4.2 Consents to Action. Unless a record date has previously been fixed or determined pursuant to this Section 5.4, whenever action by the Members is proposed to be taken by consent in writing without a meeting of the Members, the Board of Managers may fix a record date for the purpose of determining the Members entitled to consent to that action, which record date may not precede, and may not be more than ten calendar days after, the date upon which the resolution fixing the record date has been adopted by the Board of Managers. If no record date has been fixed by the Board of Managers and the prior action of the Board of Managers is not required by applicable law, the record date for determining the Members entitled to consent to action in writing without a meeting will be the first date on which a signed written consent setting forth the action taken or proposed to be taken is delivered to the Company in the manner provided in Section 5.10.1 of this Agreement. If no record date has been fixed by the Board of Managers and prior action of the Board of Managers is required by applicable law, the record date for determining the Members entitled to consent to action in writing without a meeting shall be at the close of business on the date on which the Board of Managers adopt a resolution taking such prior action.

5.5 Quorum. A quorum shall be present at any meeting of the Members if the holders of a majority interest in the Company are represented at the meeting in person or by proxy, except as otherwise provided by law or the Certificate of Formation.

5.6 Methods of Voting: Proxies. A Member may vote either in person, by telephone or by proxy executed in writing by the Member. A telegram, telex, cablegram or similar transmission by such Member, or a photographic, photostatic, facsimile or similar reproduction of a writing executed by such Member shall be treated as an execution in writing for purposes of this Section 5.6. Proxies for use at any meeting of Members or in connection with the taking of any action by written consent shall be filed with the Board of Managers, before or at the time of the meeting or execution of the written consent, as the case may be. All proxies shall be received and taken charge of and all ballots shall be received and canvassed by the Board of Managers, who shall decide all questions touching upon the qualification of voters, the validity of the proxies, and the acceptance or rejection of votes. No proxy shall be valid after 11 months from the date of its execution unless otherwise provided in the proxy. A proxy shall be revocable unless the proxy form conspicuously states that the proxy is irrevocable and the proxy is coupled with an interest.

5.7 Conduct of Meetings. All meetings of the Members shall be presided over by the chairman of the meeting, who shall be the Chairman of the Board of Managers (and in the Chairman's absence, such other person so designated by the Board of Managers). The Chairman of the Board of Managers shall determine the order of business and the procedure at the meeting, including without limitation such regulation of the manner of voting and the conduct of discussion as determined by the Chairman of the Board of Managers.

5.8 Voting on Matters. For purposes of voting on matters at any meeting of the Members at which a quorum is present, the act of the Members shall be the affirmative vote of the Member or Members holding a majority of the Common Stock represented in person, by telephone or by proxy at such meeting.

5.9 Registered Members. The Company shall be entitled to treat the holder of record of any shares of Common Stock or Preferred Stock as the holder in fact of such shares of Common Stock or Preferred Stock, as applicable, for all purposes, and, accordingly, shall not be bound to recognize any equitable or other claim to or interest in such shares of Common Stock or Preferred Stock on the part of any other Person, whether or not it shall have express or other notice of such claim or interest, except as expressly provided in this Agreement or the laws of Delaware.

5.10 Actions Without a Meeting.

5.10.1 Except as otherwise provided by law or by the Certificate of Formation, any action required or permitted to be taken, or which may be taken, by law or the Certificate of Formation or this Agreement, at any meeting of Members, may be taken without a meeting, and without a vote, if a consent or consents in writing, setting forth the action so taken, shall be signed by the holder or holders of Common Stock constituting not less than the minimum amount of Common Stock that would be necessary to authorize or take such action at a meeting at which the holders of all Common Stock entitled to vote on the action were present and voted.

Every written consent shall bear the date of signature of each Member who signs the consent. The signed consent or consents of Members shall be placed in the minute book of the Company. A telegram, telex, cablegram or similar transmission by a Member, or a photographic, photostatic, facsimile or similar reproduction of a writing signed by a Member, shall be regarded as signed by such Member for purposes of this Section 5.10.

5.10.2 If any action by Members is taken by written consent, any articles or documents filed with the Secretary of State of the State of Delaware as a result of the taking of the action shall state, in lieu of any statement required by applicable law concerning any vote of Members, that written consent has been given in accordance with the provisions of applicable law and that any written notice required by applicable law has been given.

5.11 Telephone and Similar Meetings. The Members may participate in and hold meetings by means of conference telephone or similar communications equipment by means of which all Persons participating in the meeting can hear each other. Participation in any such meeting shall constitute presence in person at such meeting, except where a Person participates in such meeting for the express purpose of objecting to the transaction of any business on the ground that such meeting is not lawfully called or convened.

ARTICLE VI

Contributions to Capital

6.1 Initial Capital Contribution. The limited liability company interests (as such term is defined in the Act) of the Company shall be designated as “Common Stock” or “Preferred Stock” for purposes of this Agreement. The Company is authorized to issue two classes of stock to be designated, respectively, Common Stock and Preferred Stock. The total number of shares which the Company is authorized to issue is four hundred twenty-five million (425,000,000) shares, each with a par value of \$0.001 per share. Fifty million (50,000,000) shares shall be designated as Common Stock and three hundred seventy-five million (375,000,000) shares shall be designated as Preferred Stock. Upon the Closing Date, the Company shall distribute the shares of Common Stock and Preferred Stock in accordance with the Plan of Reorganization. The Company shall not issue any nonvoting equity securities to the extent required by Section 1123(a) of the Bankruptcy Code.

6.2 Rights, Preferences and Restrictions of Preferred Stock.

6.2.1 Transferability. The Preferred Stock shall be freely transferable, except for any restrictions on transfer imposed by applicable federal or state securities laws.

6.2.3 Optional Redemption. The Company shall have the right, in its sole and absolute discretion, to redeem in whole or in part the Preferred Stock by paying in cash an amount equal to \$1 per share of such shares of Preferred Stock that are to be redeemed, subject to appropriate adjustment in the event of any stock dividend, stock split, stock distribution or combination (the “Stated Value”).

6.2.4 Mandatory Redemption. In the event that any sale of the Company-owned timberlands generates net proceeds in excess of \$100,000 (net of expenses and taxes arising in

connection therewith), the Company shall be obligated to use 85% of such net proceeds towards the redemption of shares of outstanding Preferred Stock as soon as practical but in no event later than the date that is 90 business days following the closing date of any such sale.

6.2.5 Dividends.

6.2.5.1 Holders of the Preferred Stock shall not be entitled to any dividends.

6.2.5.2 The Company shall be prohibited from declaring any dividends to the holders of Common Stock until such time that 100% of the Preferred Stock have been redeemed in full.

6.2.6 Liquidation Preference. In the event of any voluntary or involuntary liquidation, dissolution or winding up of the Company, the holders of shares of the Preferred Stock shall receive cash equal to the Stated Value per share. If upon any such liquidation, dissolution or winding up the remaining assets of the Company available for distribution to its stockholders shall be insufficient to pay the holders of shares of the Preferred Stock the full amount to which they are entitled, the holders of shares of the Preferred Stock shall share ratably in any distribution of the remaining assets and funds of the Company in proportion to the respective amounts which would otherwise be payable in respect to the shares held by them upon such distribution if all amounts payable on or with respect to said shares were paid in full.

6.2.7 Voting Rights. The Preferred Stock shall have no voting rights.

6.3 Common Stock.

6.3.1 Transferability. The Common Stock shall be freely transferable, except for any restrictions on transfer imposed by applicable federal or state securities laws.

6.3.2 Voting Rights. The Common Stock shall have voting rights. Except as may otherwise be required by Law and subject to the rights of the holders of Preferred Shares, each holder of Common Shares shall have one vote for each Common Share held by such holder. All Record Holders of Common Shares shall vote, cause to be voted or consent, when required or permitted by this Agreement, as directed by the Board of Managers, except for any matters requiring the approval of Common Shares, voting together as a separate class, pursuant to this Agreement or applicable Law.

6.4 Additional Capital Contributions. The Members may, but shall not be obligated to, make additional Capital Contributions to the Company.

6.5 Withdrawal or Reduction of Members' Contributions to Capital.

6.4.1 No Member shall have the right to withdraw all or any part of its Capital Contribution or to receive any return on any portion of its Capital Contribution, except as may be otherwise specifically provided in this Agreement. Under circumstances involving a return of any Capital Contribution, no Member shall have the right to receive property other than cash.

6.4.2 No Member shall be paid interest on any of its Capital Contributions.

6.4.3 An unrepaid Capital Contribution shall not be a liability of the Company or of any Member. A Member shall not be required to contribute or to lend any cash or property to the Company to enable the Company to return any Member's Capital Contributions.

Distributions: Books: Records: and Bank Accounts

7.1 Distributions. All distributions shall be made to the Members 'upon the adoption of a resolution of the Board of Managers declaring a distribution. All distributions shall be made in such amounts and at such times as determined by the Board of Managers.

7.2 Limitation Upon Distributions. No distribution shall be declared and paid unless, after the distribution is made, the fair value of the Company assets is in excess of all liabilities of the Company or as otherwise permitted by the Act.

7.3 Maintenance of Books. The Company shall keep books and records of accounts and shall keep minutes of the proceedings of the Members, the Board of Managers and each committee of the Board of Managers. The books of account for the Company shall be maintained in accordance with the accounting method selected by the Board of Managers (or in accordance with generally accepted accounting principles in the absence of any such selection) consistently applied. The calendar year shall be the accounting year of the Company.

7.4 Reports. Within one hundred and twenty days following the end of each Fiscal Year during the term of the Company, the Board of Managers shall cause each Member to be furnished with a balance sheet, an income statement and a statement of changes in Members' capital. These financial statements shall be prepared in accordance with the accounting method selected by the Board of Managers (or in accordance with generally accepted accounting principles in the absence of any such selection) consistently applied (except as therein noted). If required by law or any other agreement, or if a Member should request so in writing, the financial statements shall be accompanied by an audit report from a nationally recognized accounting firm. The Managers also may cause to be prepared or delivered such other reports as they may deem appropriate. The Company shall bear the costs of all such financial statements and reports.

7.5 Bank and Investment Accounts. The Managers shall establish and maintain one or more separate bank and investment accounts and arrangements for Company funds in the Company name with financial institutions and firms that the Board of Managers determine. The Managers shall not commingle the Company's funds with the funds of any Member or any other Person.

ARTICLE VIII

Dissolution. Liquidation and Termination

8.1 Dissolution.

8.1.1 The Company shall be dissolved and its affairs shall be wound up upon the first of the following to occur: (i) upon the election to dissolve the Company by the Board of Managers or (ii) the entry of a decree of judicial dissolution of the Company under Section 18-802 of the Act. Notwithstanding anything to the contrary in this Agreement or the Act (including, without limitation, Section 18-801(a)(3) or Section 18-801(b) thereof), for so long as any Timber Notes or any Additional Timber Notes are outstanding, the Members, or any of them, shall not dissolve or wind-up the affairs of the Company.

8.1.2 Dissolution of the Company shall be effective as of the day on which the event occurs giving rise to the dissolution, but the Company shall not terminate until there has been a winding up of the Company's business and affairs, and the Company's assets have been distributed as provided in Section 8.2 of this Agreement and in the Act.

8.2 Liquidation and Termination. Upon dissolution of the Company, the Board of Managers shall act as liquidators or may appoint one or more Managers or Members (with its or their consent) as liquidators. The liquidators shall proceed diligently to wind up the affairs of the Company and make final distributions as provided in Section 6.2.6 and this Section 8.2 and in the Act. The costs of liquidation shall be borne as a Company expense. Until final distribution, the liquidators shall continue to operate the Company's assets and the Company's affairs with all the power and authority of the Board of Managers. The steps to be accomplished by the liquidators are as follows:

(i) As promptly as possible after dissolution and again after final liquidation, the liquidators shall cause an accounting to be made by a recognized firm of certified public accountants of the Company's assets and the Company's liabilities and operations through the last day of the calendar month in which the dissolution occurs or the final liquidation is completed, as the case may be;

(ii) The liquidators may cause all or any part of the Company's assets to be sold to any Person (including, without limitation, to Members) as the liquidators shall reasonably determine, and any resulting gain or loss from each such sale shall be computed and allocated to the Members;

(iii) The liquidators shall pay, satisfy or discharge from the Company's assets all of the debts, liabilities and obligations of the Company (including, without limitation, all expenses incurred in liquidation, but excluding liabilities to Members on account of their Capital Contributions) in the order of priority in accordance with this Agreement and as provided by law, or otherwise make adequate provision for payment and discharge thereof (including, without limitation, the establishment of a cash escrow fund for contingent liabilities in such amount and for such term as the liquidators may reasonably determine);

(iv) After payment, satisfaction or discharge of the Company's debts, liabilities and obligations (or adequate provision therefor) has been made pursuant to clause (iii) of this Section 8.2, all remaining Company assets shall be distributed to the Members as follows:

(a) With respect to any asset of the Company that has not been sold pursuant to clause (ii) above, the fair market value of such asset of the Company shall be determined

by the liquidators and the Capital Accounts of the Members shall be adjusted to reflect the manner in which the unrealized income, gain, loss, and deduction inherent in such asset of the Company that has not been reflected in the Capital Accounts of the Members previously would be allocated among the Members if there were a disposition of such asset for the fair market value of such asset on the date of distribution;

(b) An amount equal to the then remaining positive balances in the Capital Accounts of the Members (as determined after taking into account all Capital Account adjustments for the year of the Company during which the liquidation of the Company occurs, other than those made by reason of this subclause (b)» shall be distributed to the Members in proportion to the amount of such balances; and

(c) Any remainder shall be distributed to the Members, pro rata, in accordance with their respective holdings of Preferred Stock and Common Stock.

All distributions in kind of the Company's assets to the Members shall be made subject to the cost, expenses or liability relating to such Company assets incurred or for which the Company has committed prior to the date of termination of the Company and such costs, expenses and liabilities shall be allocated to the distributee in accordance with this Section 8.2.

The distribution of the Company's assets to a Member in accordance with the provisions of this Section 8.2 constitutes a complete return to the Member of its Capital Contributions and a complete distribution to such Member of its Membership Interest and all of the Company's assets, and constitutes a compromise to which all Members have consented in writing within the meaning of Section 18-502(b) of the Act. To the extent that a Member returns funds to the Company, such Member shall have no claim against any other Member for such funds.

8.3 Certificate of Cancellation. When all liabilities and obligations of the Company have been paid or discharged, or adequate provision has been made therefor, and all of the remaining Company assets have been distributed to the Members according to their respective rights and interests as provided in Section 8.2 of this Agreement, the Company is terminated and a Certificate of Cancellation shall be executed on behalf of the Company by the Board of Managers (or such other Person or Persons as the Act may require or permit) and shall be filed with the Office of the Secretary of State of the State of Delaware, and the Board of Managers or such other Person or Persons shall take such other actions, and shall execute, acknowledge and file any and all other instruments, as may be necessary or appropriate to reflect the dissolution and termination of the Company.

ARTICLE IX

Indemnification

9.1 Mandatory Indemnification of Managers and Officers. Any Person who was or is a party or is threatened to be made a party to or is involved in any Proceeding, or any appeal in such a Proceeding or any inquiry or investigation that could lead to such a Proceeding, by reason of the fact that such Person is or was a Manager or an officer, or while a Manager or an officer is or was serving at the request of the Company as a director, manager, officer, partner, venturer, proprietor, trustee, employee, agent or similar functionary of another foreign or domestic

corporation, limited liability company or partnership, joint venture, partnership, trust, sale proprietorship, employee benefit plan or other entity or enterprise, shall be indemnified by the Company to the fullest extent permitted by applicable law, as the same exist or may hereafter be amended (but, in the case of any such amendment, only to the extent that such amendment permits the Company to provide greater or broader indemnification rights than such law permitted the Company to provide prior to such amendment) against judgments, penalties (including, without limitation, excise and similar taxes and punitive damages), fines, settlements and reasonable expenses (including, without limitation, attorneys' fees) actually incurred by such Person in connection with such Proceeding. It is expressly acknowledged that the indemnification provided in this Article IX could involve indemnification for negligence or under theories of strict liability.

9.2 Mandatory Advancement of Expenses. Expenses incurred by a Person of the type entitled to be indemnified under Section 9.1 of this Agreement in defending any Proceeding shall be paid or reimbursed by the Company in advance of the final disposition of the Proceeding, without any determination as to such Person's ultimate entitlement to indemnification under Section 9.1 of this Agreement, upon receipt of a written undertaking by or on behalf of such Person to repay all amounts so advanced if it shall ultimately be determined that such Person is not entitled to be indemnified by the Company as authorized in Section 9.1 of this Agreement or otherwise. The written undertaking shall be an unlimited general obligation of the Person but need not be secured and shall be accepted without reference to financial ability to make repayment.

9.3 Indemnification of Employees and Agents. The Company may, as determined by the Board of Managers, indemnify and pay and advance expenses to an employee or agent of the Company to the same extent and subject to the same conditions under which it may indemnify and pay and advance expenses to Managers and officers under this Article IX; and the Company may, as determined by the Board of Managers, indemnify and pay and advance expenses to any Person who is not or was not a Manager, officer, employee or agent of the Company but who is or was serving at the request of the Company as a Manager, director, officer, partner, venturer, proprietor, trustee, employee, agent or similar functionary of another foreign or domestic limited liability company or partnership, corporation, partnership, joint venture, sole proprietorship, trust, employee benefit plan or other enterprise against any liability asserted against such Person and incurred by such Person in such a capacity or arising out of such Person's status as such to the same extent and subject to the same conditions that the Company may indemnify and pay and advance expenses to Managers under this Article IX.

9.4 Nonexclusivity of Rights. The indemnification and advancement and payment of expenses provided by this Article IX (i) shall not be deemed exclusive of any other rights to which a Manager, officer or other Person seeking indemnification may be entitled under any statute, provision of the Certificate of Formation, agreement, vote of Members or disinterested Managers, or otherwise, both as to action in such Person's official capacity and as to action in another capacity while holding such office, (ii) shall continue as to any Person who has ceased to serve in the capacity which initially entitled such Person to indemnity and advancement and payment of expenses, and (Hi) shall inure to the benefit of the heirs, executors, administrators, successors and assigns of such Manager, officer or other Person.

9.5 Contract Rights. Rights granted pursuant to this Article IX shall be deemed to be contract rights, and no amendment, modification or repeal of this Article IX shall have the effect of limiting or denying any such rights with respect to actions taken or Proceedings arising prior to any such amendment, modification or repeal.

9.6 Insurance. The Company may purchase and maintain insurance or other arrangement or both, at its expense, on behalf of itself or any Person who is or was serving as a Manager, officer, employee or agent of the Company, or is or was serving at the request of the Company as a manager, director, officer, partner, venturer, proprietor, trustee, employee, agent or similar functionary of another foreign or domestic limited liability company, partnership, corporation, partnership, joint venture, sole proprietorship, trust, employee benefit plan or other entity or enterprise, against any liability, expense or loss, whether or not the Company would have the power to indemnify such Person against such liability under the provisions of this Article IX.

9.7 Appearance as a Witness. Notwithstanding any other provision of this Article IX, the Company may pay or reimburse expenses incurred by a Person in connection with such Person's appearance as a witness or other participation in a Proceeding at a time when such Person is not a named defendant or respondent in the Proceeding.

9.8 Savings Clause. If this Article IX or any portion hereof shall be invalidated on any ground by any court of competent jurisdiction, then the Company shall nevertheless indemnify and hold harmless each Manager or officer indemnified pursuant to this Article IX as to costs, charges and expenses (including, without limitation, attorneys' fees), judgments, fines and amounts paid in settlement with respect to any action, suit or proceeding, whether civil, criminal, administrative or investigative, to the fullest extent permitted by any applicable portion of this Article IX that shall not have been invalidated and to the fullest extent permitted by applicable law.

ARTICLE X

Members

10.1 Admission of Members. New members shall be admitted only with the approval of all Members, and the Board of Managers as and to the extent provided in Section 3.3, in which event this Agreement shall be modified accordingly. A Person shall be admitted as a new Member and shall become bound by this Agreement if such Person purchases or otherwise lawfully acquires any shares of the Common or Preferred Stock.

10.2 Access to and Confidentiality of Information: Records. Any Member shall have the right to obtain from the Company, from time to time, upon reasonable written demand stating the purpose thereof[, for any purpose reasonably related to the Member's Membership Interest, the documents and other information described in Section 18-305(a) of the Act.

ARTICLE XI

Miscellaneous Provisions

11.1 Offset. Whenever the Company is to pay any sum to any Member, any amounts such Member owes the Company may be deducted from such sum payment therefor.

11.2 Notices. Except as expressly set forth to the contrary in this Agreement, all notices, requests, or consents provided for or permitted to be given under this Agreement shall be in writing and shall be given either by depositing such writing in the United States mail, addressed to the recipient, postage paid, and registered or certified with return receipt requested or by delivering such writing to the recipient in person, by courier, or by facsimile transmission; and a notice, request, or consent given under this Agreement shall be effective on receipt by the Person to whom sent. All notices, requests, and consents to be sent to a Member shall be sent to or made at the address given for such Member at the address such Member may specify by notice to the Company, the Board of Managers, and the other Members. Any notice, request, or consent to the Company or the Board of Managers must be given to the Board of Managers at the following address: 125 Main Street, 2nd Floor, P.O. Box 712, Scotia, California 95565. Whenever any notice is required to be given by law, the Certificate of Formation or this Agreement, a written waiver thereof, signed by the Person entitled to notice, whether before or after the time stated therein, shall be deemed equivalent to the giving of such notice.

11.3 Effect of Waiver or Consent. A waiver or consent, express or implied, to or of any breach or default by any Person in the performance by such Person of its obligations with respect to the Company shall not be a consent or waiver to or of any other breach or default in the performance by such Person of the same or any other obligations of such Person with respect to the Company. Failure on the part of a Person to complain of any act or omission of any Person or to declare any Person in default with respect to the Company, irrespective of how long that failure continues, shall not constitute a waiver by such Person of its rights with respect to that default until the applicable statute-of-limitations period has run.

11.4 Governing Law: Severability. This Agreement shall be governed by and shall be construed in accordance with the law of the State of Delaware, excluding any conflict-of laws rule or principle that might refer the governance or the construction of this Agreement to the law of another jurisdiction. If any provision of this Agreement or the application thereof to any Person or circumstance is held invalid or unenforceable to any extent, the remainder of this Agreement and the application of that provision to other Persons or circumstances shall not be affected thereby and such provision shall be enforced to the fullest extent permitted by law.

11.5 Further Assurances. In connection with this Agreement and the transactions contemplated hereby, each Member shall execute and deliver any additional documents and instruments and perform any additional acts that may be necessary or appropriate to effectuate and perform the provisions of this Agreement and those transactions.

11.6 Waiver of Certain Rights. Each Member irrevocably waives any right it may have to maintain any action for dissolution of the Company or for partition of any Company asset.

11.7 Indemnification. To the fullest extent permitted by law, each Member shall indemnify the Company, each Manager and each other Member and hold them harmless from and against any and all losses, costs, liabilities, damages, and expenses (including, without

limitation, costs of suit and attorneys' fees) they may incur on account of any breach by such Member of this Agreement.

11.8 Headings and Sections. The headings in this Agreement are inserted for convenience only and are in no way intended to describe, interpret, define, or limit the scope, extent or intent of this Agreement or any provision hereof. Unless the context requires otherwise, all references in this Agreement to Sections or Articles shall be deemed to mean and refer to Sections or Articles of this Agreement.

11.9 Numbers and Gender. Where the context so indicates, the masculine shall include feminine and neuter, and the neuter shall include the masculine and feminine, and the singular shall include the plural.

11.10 Binding Effect. Except as otherwise provided in this Agreement to the contrary, this Agreement shall be binding upon and inure to the benefit of the Members and their legal representatives, executors, administrators, successors and assigns.

11.11 Conflicts of Interest. Subject to applicable law and the other express provisions of this Agreement, or any other applicable agreement, or except as otherwise expressly agreed in writing, each Manager, Member and officer of the Company at any time and from time to time may engage in and possess interests in other business ventures of any and every type and description, independently or with others, including ones in competition with the Company, with no obligation to offer to the Company or any other Member, Manager or officer the right to participate therein.

11.12 Entire Agreement. This Agreement amends, restates and supercedes, effective as of the date first written above, any prior agreement of limited liability company heretofore executed and delivered by the sole Member.

IN WITNESS WHEREOF, this Agreement is executed and delivered as of the date first written above by the undersigned and the undersigned, being the sole Member, does hereby agree to be bound by the terms and provisions set forth in this Agreement.

THE PACIFIC LUMBER COMPANY

By:

Name: []

Title: President

Schedule I

Capital Contributions

Member	Interest	Capital Contribution
[Indenture Trustee]	375,000,000 Shares Preferred Stock	[_____]
[Indenture Trustee]	24,500,000 Shares Common Stock	[_____]
[Holders of Scopac Interests]	25,500,000 Shares Common Stock	[_____]

Scotia Pacific Company LLC

Exhibit A

Initial Officers of the Company

_____	.....	President
_____	.....	Vice President
_____	.....	Vice President-Finance and Administration
_____	.....	Vice President-Resources Management
_____	.....	Vice President-Sales
_____	.....	Vice President
_____	.....	Secretary
_____	.....	Assistant Secretary
_____	.....	Assistant Secretary
_____	.....	Assistant Secretary

**EXHIBIT 10 – SUPPLEMENT TO THE DEBTORS’ SECOND AMENDED JOINT PLAN OF
REORGANIZATION**

**PALCO BOARD RESOLUTIONS APPROVING MERGER AND RELATED
TRANSACTIONS**

**RESOLUTIONS
OF THE BOARD OF DIRECTORS OF
THE PACIFIC LUMBER COMPANY
ADOPTED AT A MEETING HELD ON _____, 2008**

WHEREAS, The Pacific Lumber Company (the "Company") proposes (the "Merger Proposal") to enter into an Agreement and Plan of Merger with Britt Lumber Co., a California corporation ("Britt"), Salmon Creek LLC., a Delaware limited liability company ("Salmon Creek"), Scotia Development LLC, a Texas limited liability company ("Scotia Development"), and Scotia Inn Inc., a Delaware corporation ("Scotia Inn", and collectively with Britt, Salmon Inn and Scotia Development, the "Merged Entities"), providing for the merger ("Merger") of the Merged Entities with and into the Company;

WHEREAS, the Board of Directors has previously approved the Amended Joint Plan of Reorganization of the Company, Scotia Development LLC, Salmon Creek LLC, Britt Lumber Co., Inc., Scotia Inn Inc., and Scotia Pacific under Chapter 11 of title 11 of the United States Bankruptcy Code, 11 U.S.C. §§ 101-1330 (the "Plan of Reorganization");

WHEREAS, the Plan of Reorganization contemplates the Merger Proposal;

WHEREAS, the Board of Directors has received, reviewed and considered information provided to it by members of the Company's management and the Company's legal and financial advisors with respect to the Merger Proposal;

WHEREAS, the Board of Directors has determined that the Merger Proposal and the Agreement and Plan of Merger (the "Merger Agreement") is advisable, fair to and in the best interests of, the Company and its stockholders and has recommended that the Board of Directors proceed to approve the Merger Proposal and to authorize and approve the Merger Agreement and the Company's execution and delivery thereof; and

WHEREAS, the Board of Directors has given due and proper consideration to all matters and things that are necessary or appropriate to enable it to evaluate and reach an informed conclusion as to the fairness and reasonableness of the Merger Proposal and the Merger Agreement.

Agreement and Plan of Reorganization

NOW, THEREFORE, BE IT RESOLVED, that the Board of Directors hereby (i) finds the Merger Agreement, the Merger and other transactions contemplated thereby to be advisable, fair to, and in the best interests of the Company and the stockholders of the Company, (ii) approves the Merger Agreement, the Merger and the other transactions contemplated by the Merger Agreement, and (iii) authorizes and directs that the Company enter into the Merger Agreement and consummate the Merger on the terms and subject to the conditions set forth in the Merger Agreement; and that the Merger Agreement, the Merger and all transactions with respect thereto are hereby approved, adopted, and confirmed in all respects and that the Chief Executive Officer, the Chief Financial Officer and any Vice President of the Company (collectively, the "Appropriate Officers") are each hereby authorized and empowered, for and on

behalf of the Company, to execute and deliver the Merger Agreement with such changes, additions and deletions thereto as such officer may approve, such officer's execution thereof to be conclusive evidence of such approval and the approval of this Board of Directors; and further

RESOLVED, that the Appropriate Officers are each hereby authorized and empowered, for and on behalf of the Company, to deliver, or to cause to be delivered, all documents, instruments, schedules or attachments to be delivered pursuant to the Merger Agreement, with such changes, additions and deletions thereto as such officer may approve, such officer's execution and delivery thereof to be conclusive evidence of such approval and the approval of this Board of Directors; and further

RESOLVED, that the Board of Directors recommends that the stockholders of the Company approve the Merger Agreement; and directs that the Merger Agreement be submitted to a vote of the Company's stockholders; and further

RESOLVED, that the Appropriate Officers are each hereby authorized and empowered, for and on behalf of the Company, to amend and/or supplement the Merger Agreement as deemed by such officer or officers to be necessary, advisable or appropriate to effect the Merger; and further

RESOLVED, that, upon approval by the stockholders of the Company of the Merger Proposal and the satisfaction or waiver of the other conditions to the Merger contained in the Merger Agreement, the Appropriate Officers are each hereby authorized and empowered, for and on behalf of the Company, to do all actions necessary to effect the Merger, including effecting the Merger in accordance with applicable law and the terms of the Merger Agreement, and to execute, verify and file any and all certificates of merger, notices, reports, schedules, supplemental indentures, amendments to existing agreements, agreements or other documents required by applicable law or the terms of the Merger Agreement, or as are deemed by such officer or officers to be necessary or appropriate to effect the Merger and all other transactions contemplated by the Merger Agreement; and further

Amendment to Certificate of Incorporation

RESOLVED, that the Board of Directors hereby adopts and approves an amendment to the Certificate of Incorporation of the Company (i) to implement super-majority approval for certain corporate actions and (ii) to prohibit the issuance of nonvoting equity securities to the extent required by Section 1123(a) of the Bankruptcy Code, such amendment to be substantially in the form submitted to the Board of Directors at this meeting (the "Amendment"), which is attached hereto as Exhibit A; and further

RESOLVED, that the Board of Directors hereby (i) declares the Amendment advisable and in the best interests of the Company and the stockholders of the Company, (ii) recommends that the stockholders of the Company vote for approval of the Amendment, and (iii) directs that the Amendment (the "Amendment Proposal") be submitted to a vote of the stockholders of the Company for approval at the Meeting of Stockholders (as defined below); and further

RESOLVED, that, upon approval by the stockholders of the Company, the Appropriate Officers are each hereby authorized and empowered, for and on behalf of the Company, to execute, acknowledge and file a certificate of amendment (the "Certificate of Amendment") in accordance with the laws of the State of Delaware; and further

RESOLVED, that, upon the filing of the Certificate of Amendment in accordance with the laws of the State of Delaware, the officers of the Company are each hereby authorized and empowered, for and on behalf of the Company, to perform such acts and deeds as may be necessary, advisable or appropriate in the judgment of such officer to effect the Amendment set forth in the Certificate of Amendment; and further

Amended and Restated Bylaws

RESOLVED, that the Board of Directors hereby adopts and approves the Amended and Restated Bylaws of the Company, (i) to implement super-majority approval for certain corporate actions and (ii) to prohibit the issuance of nonvoting equity securities to the extent required by Section 1123(a) of the Bankruptcy Code, and such amendment being substantially in the form submitted to the Board of Directors at this meeting, which is attached hereto as **Exhibit B**; and further

Miscellaneous

RESOLVED, that the Appropriate Officers are each hereby authorized and empowered, for and on behalf of the Company, from time to time to take such actions and to execute and deliver such acknowledgments, agreements, certificates, contracts, instruments, notices and other documents, or to effect such filings with any and all appropriate regulatory authorities, state and federal, as may be required or as such officer may deem necessary, advisable or proper in order to carry out the transactions contemplated by, and the purposes and intents of, the foregoing resolutions; and that all such actions be performed in such manner, and all such acknowledgments, agreements, certificates, contracts, instruments, notices and other documents to be executed and delivered in such form, as the officer performing or executing the same shall approve, the performance or execution thereof by such officer to be conclusive evidence of the approval thereof by such officer and by this Board of Directors; and further

RESOLVED, that the Corporate Secretary or any Assistant Corporate Secretary of the Company is hereby authorized to certify and attest any documents that he or she may deem necessary and appropriate to consummate the transactions contemplated by the documents heretofore authorized and approved, provided that such attestation shall not be required for the due authorization, execution and delivery or validity of the particular document; and further

RESOLVED, that the authority granted to the officers of the Company under the foregoing resolutions shall be deemed to include, in the case of each such resolution, the authority to perform such further acts and deeds as may be necessary, advisable or appropriate, in the judgment of such officers, to carry out the transactions contemplated thereby; and that all acts and deeds previously performed by the officers of or counsel for the Company prior to the date of these resolutions that are within the authority conferred hereby, are ratified, confirmed and approved as the authorized acts and deeds of the Company.

* * * *

EXHIBIT A

AMENDMENT TO CERTIFICATE OF INCORPORATION

EXHIBIT B

AMENDED AND RESTATED BYLAWS

**EXHIBIT 11 – SUPPLEMENT TO THE DEBTORS’ SECOND AMENDED JOINT PLAN OF
REORGANIZATION**

**PALCO STOCKHOLDER CONSENT APPROVING MERGER AND RELATED
TRANSACTIONS**

THE PACIFIC LUMBER COMPANY

Unanimous Written Consent of the Sole Shareholder

_____, 2008

Pursuant to the provisions of the Delaware General Corporation Law, the undersigned, being the sole shareholder of The Pacific Lumber Company, a Delaware corporation (the "Company"), and the only person who would be entitled to vote at a meeting of the shareholders of the Company, hereby waives any and all requirements for calling, giving notice of and holding a meeting of the shareholders of the Company and, in lieu of such meeting, hereby consents to the adoption of the following resolutions without the holding of a meeting, such resolutions to have the same force and effect as if adopted by a unanimous vote at a meeting of the shareholders of the Company.

Amendment to Certificate of Incorporation

WHEREAS, the Board of Directors has determined that it is advisable and in the best interests of the Company and its stockholders to amend and restate the Certificate of Incorporation of the Company; and

WHEREAS, the Board of Directors has (i) approved the form, terms and provisions of the Amended and Restated Certificate of Incorporation, attached hereto as Exhibit A (the "Restated Certificate of Incorporation"), (ii) recommended that the stockholders of the Company vote to approve and adopt the Restated Certificate of Incorporation and (iii) directed that the Restated Certificate of Incorporation be submitted to a vote of the stockholders of the Company, at a meeting of the stockholders or by written consent in lieu of such meeting;

NOW, THEREFORE, BE IT RESOLVED, that the Restated Certificate of Incorporation, in substantially the form attached hereto as Exhibit A, is approved and adopted pursuant to Section 242 of the DGCL by the sole stockholder of the Company; and further

RESOLVED, that the Company is hereby authorized, empowered and directed to execute and file with the Secretary of State of the State of Delaware the Restated Certificate of Incorporation at such time and with such effective time as the officers of the Company deem appropriate and desirable for the purpose of effecting the Restated Certificate of Incorporation and to execute such other instruments, agreements, amendments, certificates and any other documents, and to take such further action which may be necessary or desirable to effect the purposes of the foregoing resolutions;

Merger

WHEREAS, the Board of Directors (the "Board") of the Company has determined that it is desirable and in the best interests of the Company to enter into that certain Agreement and Agreement and Plan of Merger (a form of which is attached hereto as Annex A and is referred to herein as the "Merger Agreement") by and between the Company and the Company, Creek LLC., a Delaware limited liability company ("Salmon Creek"), Scotia Development LLC, a Texas limited liability company ("Scotia Development"), Scotia Inn Inc., a Delaware corporation ("Scotia Inn") and Britt Lumber Co., Inc., a California corporation ("Britt", and collectively with Scotia Inn, Salmon Creek and Scotia Development, the "Merged Entities"., whereby the Merged Entities will be merged with and into the Company with the Company being the surviving entity (the "Merger"); and

WHEREAS, the Board has approved the Merger and the form, terms and provisions of the Merger Agreement and has recommended that the Merger Agreement be adopted by the undersigned;

NOW THEREFORE, BE IT RESOLVED, that the undersigned, being the sole shareholder of the Company, hereby approves the Merger and approves the form, terms and provisions of the Merger Agreement, substantially in the form thereof submitted to the undersigned for its review, with such changes therein and additions thereto as the Board may deem necessary or appropriate.

RESOLVED FURTHER, that the undersigned hereby ratifies, approves and confirms all acts previously taken by Board in connection with the foregoing resolutions.

IN WITNESS WHEREOF, the undersigned has caused this Written Consent to be duly executed in its capacity as the sole shareholder of the Company as of the date first written above.

MAXXAM, INC.

By: _____
Name: _____
Title: _____

Annex A

Agreement and Plan of Merger
(Attached)

**EXHIBIT 12 – SUPPLEMENT TO THE DEBTORS’ SECOND AMENDED JOINT PLAN OF
REORGANIZATION**

**BRITT LUMBER BOARD RESOLUTIONS APPROVING MERGER AND RELATED
TRANSACTIONS**

**RESOLUTIONS
OF THE BOARD OF DIRECTORS OF
BRITT LUMBER CO., INC.
ADOPTED AT A MEETING HELD ON _____, 2008**

WHEREAS, Britt Lumber Co., Inc. (the "Company") proposes (the "Merger Proposal") to enter into an Agreement and Plan of Merger with The Pacific Lumber Company, a Delaware corporation ("Palco"), Salmon Creek LLC., a Delaware limited liability company ("Salmon Creek"), Scotia Development LLC, a Texas limited liability company ("Scotia Development"), and Scotia Inn Inc., a Delaware corporation ("Scotia Inn", and collectively with the Company, Salmon Inn and Scotia Development, the "Merged Entities"), providing for the merger ("Merger") of the Merged Entities with and into Palco;

WHEREAS, the Board of Directors has previously approved the Amended Joint Plan of Reorganization of the Company, The Pacific Lumber Company, Scotia Development LLC, Salmon Creek LLC, , Scotia Inn Inc., and Scotia Pacific under Chapter 11 of title 11 of the United States Bankruptcy Code, 11 U.S.C. §§ 101-1330 (the "Plan of Reorganization");

WHEREAS, the Plan of Reorganization contemplates the Merger Proposal;

WHEREAS, the Board of Directors has received, reviewed and considered information provided to it by members of the Company's management and the Company's legal and financial advisors with respect to the Merger Proposal;

WHEREAS, the Board of Directors has determined that the Merger Proposal and the Agreement and Plan of Merger (the "Merger Agreement") is advisable, fair to and in the best interests of, the Company and its stockholders and has recommended that the Board of Directors proceed to approve the Merger Proposal and to authorize and approve the Merger Agreement and the Company's execution and delivery thereof; and

WHEREAS, the Board of Directors has given due and proper consideration to all matters and things that are necessary or appropriate to enable it to evaluate and reach an informed conclusion as to the fairness and reasonableness of the Merger Proposal and the Merger Agreement.

Agreement and Plan of Merger

NOW, THEREFORE, BE IT RESOLVED, that the Board of Directors hereby (i) finds the Merger Agreement, the Merger and other transactions contemplated thereby to be advisable, fair to, and in the best interests of the Company and the stockholders of the Company, (ii) approves the Merger Agreement, the Merger and the other transactions contemplated by the Merger Agreement, and (iii) authorizes and directs that the Company enter into the Merger Agreement and consummate the Merger on the terms and subject to the conditions set forth in the Merger Agreement; and that the Merger Agreement, the Merger and all transactions with respect thereto are hereby approved, adopted, and confirmed in all respects and that the Chief Executive Officer, the Chief Financial Officer and any Vice President of the Company (collectively, the "Appropriate Officers") are each hereby authorized and empowered, for and on

behalf of the Company, to execute and deliver the Merger Agreement with such changes, additions and deletions thereto as such officer may approve, such officer's execution thereof to be conclusive evidence of such approval and the approval of this Board of Directors; and further

RESOLVED, that the Appropriate Officers are each hereby authorized and empowered, for and on behalf of the Company, to deliver, or to cause to be delivered, all documents, instruments, schedules or attachments to be delivered pursuant to the Merger Agreement, with such changes, additions and deletions thereto as such officer may approve, such officer's execution and delivery thereof to be conclusive evidence of such approval and the approval of this Board of Directors; and further

RESOLVED, that the Board of Directors recommends that the stockholders of the Company approve the Merger Agreement; and directs that the Merger Agreement be submitted to a vote of the Company's stockholders; and further

RESOLVED, that the Appropriate Officers are each hereby authorized and empowered, for and on behalf of the Company, to amend and/or supplement the Merger Agreement as deemed by such officer or officers to be necessary, advisable or appropriate to effect the Merger; and further

RESOLVED, that, upon approval by the stockholders of the Company of the Merger Proposal and the satisfaction or waiver of the other conditions to the Merger contained in the Merger Agreement, the Appropriate Officers are each hereby authorized and empowered, for and on behalf of the Company, to do all actions necessary to effect the Merger, including effecting the Merger in accordance with applicable law and the terms of the Merger Agreement, and to execute, verify and file any and all certificates of merger, notices, reports, schedules, supplemental indentures, amendments to existing agreements, agreements or other documents required by applicable law or the terms of the Merger Agreement, or as are deemed by such officer or officers to be necessary or appropriate to effect the Merger and all other transactions contemplated by the Merger Agreement; and further

Miscellaneous

RESOLVED, that the Appropriate Officers are each hereby authorized and empowered, for and on behalf of the Company, from time to time to take such actions and to execute and deliver such acknowledgments, agreements, certificates, contracts, instruments, notices and other documents, or to effect such filings with any and all appropriate regulatory authorities, state and federal, as may be required or as such officer may deem necessary, advisable or proper in order to carry out the transactions contemplated by, and the purposes and intents of, the foregoing resolutions; and that all such actions be performed in such manner, and all such acknowledgments, agreements, certificates, contracts, instruments, notices and other documents to be executed and delivered in such form, as the officer performing or executing the same shall approve, the performance or execution thereof by such officer to be conclusive evidence of the approval thereof by such officer and by this Board of Directors; and further

RESOLVED, that the Corporate Secretary or any Assistant Corporate Secretary of the Company is hereby authorized to certify and attest any documents that he or she may

deem necessary and appropriate to consummate the transactions contemplated by the documents heretofore authorized and approved, provided that such attestation shall not be required for the due authorization, execution and delivery or validity of the particular document; and further

RESOLVED, that the authority granted to the officers of the Company under the foregoing resolutions shall be deemed to include, in the case of each such resolution, the authority to perform such further acts and deeds as may be necessary, advisable or appropriate, in the judgment of such officers, to carry out the transactions contemplated thereby; and that all acts and deeds previously performed by the officers of or counsel for the Company prior to the date of these resolutions that are within the authority conferred hereby, are ratified, confirmed and approved as the authorized acts and deeds of the Company.

* * * *

EXHIBIT A

Merger Agreement

(Included in Joint Plan Supplement)

**EXHIBIT 13 – SUPPLEMENT TO THE DEBTORS’ SECOND AMENDED JOINT PLAN OF
REORGANIZATION**

**BRITT LUMBER STOCKHOLDER CONSENT APPROVING MERGER AND RELATED
TRANSACTIONS**

BRITT LUMBER CO., INC.

Unanimous Written Consent of the Sole Shareholder

_____, 2008

Pursuant to the provisions of the California Corporations Code, the undersigned, being the sole shareholder of Britt Lumber Co., Inc., a California corporation (the "Company"), and the only person who would be entitled to vote at a meeting of the shareholders of the Company, hereby waives any and all requirements for calling, giving notice of and holding a meeting of the shareholders of the Company and, in lieu of such meeting, hereby consents to the adoption of the following resolutions without the holding of a meeting, such resolutions to have the same force and effect as if adopted by a unanimous vote at a meeting of the shareholders of the Company.

WHEREAS, the Board of Directors (the "Board") of the Company has determined that it is desirable and in the best interests of the Company to enter into that certain Agreement and Agreement and Plan of Merger (a form of which is attached hereto as Annex A and is referred to herein as the "Merger Agreement") by and between the Company and The Pacific Lumber Company a Delaware corporation ("Palco"), Salmon Creek LLC, a Delaware limited liability company ("Salmon Creek"), Scotia Development LLC, a Texas limited liability company ("Scotia Development"), and Scotia Inn Inc., a Delaware corporation ("Scotia Inn", and collectively with the Company, Salmon Creek and Scotia Development, the "Merged Entities"), whereby the Merged Entities will be merged with and into the Palco with Palco being the surviving entity (the "Merger"); and

WHEREAS, the Board has approved the Merger and the form, terms and provisions of the Merger Agreement and has recommended that the Merger Agreement be adopted by the undersigned;

NOW THEREFORE, BE IT RESOLVED, that the undersigned, being the sole shareholder of the Company, hereby approves the Merger and approves the form, terms and provisions of the Merger Agreement, substantially in the form thereof submitted to the undersigned for its review, with such changes therein and additions thereto as the Board may deem necessary or appropriate.

RESOLVED FURTHER, that the undersigned hereby ratifies, approves and confirms all acts previously taken by Board in connection with the foregoing resolutions.

IN WITNESS WHEREOF, the undersigned has caused this Written Consent to be duly executed in its capacity as the sole shareholder of the Company as of the date first written above.

THE PACIFIC LUMBER COMPANY

By: _____
Name: _____
Title: _____

Annex A

Agreement and Plan of Merger
(Attached)

**EXHIBIT 14 – SUPPLEMENT TO THE DEBTORS’ SECOND AMENDED JOINT PLAN OF
REORGANIZATION**

**SALMON CREEK BOARD RESOLUTIONS APPROVING MERGER AND RELATED
TRANSACTIONS**

**RESOLUTIONS
OF THE BOARD OF MANAGERS OF
SALMON CREEK LLC
ADOPTED AT A MEETING HELD ON _____, 2008**

WHEREAS, Salmon Creek LLC (the "Company") proposes (the "Merger Proposal") to enter into an Agreement and Plan of Merger with The Pacific Lumber Company, a Delaware corporation ("Palco"), Scotia Development LLC., a Texas limited liability company ("Salmon Creek"), Scotia Inn Inc., a Delaware corporation ("Scotia Inn"), and Britt Lumber Co., Inc. a California corporation ("Britt", and collectively with the Company, Scotia Development and Scotia Inn, the "Merged Entities"), providing for the merger ("Merger") of the Merged Entities with and into Palco;

WHEREAS, the Board of Directors has previously approved the Amended Joint Plan of Reorganization of the Company, The Pacific Lumber Company, Scotia Development LLC, Salmon Creek LLC, , Scotia Inn Inc., and Scotia Pacific under Chapter 11 of title 11 of the United States Bankruptcy Code, 11 U.S.C. §§ 101-1330 (the "Plan of Reorganization");

WHEREAS, the Plan of Reorganization contemplates the Merger Proposal;

WHEREAS, the Board of Directors has received, reviewed and considered information provided to it by members of the Company's management and the Company's legal and financial advisors with respect to the Merger Proposal;

WHEREAS, the Board of Directors has determined that the Merger Proposal and the Agreement and Plan of Merger (the "Merger Agreement") is advisable, fair to and in the best interests of, the Company and its stockholders and has recommended that the Board of Directors proceed to approve the Merger Proposal and to authorize and approve the Merger Agreement and the Company's execution and delivery thereof; and

WHEREAS, the Board of Directors has given due and proper consideration to all matters and things that are necessary or appropriate to enable it to evaluate and reach an informed conclusion as to the fairness and reasonableness of the Merger Proposal and the Merger Agreement.

Agreement and Plan of Merger

NOW, THEREFORE, BE IT RESOLVED, that the Board of Directors hereby (i) finds the Merger Agreement, the Merger and other transactions contemplated thereby to be advisable, fair to, and in the best interests of the Company and the stockholders of the Company, (ii) approves the Merger Agreement, the Merger and the other transactions contemplated by the Merger Agreement, and (iii) authorizes and directs that the Company enter into the Merger Agreement and consummate the Merger on the terms and subject to the conditions set forth in the Merger Agreement; and that the Merger Agreement, the Merger and all transactions with respect thereto are hereby approved, adopted, and confirmed in all respects and that the Chief Executive Officer, the Chief Financial Officer and any Vice President of the Company (collectively, the "Appropriate Officers") are each hereby authorized and empowered, for and on

behalf of the Company, to execute and deliver the Merger Agreement with such changes, additions and deletions thereto as such officer may approve, such officer's execution thereof to be conclusive evidence of such approval and the approval of this Board of Directors; and further

RESOLVED, that the Appropriate Officers are each hereby authorized and empowered, for and on behalf of the Company, to deliver, or to cause to be delivered, all documents, instruments, schedules or attachments to be delivered pursuant to the Merger Agreement, with such changes, additions and deletions thereto as such officer may approve, such officer's execution and delivery thereof to be conclusive evidence of such approval and the approval of this Board of Directors; and further

RESOLVED, that the Board of Directors recommends that the stockholders of the Company approve the Merger Agreement; and directs that the Merger Agreement be submitted to a vote of the Company's stockholders; and further

RESOLVED, that the Appropriate Officers are each hereby authorized and empowered, for and on behalf of the Company, to amend and/or supplement the Merger Agreement as deemed by such officer or officers to be necessary, advisable or appropriate to effect the Merger; and further

RESOLVED, that, upon approval by the stockholders of the Company of the Merger Proposal and the satisfaction or waiver of the other conditions to the Merger contained in the Merger Agreement, the Appropriate Officers are each hereby authorized and empowered, for and on behalf of the Company, to do all actions necessary to effect the Merger, including effecting the Merger in accordance with applicable law and the terms of the Merger Agreement, and to execute, verify and file any and all certificates of merger, notices, reports, schedules, supplemental indentures, amendments to existing agreements, agreements or other documents required by applicable law or the terms of the Merger Agreement, or as are deemed by such officer or officers to be necessary or appropriate to effect the Merger and all other transactions contemplated by the Merger Agreement; and further

Miscellaneous

RESOLVED, that the Appropriate Officers are each hereby authorized and empowered, for and on behalf of the Company, from time to time to take such actions and to execute and deliver such acknowledgments, agreements, certificates, contracts, instruments, notices and other documents, or to effect such filings with any and all appropriate regulatory authorities, state and federal, as may be required or as such officer may deem necessary, advisable or proper in order to carry out the transactions contemplated by, and the purposes and intents of, the foregoing resolutions; and that all such actions be performed in such manner, and all such acknowledgments, agreements, certificates, contracts, instruments, notices and other documents to be executed and delivered in such form, as the officer performing or executing the same shall approve, the performance or execution thereof by such officer to be conclusive evidence of the approval thereof by such officer and by this Board of Directors; and further

RESOLVED, that the Corporate Secretary or any Assistant Corporate Secretary of the Company is hereby authorized to certify and attest any documents that he or she may

deem necessary and appropriate to consummate the transactions contemplated by the documents heretofore authorized and approved, provided that such attestation shall not be required for the due authorization, execution and delivery or validity of the particular document; and further

RESOLVED, that the authority granted to the officers of the Company under the foregoing resolutions shall be deemed to include, in the case of each such resolution, the authority to perform such further acts and deeds as may be necessary, advisable or appropriate, in the judgment of such officers, to carry out the transactions contemplated thereby; and that all acts and deeds previously performed by the officers of or counsel for the Company prior to the date of these resolutions that are within the authority conferred hereby, are ratified, confirmed and approved as the authorized acts and deeds of the Company.

* * * *

EXHIBIT A

Merger Agreement

**EXHIBIT 15 – SUPPLEMENT TO THE DEBTORS' SECOND AMENDED JOINT PLAN OF
REORGANIZATION**

**SALMON CREEK STOCKHOLDER MEMBER CONSENT APPROVING MERGER AND
RELATED TRANSACTIONS**

SALMON CREEK LLC

Unanimous Written Consent of the Sole Member

_____, 2008

Pursuant to the provisions of the Delaware Limited Liability Company Act the undersigned, being the sole member of Salmon Creek LLC, a Delaware limited liability company (the "Company"), and the only person who would be entitled to vote at a meeting of the members of the Company, hereby waives any and all requirements for calling, giving notice of and holding a meeting of the members of the Company and, in lieu of such meeting, hereby consents to the adoption of the following resolutions without the holding of a meeting, such resolutions to have the same force and effect as if adopted by a unanimous vote at a meeting of the members of the Company.

WHEREAS, the Board of Mangers (the "Board") of the Company has determined that it is desirable and in the best interests of the Company to enter into that certain Agreement and Agreement and Plan of Merger (a form of which is attached hereto as Annex A and is referred to herein as the "Merger Agreement") by and between the Company and The Pacific Lumber Company, a Delaware corporation ("Palco"), Britt Lumber Co., Inc., a California corporation ("Britt"), Scotia Development LLC, a Texas limited liability company ("Scotia Development"), and Scotia Inn Inc., a Delaware corporation ("Scotia Inn", and collectively with the Company, Britt and Scotia Development, the "Merged Entities"), whereby the Merged Entities will be merged with and into the Palco with Palco being the surviving entity (the "Merger"); and

WHEREAS, the Board has approved the Merger and the form, terms and provisions of the Merger Agreement and has recommended that the Merger Agreement be adopted by the undersigned;

NOW THEREFORE, BE IT RESOLVED, that the undersigned, being the sole shareholder of the Company, hereby approves the Merger and approves the form, terms and provisions of the Merger Agreement, substantially in the form thereof submitted to the undersigned for its review, with such changes therein and additions thereto as the Board may deem necessary or appropriate.

RESOLVED FURTHER, that the undersigned hereby ratifies, approves and confirms all acts previously taken by Board in connection with the foregoing resolutions.

IN WITNESS WHEREOF, the undersigned has caused this Written Consent to be duly executed in its capacity as the sole member of the Company as of the date first written above.

THE PACIFIC LUMBER COMPANY

By: _____
Name: _____
Title: _____

Annex A

Agreement and Plan of Merger
(Attached)

**EXHIBIT 16 – SUPPLEMENT TO THE DEBTORS’ SECOND AMENDED JOINT PLAN OF
REORGANIZATION**

**SCOTIA INN BOARD RESOLUTIONS APPROVING MERGER AND RELATED
TRANSACTIONS**

**RESOLUTIONS
OF THE BOARD OF DIRECTORS OF
SCOTIA INN INC.
ADOPTED AT A MEETING HELD ON _____, 2008**

WHEREAS, Scotia Inn Inc. (the "Company") proposes (the "Merger Proposal") to enter into an Agreement and Plan of Merger with The Pacific Lumber Company, a Delaware corporation ("Palco"), Salmon Creek LLC., a Delaware limited liability company ("Salmon Creek"), Scotia Development LLC, a Texas limited liability company ("Scotia Development"), and Britt Lumber Co., Inc. a California corporation ("Britt", and collectively with the Company, Salmon Creek and Scotia Development, the "Merged Entities"), providing for the merger ("Merger") of the Merged Entities with and into Palco;

WHEREAS, the Board of Directors has previously approved the Amended Joint Plan of Reorganization of the Company, The Pacific Lumber Company, Scotia Development LLC, Salmon Creek LLC, , Scotia Inn Inc., and Scotia Pacific under Chapter 11 of title 11 of the United States Bankruptcy Code, 11 U.S.C. §§ 101-1330 (the "Plan of Reorganization");

WHEREAS, the Plan of Reorganization contemplates the Merger Proposal;

WHEREAS, the Board of Directors has received, reviewed and considered information provided to it by members of the Company's management and the Company's legal and financial advisors with respect to the Merger Proposal;

WHEREAS, the Board of Directors has determined that the Merger Proposal and the Agreement and Plan of Merger (the "Merger Agreement") is advisable, fair to and in the best interests of, the Company and its stockholders and has recommended that the Board of Directors proceed to approve the Merger Proposal and to authorize and approve the Merger Agreement and the Company's execution and delivery thereof; and

WHEREAS, the Board of Directors has given due and proper consideration to all matters and things that are necessary or appropriate to enable it to evaluate and reach an informed conclusion as to the fairness and reasonableness of the Merger Proposal and the Merger Agreement.

Agreement and Plan of Merger

NOW, THEREFORE, BE IT RESOLVED, that the Board of Directors hereby (i) finds the Merger Agreement, the Merger and other transactions contemplated thereby to be advisable, fair to, and in the best interests of the Company and the stockholders of the Company, (ii) approves the Merger Agreement, the Merger and the other transactions contemplated by the Merger Agreement, and (iii) authorizes and directs that the Company enter into the Merger Agreement and consummate the Merger on the terms and subject to the conditions set forth in the Merger Agreement; and that the Merger Agreement, the Merger and all transactions with respect thereto are hereby approved, adopted, and confirmed in all respects and that the Chief Executive Officer, the Chief Financial Officer and any Vice President of the Company (collectively, the "Appropriate Officers") are each hereby authorized and empowered, for and on

behalf of the Company, to execute and deliver the Merger Agreement with such changes, additions and deletions thereto as such officer may approve, such officer's execution thereof to be conclusive evidence of such approval and the approval of this Board of Directors; and further

RESOLVED, that the Appropriate Officers are each hereby authorized and empowered, for and on behalf of the Company, to deliver, or to cause to be delivered, all documents, instruments, schedules or attachments to be delivered pursuant to the Merger Agreement, with such changes, additions and deletions thereto as such officer may approve, such officer's execution and delivery thereof to be conclusive evidence of such approval and the approval of this Board of Directors; and further

RESOLVED, that the Board of Directors recommends that the stockholders of the Company approve the Merger Agreement; and directs that the Merger Agreement be submitted to a vote of the Company's stockholders; and further

RESOLVED, that the Appropriate Officers are each hereby authorized and empowered, for and on behalf of the Company, to amend and/or supplement the Merger Agreement as deemed by such officer or officers to be necessary, advisable or appropriate to effect the Merger; and further

RESOLVED, that, upon approval by the stockholders of the Company of the Merger Proposal and the satisfaction or waiver of the other conditions to the Merger contained in the Merger Agreement, the Appropriate Officers are each hereby authorized and empowered, for and on behalf of the Company, to do all actions necessary to effect the Merger, including effecting the Merger in accordance with applicable law and the terms of the Merger Agreement, and to execute, verify and file any and all certificates of merger, notices, reports, schedules, supplemental indentures, amendments to existing agreements, agreements or other documents required by applicable law or the terms of the Merger Agreement, or as are deemed by such officer or officers to be necessary or appropriate to effect the Merger and all other transactions contemplated by the Merger Agreement; and further

Miscellaneous

RESOLVED, that the Appropriate Officers are each hereby authorized and empowered, for and on behalf of the Company, from time to time to take such actions and to execute and deliver such acknowledgments, agreements, certificates, contracts, instruments, notices and other documents, or to effect such filings with any and all appropriate regulatory authorities, state and federal, as may be required or as such officer may deem necessary, advisable or proper in order to carry out the transactions contemplated by, and the purposes and intents of, the foregoing resolutions; and that all such actions be performed in such manner, and all such acknowledgments, agreements, certificates, contracts, instruments, notices and other documents to be executed and delivered in such form, as the officer performing or executing the same shall approve, the performance or execution thereof by such officer to be conclusive evidence of the approval thereof by such officer and by this Board of Directors; and further

RESOLVED, that the Corporate Secretary or any Assistant Corporate Secretary of the Company is hereby authorized to certify and attest any documents that he or she may

deem necessary and appropriate to consummate the transactions contemplated by the documents heretofore authorized and approved, provided that such attestation shall not be required for the due authorization, execution and delivery or validity of the particular document; and further

RESOLVED, that the authority granted to the officers of the Company under the foregoing resolutions shall be deemed to include, in the case of each such resolution, the authority to perform such further acts and deeds as may be necessary, advisable or appropriate, in the judgment of such officers, to carry out the transactions contemplated thereby; and that all acts and deeds previously performed by the officers of or counsel for the Company prior to the date of these resolutions that are within the authority conferred hereby, are ratified, confirmed and approved as the authorized acts and deeds of the Company.

* * * *

EXHIBIT A

Merger Agreement

**EXHIBIT 17 – SUPPLEMENT TO THE DEBTORS’ SECOND AMENDED JOINT PLAN OF
REORGANIZATION**

**SCOTIA INN STOCKHOLDER CONSENT APPROVING MERGER AND RELATED
TRANSACTIONS**

SCOTIA INN INC.

Unanimous Written Consent of the Sole Shareholder

_____, 2008

Pursuant to the provisions of the Delaware General Corporation Law, the undersigned, being the sole shareholder of Scotia Inn Inc., a Delaware corporation (the "Company"), and the only person who would be entitled to vote at a meeting of the shareholders of the Company, hereby waives any and all requirements for calling, giving notice of and holding a meeting of the shareholders of the Company and, in lieu of such meeting, hereby consents to the adoption of the following resolutions without the holding of a meeting, such resolutions to have the same force and effect as if adopted by a unanimous vote at a meeting of the shareholders of the Company.

WHEREAS, the Board of Directors (the "Board") of the Company has determined that it is desirable and in the best interests of the Company to enter into that certain Agreement and Agreement and Plan of Merger (a form of which is attached hereto as Annex A and is referred to herein as the "Merger Agreement") by and between the Company and The Pacific Lumber Company, a Delaware corporation ("Palco"), Salmon Creek LLC, a Delaware limited liability company ("Salmon Creek"), Scotia Development LLC, a Texas limited liability company ("Scotia Development"), and Britt Lumber Co., Inc., a California corporation ("Britt", and collectively with the Company, Salmon Creek and Scotia Development, the "Merged Entities"), whereby the Merged Entities will be merged with and into the Palco with Palco being the surviving entity (the "Merger"); and

WHEREAS, the Board has approved the Merger and the form, terms and provisions of the Merger Agreement and has recommended that the Merger Agreement be adopted by the undersigned;

NOW THEREFORE, BE IT RESOLVED, that the undersigned, being the sole shareholder of the Company, hereby approves the Merger and approves the form, terms and provisions of the Merger Agreement, substantially in the form thereof submitted to the undersigned for its review, with such changes therein and additions thereto as the Board may deem necessary or appropriate.

RESOLVED FURTHER, that the undersigned hereby ratifies, approves and confirms all acts previously taken by Board in connection with the foregoing resolutions.

IN WITNESS WHEREOF, the undersigned has caused this Written Consent to be duly executed in its capacity as the sole shareholder of the Company as of the date first written above.

THE PACIFIC LUMBER COMPANY

By: _____
Name: _____
Title: _____

Annex A

Agreement and Plan of Merger
(Attached)

**EXHIBIT 18 – SUPPLEMENT TO THE DEBTORS' SECOND AMENDED JOINT PLAN OF
REORGANIZATION**

**SCOTIA DEVELOPMENT BOARD RESOLUTIONS APPROVING MERGER AND
RELATED TRANSACTIONS**

**RESOLUTIONS
OF THE BOARD OF DIRECTORS OF
SCOTIA DEVELOPMENT LLC
ADOPTED AT A MEETING HELD ON _____, 2008**

WHEREAS, Scotia Development LLC (the "Company") proposes (the "Merger Proposal") to enter into an Agreement and Plan of Merger with The Pacific Lumber Company, a Delaware corporation ("Palco"), Salmon Creek LLC, a Delaware limited liability company ("Salmon Creek"), Scotia Inn Inc., a Delaware corporation ("Scotia Inn"), and Britt Lumber Co., Inc. a California corporation ("Britt", and collectively with the Company, Salmon Creek and Scotia Inn, the "Merged Entities"), providing for the merger ("Merger") of the Merged Entities with and into Palco;

WHEREAS, the Board of Directors has previously approved the Amended Joint Plan of Reorganization of the Company, The Pacific Lumber Company, Scotia Development LLC, Salmon Creek LLC, , Scotia Inn Inc., and Scotia Pacific under Chapter 11 of title 11 of the United States Bankruptcy Code, 11 U.S.C. §§ 101-1330 (the "Plan of Reorganization");

WHEREAS, the Plan of Reorganization contemplates the Merger Proposal;

WHEREAS, the Board of Directors has received, reviewed and considered information provided to it by members of the Company's management and the Company's legal and financial advisors with respect to the Merger Proposal;

WHEREAS, the Board of Directors has determined that the Merger Proposal and the Agreement and Plan of Merger (the "Merger Agreement") is advisable, fair to and in the best interests of, the Company and its stockholders and has recommended that the Board of Directors proceed to approve the Merger Proposal and to authorize and approve the Merger Agreement and the Company's execution and delivery thereof; and

WHEREAS, the Board of Directors has given due and proper consideration to all matters and things that are necessary or appropriate to enable it to evaluate and reach an informed conclusion as to the fairness and reasonableness of the Merger Proposal and the Merger Agreement.

Agreement and Plan of Merger

NOW, THEREFORE, BE IT RESOLVED, that the Board of Directors hereby (i) finds the Merger Agreement, the Merger and other transactions contemplated thereby to be advisable, fair to, and in the best interests of the Company and the stockholders of the Company, (ii) approves the Merger Agreement, the Merger and the other transactions contemplated by the Merger Agreement, and (iii) authorizes and directs that the Company enter into the Merger Agreement and consummate the Merger on the terms and subject to the conditions set forth in the Merger Agreement; and that the Merger Agreement, the Merger and all transactions with respect thereto are hereby approved, adopted, and confirmed in all respects and that the Chief Executive Officer, the Chief Financial Officer and any Vice President of the Company (collectively, the "Appropriate Officers") are each hereby authorized and empowered, for and on

behalf of the Company, to execute and deliver the Merger Agreement with such changes, additions and deletions thereto as such officer may approve, such officer's execution thereof to be conclusive evidence of such approval and the approval of this Board of Directors; and further

RESOLVED, that the Appropriate Officers are each hereby authorized and empowered, for and on behalf of the Company, to deliver, or to cause to be delivered, all documents, instruments, schedules or attachments to be delivered pursuant to the Merger Agreement, with such changes, additions and deletions thereto as such officer may approve, such officer's execution and delivery thereof to be conclusive evidence of such approval and the approval of this Board of Directors; and further

RESOLVED, that the Board of Directors recommends that the stockholders of the Company approve the Merger Agreement; and directs that the Merger Agreement be submitted to a vote of the Company's stockholders; and further

RESOLVED, that the Appropriate Officers are each hereby authorized and empowered, for and on behalf of the Company, to amend and/or supplement the Merger Agreement as deemed by such officer or officers to be necessary, advisable or appropriate to effect the Merger; and further

RESOLVED, that, upon approval by the stockholders of the Company of the Merger Proposal and the satisfaction or waiver of the other conditions to the Merger contained in the Merger Agreement, the Appropriate Officers are each hereby authorized and empowered, for and on behalf of the Company, to do all actions necessary to effect the Merger, including effecting the Merger in accordance with applicable law and the terms of the Merger Agreement, and to execute, verify and file any and all certificates of merger, notices, reports, schedules, supplemental indentures, amendments to existing agreements, agreements or other documents required by applicable law or the terms of the Merger Agreement, or as are deemed by such officer or officers to be necessary or appropriate to effect the Merger and all other transactions contemplated by the Merger Agreement; and further

Miscellaneous

RESOLVED, that the Appropriate Officers are each hereby authorized and empowered, for and on behalf of the Company, from time to time to take such actions and to execute and deliver such acknowledgments, agreements, certificates, contracts, instruments, notices and other documents, or to effect such filings with any and all appropriate regulatory authorities, state and federal, as may be required or as such officer may deem necessary, advisable or proper in order to carry out the transactions contemplated by, and the purposes and intents of, the foregoing resolutions; and that all such actions be performed in such manner, and all such acknowledgments, agreements, certificates, contracts, instruments, notices and other documents to be executed and delivered in such form, as the officer performing or executing the same shall approve, the performance or execution thereof by such officer to be conclusive evidence of the approval thereof by such officer and by this Board of Directors; and further

RESOLVED, that the Corporate Secretary or any Assistant Corporate Secretary of the Company is hereby authorized to certify and attest any documents that he or she may

deem necessary and appropriate to consummate the transactions contemplated by the documents heretofore authorized and approved, provided that such attestation shall not be required for the due authorization, execution and delivery or validity of the particular document; and further

RESOLVED, that the authority granted to the officers of the Company under the foregoing resolutions shall be deemed to include, in the case of each such resolution, the authority to perform such further acts and deeds as may be necessary, advisable or appropriate, in the judgment of such officers, to carry out the transactions contemplated thereby; and that all acts and deeds previously performed by the officers of or counsel for the Company prior to the date of these resolutions that are within the authority conferred hereby, are ratified, confirmed and approved as the authorized acts and deeds of the Company.

* * * *

EXHIBIT A

Merger Agreement

**EXHIBIT 19 – SUPPLEMENT TO THE DEBTORS’ SECOND AMENDED JOINT PLAN OF
REORGANIZATION**

**SCOTIA DEVELOPMENT MEMBER CONSENT APPROVING MERGER AND RELATED
TRANSACTIONS**

SCOTIA DEVELOPMENT LLC

Unanimous Written Consent of the Sole Member

_____, 2008

Pursuant to the provisions of the Texas Business Organizations Code the undersigned, being the sole member of Salmon Creek LLC, a Texas limited liability company (the "Company"), and the only person who would be entitled to vote at a meeting of the members of the Company, hereby waives any and all requirements for calling, giving notice of and holding a meeting of the members of the Company and, in lieu of such meeting, hereby consents to the adoption of the following resolutions without the holding of a meeting, such resolutions to have the same force and effect as if adopted by a unanimous vote at a meeting of the members of the Company.

WHEREAS, the Board of Managers (the "Board") of the Company has determined that it is desirable and in the best interests of the Company to enter into that certain Agreement and Agreement and Plan of Merger (a form of which is attached hereto as Annex A and is referred to herein as the "Merger Agreement") by and between the Company and The Pacific Lumber Company a Delaware corporation ("Palco"), Britt Lumber Co., Inc., a California corporation ("Britt"), Salmon Creek LLC, a Delaware limited liability company ("Salmon Creek and Scotia Inn Inc., a Delaware corporation ("Scotia Inn", and collectively with the Company, Britt and Salmon Creek, the "Merged Entities"), whereby the Merged Entities will be merged with and into the Palco with Palco being the surviving entity (the "Merger"); and

WHEREAS, the Board has approved the Merger and the form, terms and provisions of the Merger Agreement and has recommended that the Merger Agreement be adopted by the undersigned;

NOW THEREFORE, BE IT RESOLVED, that the undersigned, being the sole shareholder of the Company, hereby approves the Merger and approves the form, terms and provisions of the Merger Agreement, substantially in the form thereof submitted to the undersigned for its review, with such changes therein and additions thereto as the Board may deem necessary or appropriate.

RESOLVED FURTHER, that the undersigned hereby ratifies, approves and confirms all acts previously taken by Board in connection with the foregoing resolutions.

IN WITNESS WHEREOF, the undersigned has caused this Written Consent to be duly executed in its capacity as the sole member of the Company as of the date first written above.

THE PACIFIC LUMBER COMPANY

By: _____
Name: _____
Title: _____

Annex A

Agreement and Plan of Merger
(Attached)

**EXHIBIT 20 – SUPPLEMENT TO THE DEBTORS’ SECOND AMENDED JOINT PLAN OF
REORGANIZATION**

**SCOPAC BOARD RESOLUTIONS APPROVING AMENDED AND RESTATED
CERTIFICATE OF FORMATION AND LIMITED LIABILITY COMPANY AGREEMENT**

**RESOLUTIONS
OF THE BOARD OF MANAGERS OF
SCOTIA PACIFIC COMPANY LLC
ADOPTED AT A MEETING HELD ON _____, 2008**

The undersigned, being all of the managers (the "Managers") of Scotia Pacific LLC, a Delaware limited liability company (the "Company"), and acting pursuant to Section 18-404 of the Delaware Limited Liability Company Act, hereby consent in writing to the adoption of the following resolutions:

WHEREAS, the Board of Managers has previously approved the Amended Joint Plan of Reorganization of the Company, Scotia Development LLC, Salmon Creek LLC, Britt Lumber Co., Inc., Scotia Inn Inc., and The Pacific Lumber Company under Chapter 11 of title 11 of the United States Bankruptcy Code, 11 U.S.C. §§ 101-1330 (the "Plan of Reorganization");

Amendment to Certificate of Formation

WHEREAS, the Plan of Reorganization contemplates the amendment and restatement of the Certificate of Formation;

RESOLVED, that the Board of Directors hereby adopts and approves the amendment and restatement of the Certificate of Formation of the Company (as subsequently amended, the "Amended and Restated Certificate of Formation"), which is attached hereto as Exhibit A; and further

RESOLVED, that the Appropriate Officers are each hereby authorized and empowered, for and on behalf of the Company, to execute, acknowledge and file the Amended and Restated Certificate of Formation in accordance with the laws of the State of Delaware; and further

RESOLVED, that, upon the filing of the Amended and Restated Certificate of Formation in accordance with the laws of the State of Delaware, the officers of the Company are each hereby authorized and empowered, for and on behalf of the Company, to perform such acts and deeds as may be necessary, advisable or appropriate in the judgment of such officer to effect the Amended and Restated Certificate of Formation; and further

Amended and Restated Limited Liability Company Agreement

RESOLVED, that the Board of Directors hereby adopts and approves the Amended and Restated Limited Liability Company Agreement to (i) implement super-majority approval for certain corporate actions, (ii) prohibit the issuance of nonvoting equity securities to the extent required by Section 1123(a) of the Bankruptcy Code, (iii) increase the number of authorized shares of common and preferred stock, par value \$0.001, of the Corporation to 425,000,000, (iv) authorize and designate 50,000,000 shares of the Company's stock as Common Stock, par value \$0.001 per share (the "Common Stock"), (v) provide for the rights, preferences and privileges of the Common Stock, (vi) authorize and designate 375,000,000 shares of the Company's stock as Preferred Stock, par value \$0.001 per share (the "Preferred Stock"), (v)

provide for the rights, preferences and privileges of the Preferred Stock, and such amendment being substantially in the form submitted to the Board of Managers at this meeting, which is attached hereto as Exhibit B; and further

Common Stock Certificates

RESOLVED, that the form of stock certificate attached hereto as Exhibit C (the "Common Stock Certificate") is in all respects hereby ratified, approved, adopted and confirmed as the form of stock certificate representing shares of the Common Stock, and that a true and correct copy thereof be placed in the minute book; and further

RESOLVED, that Common Stock Certificates, whether in definitive or temporary form, shall be signed on behalf of the Corporation by (i) the Chairman of the Board of Directors, the President or a Vice President of the Corporation and (ii) attested by the Secretary, Assistant Secretary, Treasurer or Assistant Treasurer of the Corporation; provided, that the signature of such officer upon any of the Common Stock Certificates may be facsimile or may be imprinted or otherwise reproduced on such Common Stock Certificates, the Corporation hereby adopting as binding upon it the facsimile signature of any person who shall be any such officer of the Corporation at the time of the execution of the Common Stock Certificates, notwithstanding the fact that at the time the Common Stock Certificates shall be authenticated or delivered or disposed of, such person shall have ceased to be such officer of the Corporation; and further

RESOLVED, that the Corporation adopts as and for its signature on any of the Common Stock Certificates authorized to be executed on its behalf pursuant to the provisions of these resolutions the facsimile signatures of the Chairman of the Board of Directors, the President, a Vice President, the Secretary, the Assistant Secretary, the Treasurer and the Assistant Treasurer of the Corporation, respectively, when used and imprinted on the Common Stock Certificates; and further

RESOLVED, that any person, firm or corporation at any time, unaffected by any amendment, modification or rescission of these resolutions, may rely on the facsimile signatures authorized by the immediately preceding resolution, when imprinted on the Common Stock Certificates by an officer or employee of the Corporation, whether or not authorized by the preceding resolution, by use of any signature machine of the Corporation, or when imprinted on the Common Stock Certificates by an officer or employee of such banknote corporation as may print, engrave or otherwise prepare the Common Stock Certificates, whether or not authorized by it, by use of any signature machine of such banknote corporation; and such facsimile so relied upon shall be as valid and effectual and binding on the Corporation as if the same had in fact been executed manually by a duly authorized officer or agent of the Corporation acting on its behalf; and further

RESOLVED, that, upon the closing of the transactions contemplated by the Plan of Reorganization, the Secretary of the Corporation is hereby authorized and empowered, for and on behalf of the Company and in its name, to issue and deliver the Common Stock in accordance with the Plan of Reorganization, and upon such issuances, such shares shall be duly authorized, validly issued, fully paid and non-assessable;

Preferred Stock Certificates

RESOLVED, that the form of stock certificate attached hereto as Exhibit D (the "Preferred Stock Certificate") is in all respects hereby ratified, approved, adopted and confirmed as the form of stock certificate representing shares of the Preferred Stock, and that a true and correct copy thereof be placed in the minute book; and further

RESOLVED, that Preferred Stock Certificates, whether in definitive or temporary form, shall be signed on behalf of the Corporation by (i) the Chairman of the Board of Directors, the President or a Vice President of the Corporation and (ii) attested by the Secretary, Assistant Secretary, Treasurer or Assistant Treasurer of the Corporation; provided, that the signature of such officer upon any of the Preferred Stock Certificates may be facsimile or may be imprinted or otherwise reproduced on such Preferred Stock Certificates, the Corporation hereby adopting as binding upon it the facsimile signature of any person who shall be any such officer of the Corporation at the time of the execution of the Preferred Stock Certificates, notwithstanding the fact that at the time the Preferred Stock Certificates shall be authenticated or delivered or disposed of, such person shall have ceased to be such officer of the Corporation; and further

RESOLVED, that the Corporation adopts as and for its signature on any of the Preferred Stock Certificates authorized to be executed on its behalf pursuant to the provisions of these resolutions the facsimile signatures of the Chairman of the Board of Directors, the President, a Vice President, the Secretary, the Assistant Secretary, the Treasurer and the Assistant Treasurer of the Corporation, respectively, when used and imprinted on the Preferred Stock Certificates; and further

RESOLVED, that any person, firm or corporation at any time, unaffected by any amendment, modification or rescission of these resolutions, may rely on the facsimile signatures authorized by the immediately preceding resolution, when imprinted on the Preferred Stock Certificates by an officer or employee of the Corporation, whether or not authorized by the preceding resolution, by use of any signature machine of the Corporation, or when imprinted on the Preferred Stock Certificates by an officer or employee of such banknote corporation as may print, engrave or otherwise prepare the Preferred Stock Certificates, whether or not authorized by it, by use of any signature machine of such banknote corporation; and such facsimile so relied upon shall be as valid and effectual and binding on the Corporation as if the same had in fact been executed manually by a duly authorized officer or agent of the Corporation acting on its behalf;

RESOLVED, that, upon the closing of the transactions contemplated by the Plan of Reorganization, the Secretary of the Corporation is hereby authorized and empowered, for and on behalf of the Company and in its name, to issue and deliver the Preferred Stock in accordance with the Plan of Reorganization, and upon such issuances, such shares shall be duly authorized, validly issued, fully paid and non-assessable;

Miscellaneous

RESOLVED, that the Appropriate Officers are each hereby authorized and empowered, for and on behalf of the Company, from time to time to take such actions and to execute and deliver such acknowledgments, agreements, certificates, contracts, instruments, notices and other documents, or to effect such filings with any and all appropriate regulatory authorities, state and federal, as may be required or as such officer may deem necessary, advisable or proper in order to carry out the transactions contemplated by, and the purposes and intents of, the foregoing resolutions; and that all such actions be performed in such manner, and all such acknowledgments, agreements, certificates, contracts, instruments, notices and other documents to be executed and delivered in such form, as the officer performing or executing the same shall approve, the performance or execution thereof by such officer to be conclusive evidence of the approval thereof by such officer and by this Board of Directors; and further

RESOLVED, that the Secretary or any Assistant Secretary of the Company is hereby authorized to certify and attest any documents that he or she may deem necessary and appropriate to consummate the transactions contemplated by the documents heretofore authorized and approved, provided that such attestation shall not be required for the due authorization, execution and delivery or validity of the particular document; and further

RESOLVED, that the authority granted to the officers of the Company under the foregoing resolutions shall be deemed to include, in the case of each such resolution, the authority to perform such further acts and deeds as may be necessary, advisable or appropriate, in the judgment of such officers, to carry out the transactions contemplated thereby; and that all acts and deeds previously performed by the officers of or counsel for the Company prior to the date of these resolutions that are within the authority conferred hereby, are ratified, confirmed and approved as the authorized acts and deeds of the Company.

* * * *

EXHIBIT A

AMENDMENT TO CERTIFICATE OF FORMATION

EXHIBIT B

**AMENDED AND RESTATED
LIMITED LIABILITY COMPANY AGREEMENT**

Exhibit C

COMMON STOCK CERTIFICATE

Exhibit D

Preferred Stock Certificate

**EXHIBIT 21 – SUPPLEMENT TO THE DEBTORS’ SECOND AMENDED JOINT PLAN OF
REORGANIZATION**

**SCOPAC SHAREHOLDER CONSENT APPROVING AMENDED AND RESTATED
CERTIFICATE OF FORMATION AND LIMITED LIABILITY COMPANY AGREEMENT**

SCOTIA DEVELOPMENT LLC

Unanimous Written Consent of the Sole Member

_____, 2008

Pursuant to the provisions of the Texas Business Organizations Code the undersigned, being the sole member of Scotia Development LLC, a Texas limited liability company (the "Company"), and the only person who would be entitled to vote at a meeting of the members of the Company, hereby waives any and all requirements for calling, giving notice of and holding a meeting of the members of the Company and, in lieu of such meeting, hereby consents to the adoption of the following resolutions without the holding of a meeting, such resolutions to have the same force and effect as if adopted by a unanimous vote at a meeting of the members of the Company.

WHEREAS, the Board of Managers (the "Board") of the Company has determined that it is desirable and in the best interests of the Company to enter into that certain Agreement and Agreement and Plan of Merger (a form of which is attached hereto as Annex A and is referred to herein as the "Merger Agreement") by and between the Company and The Pacific Lumber Company a Delaware corporation ("Palco"), Britt Lumber Co., Inc., a California corporation ("Britt"), Salmon Creek LLC, a Delaware limited liability company ("Salmon Creek" and Scotia Inn Inc., a Delaware corporation ("Scotia Inn", and collectively with the Company, Britt and Salmon Creek, the "Merged Entities"), whereby the Merged Entities will be merged with and into the Palco with Palco being the surviving entity (the "Merger"); and

WHEREAS, the Board has approved the Merger and the form, terms and provisions of the Merger Agreement and has recommended that the Merger Agreement be adopted by the undersigned;

NOW THEREFORE, BE IT RESOLVED, that the undersigned, being the sole shareholder of the Company, hereby approves the Merger and approves the form, terms and provisions of the Merger Agreement, substantially in the form thereof submitted to the undersigned for its review, with such changes therein and additions thereto as the Board may deem necessary or appropriate.

RESOLVED FURTHER, that the undersigned hereby ratifies, approves and confirms all acts previously taken by Board in connection with the foregoing resolutions.

IN WITNESS WHEREOF, the undersigned has caused this Written Consent to be duly executed in its capacity as the sole member of the Company as of the date first written above.

THE PACIFIC LUMBER COMPANY

By: _____
Name: _____
Title: _____

Annex A

Agreement and Plan of Merger
(Attached)

**EXHIBIT 22 – SUPPLEMENT TO THE DEBTORS’ SECOND AMENDED JOINT PLAN OF
REORGANIZATION**

FORM OF NEW INDENTURE AGREEMENT AND NEW TIMBER NOTES

SCOTIA PACIFIC COMPANY LLC

AND

THE BANK OF NEW YORK,

as Trustee

AMENDED AND RESTATED

INDENTURE

Dated as of _____, 2008

7.50% TIMBER COLLATERALIZED NOTES

DUE 2018

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CROSS-REFERENCE TABLE

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310(a)(1)	9.10
(a)(2)	9.10
(a)(3)	N.A.
(a)(4)	N.A.
(a)(5)	7.10
(b)(1)-(8)	N.A.
(b)(9)	9.10
(b)(10)	N.A.
(c)	N.A.
311(a)	9.11
(b)	9.11
(c)	N.A.
312(a)	N.A.
(b)	12.3
(c)	12.3
313(a)	9.6
(b)(1)	9.6
(b)(2)	9.6
(c)	9.6; 12.2
(d)	9.6
314(a)	4.3; 4.6; 12.2
(b)	N.A.
(c)(1)	12.4
(c)(2)	12.4
(c)(3)	N.A.
(d)	N.A.
(e)	12.5
(f)	N.A.
315(a)	9.1
(b)	9.5; 12.2
(c)	9.1
(d)	9.1
(e)	N.A.
316(a) (last sentence)	12.6
(a)(1)(A)	7.13
(a)(1)(B)	7.17
(a)(2)	N.A.
(b)	7.9
(c)	10.4
317(a)(1)	7.3
(a)(2)	7.4
(b)	2.4
318(a)	12.1

N.A. means Not Applicable.

Note: This Cross-Reference Table shall not, for any purpose, be deemed part of the Indenture.

AMENDED AND RESTATED INDENTURE dated as of _____, 2008 between SCOTIA PACIFIC COMPANY LLC, a Delaware limited liability company, having its principal office at 125 Main Street, Second Floor, Scotia, California 95565 (the “**Issuer**”); and The Bank of New York, a [New York banking association], as trustee, having its Corporate Trust Office at [Two International Place, 4th Floor, Boston, Massachusetts 02110] (the “**Trustee**”).

WHEREAS, the Issuer, the Collateral Agent and the Deed of Trust Trustee have entered into the Deed of Trust to grant a lien on, and a security interest in, the Mortgaged Property, as security for the obligations of the Issuer under its 7.50% Timber Collateralized Notes due 2018 (the “**Timber Notes**”), this Indenture and the other Secured Obligations; and

WHEREAS, the Issuer has satisfied all conditions and taken all actions necessary or appropriate for the issuance of the Notes;

NOW, THEREFORE, each party agrees, for the benefit of the other parties and the equal and ratable benefit of the holders of the Notes, as follows:

ARTICLE 1

DEFINITIONS; RULES OF CONSTRUCTION; INCORPORATION BY REFERENCE OF TRUST INDENTURE ACT PROVISIONS

1.1 **Definitions.** For all purposes of this Indenture, unless the context otherwise requires, all defined terms not defined herein shall have the meaning set forth in Schedule A hereto, which is incorporated by reference as if fully set forth herein.

1.2 **References to Instruments.** In the event that any Operative Document is amended, modified or supplemented in accordance with the provisions hereof, the provisions thereof and the provisions of the Deed of Trust, as the case may be, reference herein to such Operative Document shall be to such Operative Document as so amended, modified or supplemented.

1.3 **Incorporation by Reference of Trust Indenture Act.** Whenever this Indenture refers to a provision of the TIA, the provision is incorporated by reference in and made a part of this Indenture. The following TIA terms used in this Indenture have the following meanings:

“**Commission**” means the SEC.

“**indenture notes**” means the Timber Notes.

“**indenture security holder**” means a Noteholder or Holder.

“**indenture to be qualified**” means this Indenture.

“**indenture trustee**” or “**institutional trustee**” means the Trustee.

“**obligor**” on the indenture notes means the Issuer and any other obligor on the indenture notes.

All other TIA terms used in this Indenture that are defined by the TIA, defined by TIA reference to another statute or defined by SEC rule have the meanings assigned to them by such definitions.

1.4 Rules of Construction. Unless the context otherwise requires:

- (1) a term has the meaning assigned to it;
- (2) an accounting term not otherwise defined has the meaning assigned to it in accordance with generally accepted accounting principles as in effect on the date hereof;
- (3) “or” is not exclusive;
- (4) “including” means including, without limitation;
- (5) words in the singular include the plural and words in the plural include the singular;
- (6) reference herein to “this Indenture” are to this instrument as originally executed and delivered by the Issuer and the Trustee unless an amendment shall have been entered into, in which event references herein to “this Indenture” are to this instrument as so amended; and
- (7) the words “herein,” “hereof,” “hereunder” and other words of similar import refer to this Indenture as a whole (including, without limitation, the Exhibits and Schedules to this Indenture) and not to any particular Section or other subdivision, and the terms “Section,” “Exhibit” and “Schedule,” unless otherwise specified or indicated by the context, mean the corresponding Section of, or the corresponding Exhibit or Schedule to, this Indenture.

ARTICLE 2

THE NOTES

2.1 Form and Dating. The Timber Notes and the Trustee’s certificate of authentication shall be substantially in the form of Exhibits A-1-1, A-1-2 and A-1-3, respectively, which are hereby incorporated into this Indenture. The Timber Notes may have notations, legends or endorsements required by law, stock exchange rule, the Issuer’s limited liability company agreement or other agreements to which the Issuer is subject, if any, or usage (provided that any such notation, legend or endorsement is in a form acceptable to the Issuer). Each Timber Note shall be dated the date of its authentication. The terms of the Timber Notes set forth in Exhibits A-1-1, A-1-2 and A-1-3, respectively, are part of the terms of this Indenture. The Timber Notes shall be evidenced by one or more typewritten or printed notes representing the entire aggregate original principal balance of the Timber Notes. The Timber Notes sold within the United States to U.S. person(s) will be issued in fully registered form without interest

coupons (i) to qualified institutional buyers meeting the requirements of Rule 144A under the Securities Act, in the form of the beneficial interests in one or more restricted global Notes (the “**Restricted Global Notes**”), deposited with the Trustee as custodian for DTC (in such capacity the “**DTC Custodian**”) or any successor or (ii) to certain “institutional accredited investors” (for purposes hereof, entities meeting the requirements of Rule 501(a)(1), (2), (3) or (7) of Regulation D under the Securities Act), in certificated form in minimum denominations of U.S. \$100,000 or any integral multiple of \$1,000 in excess thereof (the “**Definitive Notes**”). The Timber Notes sold in offshore transactions in reliance on Regulation S under the Securities Act will be in the form of beneficial interests held by the DTC participants for Euroclear and Cedel, in one or more unrestricted Global Notes (the “**Unrestricted Global Notes**”) deposited with the Custodian (the Unrestricted Global Notes, together with the Restricted Global Notes, shall collectively be hereafter referred to as the “**Global Notes**”). The Timber Notes will not be issued in bearer form. Beneficial interest in the Global Notes may be held in minimum denominations of U.S. \$100,000 or any integral multiple of \$1,000 in excess thereof.

2.2 Execution and Authentication. Two officers shall sign the Timber Notes for the Issuer by manual or facsimile signature.

If an officer whose signature is on a Timber Note no longer holds that office at the time the Trustee authenticates the Timber Note, the Timber Note shall be valid nevertheless.

A Timber Note shall not be valid until an authorized signatory of the Trustee manually signs the certificate of authentication on the Timber Note. The signature shall be conclusive evidence that the Timber Note has been authenticated under this Indenture.

On the Restatement Date, the Trustee shall authenticate and deliver Timber Notes for original issue in an aggregate principal amount of up to \$225,000,000 upon a written order of the Issuer signed by an Officer of the Issuer.

Such order shall specify the amount of the Timber Notes to be authenticated and the date on which the original issue of Timber Notes is to be authenticated. The aggregate principal amount of Timber Notes outstanding at any time shall not exceed the amount set forth in this paragraph except as provided in Sections 2.7 and 2.8.

The Trustee may appoint an authenticating agent acceptable to the Issuer to authenticate the Timber Notes (the “**Authenticating Agent**”). Unless limited by the terms of such appointment, an authenticating agent may authenticate Timber Notes whenever the Trustee may do so. Each reference in this Indenture to authentication by the Trustee includes authentication by such agent. An authenticating agent has the same rights as any Registrar, Paying Agent or agent for service of notices and demands.

2.3 Registrar and Paying Agent. The Issuer shall maintain an office or agency where Timber Notes may be presented for registration of transfer or for exchange (the “**Registrar**”) and an office or agency where Timber Notes may be presented for payment (the “**Paying Agent**”). The Registrar shall keep a register (the “**Register**”) of the Timber Notes and of their transfer and exchange. The Issuer may have one or more co-registrars. The term “**Registrar**” includes any co-registrar.

The Issuer hereby initially appoints the Trustee and its affiliate, The Bank of New York, in New York, New York, as sole Paying Agents in respect of the Timber Notes and hereby initially appoints the Trustee as Registrar in connection with the Timber Notes. The Issuer shall enter into an appropriate agency agreement with any subsequent Registrar which is not a party to this Indenture. The agreement shall implement the provisions of this Indenture that relate to such agent. The Issuer shall notify the Trustee of the name and address of any such agent. If the Issuer fails to maintain a Registrar, the Trustee shall act as such and shall be entitled to appropriate compensation therefor pursuant to Section 9.7. The Issuer or any Affiliate of the Issuer may act as Registrar or transfer agent.

2.4 Paying Agent to Hold Money in Trust. All amounts withdrawn from the Payment Account on each Note Payment Date for application pursuant to clauses (i) or (ii) of Section 5.7(b) shall, pending application in the order provided in Section 5.7(b), be held by the Paying Agent in trust for the benefit of Noteholders.

2.5 Noteholder Lists. The Trustee shall preserve in as current a form as is reasonably practicable the most recent list available to it of the names and addresses of the Noteholders. If the Trustee is not the Registrar, the Issuer shall furnish to the Trustee, in writing at least seven Business Days before each Note Payment Date as set forth in the Timber Notes and at such other times as the Trustee may request in writing, a list in such form and as of such date as the Trustee may reasonably require of the names and addresses of the Noteholders.

2.6 Transfer and Exchange; Transfer Restrictions.

(a) The Timber Notes shall be issued in the form of (i) one or more Unrestricted Global Notes evidencing Timber Notes, which Unrestricted Global Notes shall be substantially in the form of Exhibit A-1-1 hereto, (ii) one or more Restricted Global Notes evidencing Timber Notes, which Restricted Global Notes shall be substantially in the form of Exhibit A-1-2 hereto, and/or (iii) one or more Definitive Notes evidencing Timber Notes, which Definitive Notes shall be substantially in the form of Exhibit A-1-3 hereto, all in an aggregate original principal amount that shall equal the aggregate original principal amount of Notes that are to be issued on the Closing Date.

The Global Notes (i) shall be delivered by the Registrar to DTC acting as the Depository or, pursuant to DTC's instructions, shall be delivered by the Registrar on behalf of DTC to and deposited with the DTC Custodian, and in each case shall be registered in the name of Cede & Co. and (ii) shall bear a legend substantially to the following effect:

“Unless this certificate is presented by an authorized representative of The Depository Trust Company, a New York corporation (“DTC”), to the Registrar or its agent for registration of transfer, exchange or payment, and any certificate issued is registered in the name of Cede & Co. or in such other name as is requested by an authorized representative of DTC (and any payment is made to Cede & Co. or to such other entity as is requested by an authorized representative of DTC), ANY TRANSFER, PLEDGE OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL inasmuch as the registered owner hereof, Cede & Co., has an interest herein.”

The Global Notes may be deposited with such other Depository as the Registrar may from time to time designate, and shall bear such legend as may be appropriate; provided that such successor Depository maintains a book-entry system that qualifies to be treated as “registered form” under Section 163(f)(3) of the Code.

(b) The Restricted Global Note, and Legended Definitive Notes shall bear the following legend:

THIS NOTE HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE “**SECURITIES ACT**”), OR UNDER ANY STATE SECURITIES OR BLUE SKY LAW OF ANY STATE OF THE UNITED STATES OR ANY FOREIGN SECURITIES LAW. THE HOLDER HEREOF, BY PURCHASING THIS NOTE, AGREES FOR THE BENEFIT OF THE TRUSTEE AND THE ISSUER THAT THIS NOTE MAY BE REOFFERED, RESOLD, PLEDGED OR OTHERWISE TRANSFERRED ONLY IN COMPLIANCE WITH THE SECURITIES ACT AND OTHER APPLICABLE LAWS AND ONLY (1) PURSUANT TO RULE 144A UNDER THE SECURITIES ACT (“**RULE 144A**”) TO AN INSTITUTIONAL INVESTOR THAT THE HOLDER REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER, WITHIN THE MEANING OF RULE 144A (“**QUALIFIED INSTITUTIONAL BUYER**”), PURCHASING FOR ITS OWN ACCOUNT OR A QUALIFIED INSTITUTIONAL BUYER, WHOM THE HOLDER HAS INFORMED, IN EACH CASE, THAT THE REOFFER, RESALE, PLEDGE, OR OTHER TRANSFER IS BEING MADE IN RELIANCE ON RULE 144A, (2) IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR 904 OF REGULATION S UNDER THE SECURITIES ACT, (3) PURSUANT TO AN EXEMPTION FROM REGISTRATION PROVIDED BY RULE 144A UNDER THE SECURITIES ACT (IF AVAILABLE), OR (4) IN CERTIFICATED FORM TO AN “INSTITUTIONAL ACCREDITED INVESTOR” WITHIN THE MEANING THEREOF IN RULE 501(a)(1), (2), (3) OR (7) OF REGULATION D UNDER THE SECURITIES ACT PURSUANT TO ANY OTHER EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT, SUBJECT, IN THE CASE OF TRANSFERS PURSUANT TO THIS CLAUSE (4), TO THE RECEIPT BY THE REGISTRAR OF SUCH OTHER EVIDENCE ACCEPTABLE TO THE REGISTRAR THAT SUCH REOFFER, RESALE, PLEDGE OR TRANSFER IS IN COMPLIANCE WITH THE SECURITIES ACT AND OTHER APPLICABLE LAWS OR (5) TO THE ISSUER OR ITS AFFILIATES.

(c) The Unrestricted Global Note shall bear the following legend:

PRIOR TO THE EXPIRATION OF THE RESTRICTED PERIOD AND UPON RECEIPT OF CERTIFICATION OF NON-U.S. OWNERSHIP FROM EUROCLEAR AND CEDEL ON BEHALF OF THEIR MEMBER ORGANIZATIONS ONLY THE DTC PARTICIPANTS FOR EUROCLEAR AND CEDEL MAY HOLD POSITIONS IN THIS NOTE AT DTC. NO

INTEREST WILL BE PAID ON THIS NOTE UNTIL THE EXPIRATION OF THE RESTRICTED PERIOD AND UNTIL RECEIPT BY THE REGISTRAR OF CERTIFICATION OF NON-U.S. OWNERSHIP AS SET FORTH IN SECTION 2.6 OF THE INDENTURE.

(d) If the Trustee has instituted or has been directed to institute any judicial proceeding in a court to enforce the rights of the Holders of the Timber Notes and the Trustee has been advised by counsel that in connection with such proceeding it is necessary or appropriate for the Trustee to obtain possession of the Timber Notes, the Trustee may in its sole discretion determine that the Timber Notes represented by Global Notes shall no longer be represented by such Global Notes. In such event, the Trustee will execute, the Authenticating Agent will authenticate and the Registrar will deliver, in exchange for such Global Notes, Definitive Notes, and in authorized denominations, in an aggregate principal balance equal to the principal balance of such Global Notes.

(e) The Global Notes shall in all respects be entitled to the same benefits under this Indenture as Definitive Notes authenticated and delivered hereunder.

(f) A Timber Note may be transferred by the Holder thereof only upon presentation and surrender of such Timber Note at the Corporate Trust Office of the Registrar, duly endorsed or accompanied by an assignment duly executed by such Holder or his duly authorized attorney-in-fact in such form as shall be satisfactory to the Registrar. Upon the transfer of any Timber Note in accordance with the preceding sentence and subject to the provisions of this Section 2.6, the Trustee shall execute, the Issuer or the Authenticating Agent shall authenticate and the Registrar shall deliver to the transferee one or more new Timber Notes in authorized denominations, evidencing, in the aggregate, the same aggregate principal balance as the Timber Notes transferred.

A Timber Note may be exchanged by the Holder thereof for any number of new Timber Notes in authorized denominations, representing in the aggregate the same Timber Note as the Timber Note surrendered, upon surrender of the Timber Note to be exchanged at the Corporate Trust Office of the Registrar subject to the provisions of this Section 2.6. Timber Notes delivered upon any such exchange will evidence the same obligations under the Timber Notes and this Indenture, and will be entitled to the same rights and privileges, as the Timber Notes surrendered. Upon the exchange of any Timber Note in accordance with the preceding sentence, the Trustee shall execute, the Issuer or Authenticating Agent shall authenticate and the Registrar shall deliver to the exchanging Holder one or more new Timber Notes, in authorized denominations, evidencing, in the aggregate, the same aggregate principal balance as the Timber Notes being exchanged.

(g) Subject to Section 2.6(f), no restrictions shall apply to the transfer or registration of transfer of an Unlegended Definitive Note to a transferee that takes delivery in the form of a Definitive Note. By acceptance of a Legended Definitive Note, whether upon original issuance or subsequent transfer, each holder of such a Note acknowledges the restrictions on the transfer of such Note set forth in the Securities Legend and agrees that it will transfer such a Timber Note only as provided herein and therein. In addition to the provisions of Section 2.6(f), the following

restrictions shall apply with respect to the transfer and registration of transfer of a Legended Definitive Note to a transferee that takes delivery in the form of a Definitive Note:

(i) The Registrar shall register the transfer of a Legended Definitive Note if the requested transfer is (x) to the Issuer or an Affiliate of the Issuer or (y) being made by a transferor who has provided the Registrar with a Rule 144A Transfer Certificate.

(ii) The Registrar shall register the transfer of a Legended Definitive Note if the transferor has provided the Registrar with a Regulation S Transfer Certificate.

(iii) The Registrar shall register the transfer of a Legended Definitive Note if (x) the transferor has advised the Registrar in writing that the Note is being transferred to an Institutional Accredited Investor and (y) prior to transfer the transferor furnishes to the Registrar a Transferee Letter, provided that, (a) in lieu thereof, the transferee or proposed transferor may furnish such other certifications, legal opinions or other information as are reasonably satisfactory to the Issuer and the Registrar to confirm that the proposed transfer is being made pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act or (b) if based upon an Opinion of Counsel to the effect that the delivery of (x) and (y) above are not sufficient to confirm that the proposed transfer is being made pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act, the Issuer and the Registrar may as a condition of the registration of any such transfer require the transferor to furnish other certifications, legal opinions or other information prior to registering the transfer of a Legended Definitive Note.

In each case described in clause (i), (ii) and (iii) above, the Registrar shall deliver a Legended Definitive Note to the transferee unless the Company has delivered an Officers Certificate to the Registrar approving removal of the legends.

(h) Subject to Section 2.6(f), so long as any of the Global Notes remains outstanding and is held by or on behalf of the Depository, transfers of beneficial interests in any of such Global Notes, or transfers by holders of Definitive Notes to transferees that take delivery in the form of beneficial interests in such Global Notes, may be made only in accordance with this Section 2.6 and in accordance with the rules of the Depository and Euroclear or Cedel.

(i) Prior to the expiration of the Restricted Period, no beneficial interest in the Unrestricted Global Note may at any time be transferred to a transferee that takes delivery in the form of a Definitive Note or Notes.

(ii) Prior to the expiration of the Restricted Period, a beneficial interest in the Unrestricted Global Note may, to the extent permitted by applicable law, be transferred to a person who takes delivery in the form of a beneficial interest in the Restricted Global Note upon receipt by the Registrar of a Rule 144A Transfer Certificate. After the Restricted Period, no such certification will be required with respect to such transfers.

(iii) Prior to the expiration of the Restricted Period, a beneficial interest in the Unrestricted Global Note may only be held by the DTC participants for Euroclear and Cedel until receipt by the Registrar of a Clearing System Certificate from Euroclear or

Cedel, as applicable which clearing system certificate evidences receipt by Euroclear and Cedel of certificates of non-U.S. ownership (substantially in the form of Exhibit L to this Indenture) from their respective member organizations for the aggregate principal amount held by Euroclear and Cedel, respectively, relating to the appropriate portion of the Unrestricted Global Note.

(iv) A beneficial interest in a Restricted Global Note may be transferred to a transferee that takes delivery in the form of a beneficial interest in an Unrestricted Global Note only upon receipt by the Registrar of a Regulation S Transfer Certificate if such transfer occurs prior the expiration of the Restricted Period, the interest transferred will be held immediately thereafter through the DTC participants for Euroclear and Cedel until the certification process of (iii) above is completed.

(v) In the case of a beneficial interest in a Restricted Global Note being transferred to an Institutional Accredited Investor, such transferee shall be required to take delivery in the form of a Definitive Note or Notes and the Registrar shall register such transfer only upon compliance with the provisions of Section 2.6(f) and (g)(iii).

(vi) In the case of a beneficial interest in a Restricted Global Note being transferred to a transferee that takes delivery in the form of an Definitive Note or Notes, except as set forth in clause (v) above, the Registrar shall register such transfer only upon compliance with the provisions of Section 2.6(f) and (g)(i) or (ii).

(vii) In the case of a Legended Definitive Note being transferred to a transferee that takes delivery in the form of a beneficial interest in the Restricted Global Notes, the Registrar shall register such transfer if the transferor has provided the Registrar with either (x) a Rule 144A Transfer Certificate or (y) if such transfer occurs after the expiration of the Restricted Period, a Regulation S Transfer certificate.

(viii) In the case of a Legended Definitive Note being transferred to a transferee that takes delivery in the form of a beneficial interest in the Unrestricted Global Notes, the Registrar shall register such transfer if the transferor has provided the Registrar with a Regulation S Transfer Certificate.

(ix) Prior to the expiration of the Restricted Period, no Unlegended Definitive Notes may be transferred for beneficial interests in the Unrestricted Global Notes.

(x) No restrictions shall apply with respect to the transfer or registration of transfer of (x) a beneficial interest in a Restricted Global Note to a transferee that takes delivery in the form of a beneficial interest in the Restricted Global Note; (y) a beneficial interest in an Unrestricted Global Note to a transferee that takes delivery in the form of Definitive Notes after the expiration of the Restricted Period or in the form of a beneficial interest in the Unrestricted Global Note after the expiration of the Restricted Period; or (z) an Unlegended Definitive Note or Notes to a transferee that takes delivery in the form of a beneficial interest in the Unrestricted Global Note after the expiration of the Restricted Period.

(i) Subject to Section 2.6(f), an exchange of a beneficial interest in the Unrestricted Global Note for a beneficial interest in the Restricted Global Note may be made only after the expiration of the Restricted Period and only upon receipt by the Registrar of a Clearing System Certificate from Euroclear or Cedel, as applicable.

(j) Subject to Section 2.6(h), an exchange of a beneficial interest in any of the Global Notes for a Definitive Note or Notes, an exchange of a Definitive Note or Notes for a beneficial interest in any of the Global Notes and an exchange of a Definitive Note or Notes for another Definitive Note or Notes (in each case, whether or not such exchange is made in anticipation of subsequent transfer, and in the case of either Global Note, so long as such Global Note remains outstanding and is held by or on behalf of the Depository) may be made only in accordance with this Section 2.6(h) and in accordance with the rules of the Depository and Euroclear or Cedel.

(i) Prior to the expiration of the Restricted Period, no holder of a beneficial interest in the Unrestricted Global Note may exchange such beneficial interest for a Definitive Note or Notes.

(ii) A holder of a beneficial interest in the Restricted Global Note may at any time exchange such beneficial interest for a Legended Definitive Note or Notes.

(iii) After the expiration of the Restricted Period, a holder of a beneficial interest in the Unrestricted Global Note may at any time exchange such beneficial interest for an Unlegended Definitive Note or Notes.

(iv) A holder of a Legended Definitive Note may exchange such Note for a beneficial interest in the Restricted Global Notes if such holder furnishes to the Registrar either (x) a Rule 144A Exchange Certificate or (y) on and after the Restricted Period, a Regulation S Exchange Certificate.

(v) A holder of a Legended Definitive Note may exchange such Note for a beneficial interest in an Unrestricted Global Note, if such holder furnishes to the Registrar a Regulation S Exchange Certificate.

(vi) A holder of an Unlegended Definitive Note may exchange such Timber Note for a beneficial interest in any Global Note without any certification, except that prior to the expiration of the Restricted Period in the case of a Restricted Global Note, such holder must furnish to the Issuer and to the Registrar a Rule 144A Exchange Certificate.

(vii) A holder of a Definitive Note may exchange such Timber Note for an equal aggregate principal balance of Definitive Notes and in different authorized denominations without any certification.

(k) (i) Upon acceptance for exchange or transfer of a Definitive Note for a beneficial interest in any Global Note as provided herein, the Registrar shall cancel such Definitive Note and shall (or shall request the Depository to) adjust its books and records to reflect such increase, evidencing the date of such exchange or transfer and an increase in the aggregate principal

amount of the applicable Global Note equal to the aggregate principal amount of such Definitive Note exchanged or transferred therefor.

(ii) Upon acceptance for exchange or transfer of a beneficial interest in a Global Note for a Definitive Note as provided herein, the Registrar shall (or shall request the Depository to) adjust its books and records to reflect such decrease, evidencing the date of such exchange or transfer and a decrease in the aggregate principal amount of the applicable Global Note equal to the aggregate principal amount of such Definitive Note issued in exchange therefor or upon transfer thereof.

(iii) Upon acceptance for transfer of a beneficial interest in any Global Note for a beneficial interest in another Global Note as provided herein, the Registrar shall (or shall request the Depository to) adjust its books and records to reflect such increase or decrease, evidencing the date of such transfer and (x) in the case of the Global Note from which such transfer is made, a decrease in the aggregate principal amount of such Global Note equal to the aggregate principal amount being transferred and (y) in the case of the Global Note into which such transfer is made, an increase in the aggregate principal amount of such Global Note equal to the aggregate principal amount being transferred.

(l) The following provisions shall apply to the placement of the Securities Legend on any Definitive Note issued in exchange for or upon transfer of another Definitive Note or of a beneficial interest in any of the Global Notes and to the removal of the Securities Legend from any Legended Definitive Note.

(i) Until the Timber Notes have been registered pursuant to an effective registration statement or the Registrar receives an opinion of counsel stating that a Securities Legend is no longer required, a Definitive Note issued upon transfer of or exchange for a beneficial interest in the Restricted Global Notes shall bear the Securities Legend.

(ii) A Definitive Note issued upon transfer of or exchange for a beneficial interest in the Unrestricted Global Notes on or after the expiration of the Restricted Period shall not bear the Securities Legend.

(iii) Upon the transfer, exchange or replacement of a Legended Definitive Note, or upon specific request of a holder of a Legended Definitive Note for removal of the Securities Legend therefrom, the Registrar shall deliver an Unlegended Definitive Note or Notes if there is provided to the Registrar evidence reasonably satisfactory to the Registrar and the Issuer (which may include an Opinion of Counsel) as may reasonably be required by the Registrar and the Issuer that neither the Securities Legend nor the restrictions on transfer set forth therein are required to ensure compliance with the provisions of the Securities Act.

(iv) Upon the transfer, exchange or replacement of an Unlegended Definitive Note for a Definitive Note, the Registrar shall deliver an Unlegended Definitive Note or Notes, as the holder may request.

(m) Subject to the restrictions on transfer and exchange set forth in this Section 2.6, the holder of any Definitive Note may transfer or exchange the same in whole or in part (in an initial aggregate principal amount equal to the minimum authorized denomination of U.S. \$100,000 or any integral multiple of \$1,000 in excess thereof) by surrendering such Definitive Note at the Corporate Trust Office of the Registrar or at the office of any other transfer agent, together with an executed instrument of assignment and transfer satisfactory in form and substance to the Registrar in the case of transfer and a written request for exchange in the case of exchange, together with all transfer documentation required in Section 2.6(f) hereof in form and substance satisfactory to the Registrar and the Company. The holder of a beneficial interest in a Global Note may, subject to the rules and procedures of the Depository, cause the Depository (or its nominee) to notify the Registrar in writing of a request for transfer or exchange of such beneficial interest for a Definitive Note or Notes. Following a proper request for transfer or exchange, together with the documentation required by this Section 2.6, the Registrar shall, within five Business Days of such request if made at such Corporate Trust Office, or within 10 Business Days if made at the office of another transfer agent (other than the Registrar), cause the Trustee to execute and the Authenticating Agent to authenticate, and the Registrar shall deliver at such Corporate Trust Office or such transfer agent, as the case may be, to the transferee (in the case of transfer) or holder (in the case of exchange) or send by first class mail at the risk of the transferee (in the case of transfer) or holder (in the case of exchange) to such address as the transferee or holder, as applicable, may request, a Definitive Note or Notes, as the case may require, for a like aggregate Note Balance and in such authorized denomination or denominations as may be requested. The presentation for transfer or exchange of any Definitive Note shall not be valid unless made at the Corporate Trust Office of the Registrar or other transfer agent by the registered holder in person, or by a duly authorized attorney-in-fact. The Issuer shall not be required to make, and the Registrar need not register, transfers or exchanges of Timber Notes called for redemption or for a period of 15 days before such Timber Notes are to be redeemed or 15 days before a Note Payment Date, as set forth in the Timber Notes.

(n) Transfer, registration and exchange shall be permitted as provided in this Section 2.6 without any charge to the Holder except for the expenses of delivery (if any) not made by regular mail and except, if the Registrar shall so require, the payment of a sum sufficient to cover any stamp duty, tax or governmental charge or insurance charge that may be imposed in relation thereto; provided that any Opinions of Counsel or certificates required by this Section 2.6 shall be at the expense of the Holder or its proposed transferee. Registration of the transfer of a Timber Note by the Registrar shall be deemed to be the acknowledgment of such transfer on behalf of the Issuer.

(o) the Issuer and the Trustee may deal with the Clearing Agency and the Clearing Agency Participants for all purposes (including the making of distributions on the Timber Notes) as the authorized representatives of the Note Owners:

(i) to the extent that the provisions of this Section 2.6(o) conflict with any other provisions of this Indenture, the provisions of this Section 2.6(o) shall control;

(ii) the rights of Note Owners shall be exercised only through the Clearing Agency and the Clearing Agency Participants and shall be limited to those established by law and agreements between such Note Owners and the Clearing Agency and/or the

Clearing Agency Participants. Pursuant to the Clearing Agency Agreement, (except the Definitive Notes), the initial Clearing Agency will make book-entry transfers among the Clearing Agency Participants and receive and transmit distributions of principal of, and interest on the Timber Notes (except the Definitive Notes) to such Clearing Agency Participants; and

(iii) whenever a notice, report or other communication to the Noteholders is required under this Indenture, the Trustee shall give all such notices and communications specified herein to be given to Noteholders (except those to be given to the holders of Definitive Notes) to the Clearing Agency.

(p) In the event that:

(i) (A) the Issuer or the Clearing Agency advises the Trustee in writing that the Clearing Agency is no longer willing or able to discharge properly its responsibilities as Clearing Agency, and (B) the Trustee or the Issuer is unable to locate a qualified successor within 90 days,

(ii) the Issuer, at its option, with the consent of Note Owners representing not less than 51% of the aggregate principal balance of outstanding Timber Notes, advises the Trustee in writing that it elects to terminate the book-entry system through the Clearing Agency, or

(iii) during the continuance of an Event of Default, Note Owners representing not less than 51% of the aggregate principal balance of outstanding Timber Notes advise the Trustee and the Clearing Agency through the Clearing Agency Participants in writing that the continuation of a book-entry system through the Clearing Agency is no longer in the best interests of the Note Owners,

the Trustee shall notify all Note Owners, through the Clearing Agency, of the occurrence of any such event and of the availability of Definitive Notes to Note Owners requesting the same. Upon surrender to the Trustee of the Timber Notes by the Clearing Agency, accompanied by registration instructions from the Clearing Agency for registration, the Trustee shall issue the Definitive Notes. Neither the Issuer nor the Trustee shall be liable for any delay in delivery of such instructions and may conclusively rely on, and shall be protected in relying on, such instructions. The Issuer shall arrange for, and will bear the costs of, printing and issuance of any Definitive Notes. Upon the issuance of Definitive Notes, all references herein to obligations imposed upon or to be performed by the Clearing Agency shall be deemed to be imposed upon and performed by the Trustee, to the extent applicable with respect to such Definitive Notes, and the Trustee shall recognize the Holders of the Definitive Notes as Holders of Timber Notes hereunder.

(q) Prior to the due presentation for registration of transfer of any Timber Note, the Issuer, the Paying Agent or the Registrar may deem and treat the person in whose name a Timber Note is registered as the absolute owner of such Timber Note for the purpose of receiving payment of principal of and interest on such Timber Note and for all other purposes whatsoever,

and none of the Issuer, the Trustee, the Paying Agent or the Registrar shall be affected by notice to the contrary.

2.7 Replacement Notes. If a mutilated Timber Note is surrendered to the Registrar or if the Holder of a Timber Note claims that the Timber Note has been lost, destroyed or wrongfully taken, the Issuer shall issue and the Trustee shall authenticate a replacement Timber Note if the Trustee's requirements are met. If required by the Trustee or the Issuer, such Noteholder shall furnish an indemnity bond sufficient in the judgment of the Issuer and the Trustee to protect the Issuer, the Trustee, the Paying Agent and the Registrar from any loss which any of them may suffer if a Timber Note is replaced. The Issuer and the Trustee may charge the Noteholder for their expenses in replacing a Timber Note.

Every replacement Timber Note is an additional obligation of the Issuer.

2.8 Outstanding Timber Notes. Timber Notes outstanding at any time are all Timber Notes authenticated by the Trustee except for those canceled by it, those delivered to it for cancellation and those described in this Section as not outstanding. Subject to the last clause of the definition of the term "outstanding," a Timber Note does not cease to be outstanding because the Issuer or an Affiliate of the Issuer holds the Timber Note.

If a Timber Note is replaced pursuant to Section 2.7, it ceases to be outstanding unless the Trustee and the Issuer receive proof satisfactory to them that the replaced Timber Note is held by a bona fide purchaser.

If the Paying Agent segregates and holds in trust, in accordance with this Indenture, on a redemption date or maturity date money sufficient to pay Timber Notes payable on that date and the Paying Agent is not prohibited from paying such money to the Noteholders on that date pursuant to the terms of this Indenture, then on and after that date such Timber Notes cease to be outstanding and interest on them ceases to accrue.

2.9 Cancellation. The Issuer at any time may deliver Timber Notes to the Trustee for cancellation. The Registrar shall forward to the Trustee any Timber Notes surrendered to it for transfer, exchange or payment. The Trustee and no one else shall cancel and destroy all Timber Notes surrendered for transfer, exchange, payment or cancellation and deliver a certificate of such destruction to the Issuer unless the Issuer directs the Trustee to deliver canceled Timber Notes to the Issuer. The Issuer may not issue new Timber Notes to replace Timber Notes it has redeemed, paid or delivered to the Trustee for cancellation.

2.10 Payments in Respect of the Notes. The Issuer agrees to cause each payment in respect of each outstanding Timber Note to be made in accordance with the provisions of Section 5.7. Such payments shall be made to the Noteholders on the Record Date immediately preceding the respective Note Payment Date.

2.11 Payments of Principal, Regular Interest and Default Interest on Notes.

(a) The aggregate unpaid principal amount of the outstanding Timber Notes shall become due and payable on the Final Maturity Date unless the aggregate unpaid principal amount of the outstanding Timber Notes shall have earlier become due and payable.

(b) Accrued and unpaid Regular Interest, and accrued and unpaid Default Interest, if any, on Timber Notes shall become due and payable on each Note Payment Date.

2.12 Source and Manner of Payments on Notes. All amounts payable pursuant to Section 2.11 shall be payable from funds to be withdrawn from the Payment Account pursuant to Section 5.7 in the priority set forth therein. All payments on Definitive Notes shall be made (i) by U.S. dollar checks drawn on a bank in New York City or Boston, Massachusetts mailed to the Holders at their registered addresses or (ii) upon application by a Holder of at least U.S. \$[5,000,000] in principal amount of Definitive Notes to a Paying Agent not later than five Business Days prior to the related Record Date, by wire transfer in immediately available funds to a U.S. dollar account maintained by such Holder with a bank in New York City or Boston, Massachusetts. All payments to any Holder of a Global Note shall be made (i) by a U.S. dollar check drawn on a bank in New York City or Boston, Massachusetts delivered to the registered owner of such Global Note at its registered address or (ii) by wire transfer in immediately available funds to a U.S. dollar account maintained by such registered owner with a bank in New York City or Boston, Massachusetts.

ARTICLE 3

OPTIONAL REDEMPTION AND OPTIONAL PREPAYMENT

3.1 Notices to Trustee. If the Issuer elects to redeem Timber Notes pursuant to paragraph 6 of the Timber Notes, it shall notify the Trustee in writing of the redemption date and the principal amount of Timber Notes to be redeemed. The Issuer shall give each notice to the Trustee provided for in this Section at least 15 days (or 30 days if a 30-day notice to Holders is required pursuant to Section 3.3) before the redemption date (unless a shorter notice period shall be satisfactory to the Trustee).

3.2 Redemption in Whole or in Part. The Timber Notes may be redeemed in whole or in part, at the option of the Issuer, on any day after the date of this Indenture.

3.3 Notice of Redemption. At least 15 days (or 30 days if legally required by DTC) but not more than 60 days before a date for redemption of Timber Notes, the Issuer shall mail a notice of redemption by first-class mail to each Holder of Timber Notes to be redeemed.

The notice shall identify the percentage of the outstanding principal amount of Timber Notes to be redeemed and shall state:

- (1) the redemption date;
- (2) the redemption price;
- (3) the name and address of the Paying Agent;
- (4) that Timber Notes called for redemption must be surrendered to the Paying Agent to collect the redemption price;

(5) that, unless the Issuer defaults in making such redemption payment, interest on Timber Notes called for redemption ceases to accrue on and after the redemption date;

(6) in the case of a partial redemption, such notice shall indicate the serial numbers of the Notes to be redeemed (which shall be selected by the Indenture Trustee by lot or in such other manner as it shall deem appropriate and fair).

At the Issuer's request, the Trustee shall give the notice of redemption in the Issuer's name and at the Issuer's expense. In such event, the Issuer shall provide the Trustee with the information required by clauses (1) through (3) at least 15 days prior to the date on which such a notice of redemption is to be given by the Trustee (unless a shorter notice period shall be satisfactory to the Trustee).

3.4 Effect of Notice of Redemption. Once notice of redemption is mailed, Timber Notes called for redemption become due and payable on the redemption date and at the redemption price stated in the notice. Upon surrender to the Paying Agent, such Timber Notes shall be paid at the redemption price stated in the notice, computed as provided in Section 3.6.

3.5 Deposit of Redemption Price. On or prior to Noon, New York City time, on the redemption date, the Issuer shall deposit with the Paying Agent an amount of money which, when added to all amounts deposited on such redemption date pursuant to Section 5.7(a) and all other amounts on deposit in the Payment Account (if all outstanding Timber Notes are to be redeemed on the redemption date), would be sufficient to pay the redemption price of and all other amounts payable in respect of all Timber Notes to be redeemed on that date. All money earned on such funds held in trust by the Trustee shall be remitted to the Issuer.

3.6 Redemption Price. The Timber Notes shall be redeemed at a redemption price equal to (i) all unpaid principal amounts thereof as of the redemption date, (ii) all accrued and unpaid Regular Interest and Default Interest thereon as of the redemption date.

3.7 Optional Prepayment. The Issuer may, at its option, prepay the Timber Notes, in whole or in part, on any Note Payment Date as provided in Section 5.7.

ARTICLE 4

COVENANTS

4.1 Payment of Notes. The Issuer shall promptly pay the principal of, and interest on the Timber Notes on the dates and in the manner provided in the Timber Notes and in this Indenture. Principal and interest shall be considered paid on the date due to the extent on such date the Trustee holds in accordance with this Indenture money sufficient to pay all principal and interest then due, and the Trustee is not prohibited from paying such money to the Noteholders on that date pursuant to the terms of this Indenture or otherwise.

The Issuer shall pay Default Interest on overdue principal at the Default Rate, and it shall pay interest on overdue installments of Regular Interest at the Default Rate to the extent lawful.

4.2 **Money for Timber Note Payments to Be Held in Trust.** The Issuer shall, on or prior to each Note Payment Date, deposit or cause to be deposited in the Payment Account such amount, if any, as is required under the terms of this Indenture to be so deposited to pay principal, Regular Interest and Default Interest then owing on the Timber Notes, such amount to be held in trust by the Trustee for the benefit of the Noteholders of outstanding Timber Notes entitled thereto.

4.3 **SEC Reports.** The Issuer shall file with the Trustee, and provide each Noteholder, within 15 days after it files them with the SEC, copies of its annual report and of the information, documents and other reports (or copies of such portions of any of the foregoing as the SEC may by rules and regulations prescribe) which the Issuer is required to file with the SEC pursuant to Section 13 or 15(d) of the Exchange Act. Notwithstanding that the Issuer may not be subject to the reporting requirements of Section 13 or 15(d) of the Exchange Act, the Issuer shall provide the Trustee, and Noteholders with information which is substantially equivalent to that which would be included in such annual reports and information which is substantially equivalent to such information, documents and other reports which are specified in Sections 13 and 15(d) of the Exchange Act. The Issuer also shall comply with the provisions of TIA Section 314(a).

4.4 **Maintenance of Office or Agency; Existence; Payment of Taxes and Other Claims, Etc.**

(a) ***Maintenance of Office or Agency.*** The Issuer hereby irrevocably appoints the Trustee to be the agent of the Issuer and hereby irrevocably designates the Corporate Trust Office to be the office of the Issuer where notices and demands to or upon the Issuer in respect of the Timber Notes and this Indenture may be served. The Trustee shall promptly notify the Issuer of the Trustee's receipt of any notices or demands with respect to the Timber Notes or this Indenture.

(b) ***Existence.*** The Issuer shall do or cause to be done all things necessary to preserve and keep in full force and effect its existence, rights and franchises as a limited liability company (except as permitted by Section 4.13) under the laws of the State of Delaware and to preserve and keep in full force and effect all other rights and franchises material to the conduct of its business or to its ability to perform its obligations under the Timber Notes and shall obtain and preserve its qualification to do business as a limited liability company (except as permitted by Section 4.13) in each jurisdiction in which such qualification is necessary to protect the validity and enforceability of, or the ability of the Issuer to perform its obligations under, this Indenture and the other Operative Documents and all certificates, agreements, documents and other writings then in effect referred to herein or therein or contemplated hereby or thereby.

(c) ***Compliance With Laws and Regulations.*** The Issuer shall comply with the requirements of all applicable laws and regulations, the non-compliance with which would have a Material Adverse Effect.

(d) ***Payment of Taxes and Other Claims.*** The Issuer shall pay or discharge, or cause to be paid or discharged, before the same shall become delinquent, all taxes (including, without

limitation, Yield Taxes), assessments and governmental charges levied or imposed upon it or upon its income, profits or property, and all lawful claims for labor, materials and supplies that, if unpaid, would by law become a Lien upon its property; provided that the Issuer shall not be required to pay or discharge or cause to be paid or discharged any such tax, assessment, charge or claim so long as (i) the amount, applicability or validity thereof is being diligently contested in good faith by appropriate judicial or administrative proceedings and against which adequate reserves are being maintained or (ii) such proceedings or any bond delivered in connection therewith shall effectively suspend or stay the collection of such tax, assessment, charge or claim and against which adequate reserves are being maintained.

(e) **Employees.** The Issuer shall at all times employ such officers and employees and have in effect such other arrangements as may be necessary to ensure the continuity of the Issuer's operations.

(f) **Independent Accountants.** The Issuer's independent certified public accountants at all times shall be a firm of independent certified public accountants of recognized national reputation reasonably satisfactory to the Trustee for purposes of preparing and delivering the reports or certificates of such accountants required by this Indenture. Such accountants may be the independent certified public accountants for Pacific Lumber if they otherwise satisfy the criteria in this Section 4.4(f). Upon any resignation by, or change of, the Issuer's independent certified public accountants, the Issuer shall promptly appoint a successor thereto that shall also be a firm of independent certified public accountants of recognized national reputation. If the Issuer shall fail to appoint a successor to a firm of independent certified public accountants that has ceased to act as the Issuer's independent certified public accountants within 130 days after such cessation, the Trustee shall promptly appoint a successor firm of independent certified public accountants of recognized national reputation. The reasonable fees of such firm of independent certified public accountants and any successor thereto shall be payable by the Issuer.

4.5 **[Reserved].**

4.6 **Reports, Notices and Certificates.** The Issuer will furnish to the Trustee:

(a) not later than April 30 of each year, commencing April 30, 1999, written statements of the Issuer's independent certified public accountants substantially in the forms of Exhibits B-1 and B-2 hereto;

(b) not later than April 30 of each year, commencing April 30, 1999, an Officer's Certificate to the effect that, to such person's knowledge, (i) the Issuer has complied with all of the conditions and covenants under the Indenture (determined without regard to any period of grace or requirement of notice under this Indenture) during the preceding year and during the current year to the date of such Certificate and (ii) no Event of Default existed at any time during such preceding year or during the current year to the date of such Certificate, in each of clause (i) and (ii), except for those, if any, described in such Certificate in reasonable detail;

(c) Monthly Trustee Certificates in accordance with Section 5.3(b) and Note Payment Trustee Certificates in accordance with Section 5.7(d); and

(d) if a Default or Event of Default continues for 5 Business Days after a Responsible Officer of the Issuer becomes aware of the existence of such Default or Event of Default, an Officer's Certificate describing such Default or Event of Default in reasonable detail and specifying what action the Issuer has taken or proposes to take with respect to such Default or Event of Default.

The Issuer will mail to each Holder of Timber Notes:

(x) not later than each Monthly Deposit Date, the Monthly Noteholder Certificate;
and

(y) not later than each Note Payment Date, the Note Payment Noteholder Certificate.

4.7 Access to Records. The Issuer shall, upon reasonable notice, permit the Trustee, at reasonable times:

(a) to inspect and make or be provided with copies and extracts from such books and records of the Issuer as may relate to the Timber Notes and/or any of its rights or obligations under this Indenture or any other Operative Document; and

(b) to visit and inspect any of the properties of the Issuer.

4.8 Limitation on Liens on Company Owned Timberlands or Company Timber Rights. The Issuer shall not create, incur, assume, suffer or permit to exist any Lien on the Company Owned Timberlands or Company Timber Rights or any portion thereof or any interest therein other than (x) the Lien of the Deed of Trust or (y) other Permitted Encumbrances.

4.9 Limitation on Indebtedness. The Issuer shall not issue, assume, incur, create, guarantee or otherwise become liable for, directly or indirectly, any Indebtedness other than (u) nonrecourse Indebtedness outstanding on the Closing Date in a principal amount not exceeding \$_____, provided that an amount equal to the principal amount of such Indebtedness from time to time outstanding is held by the Trustee in a separate cash collateral account so long as such Indebtedness is outstanding, (v) Indebtedness represented by the Timber Notes, (w) Nonrecourse Timber Acquisition Indebtedness in an aggregate principal amount not exceeding \$75 million outstanding at any one time, (x) Indebtedness for capital leases; provided, however, that (i) the aggregate amount of such obligations under all such leases accruing during any consecutive 12 month period does not exceed \$_____ multiplied by the Producer Price Index Inflation Factor then applicable and (ii) the aggregate amount of such obligations under all such leases accruing over the terms of such leases does not exceed \$_____ multiplied by the Producer Price Index Inflation Factor then applicable, (y) Indebtedness under the First Lien Credit Facility and (z) additional Indebtedness in an aggregate outstanding principal amount not to exceed \$_____.

4.10 Investments, Loans and Advances. Except for Permitted Investments or as otherwise contemplated by or provided in this Indenture, the Deed of Trust or any other Operative Document, the Issuer shall not make any loan or advance or extend any credit to (excluding (i) the extension of trade credit in the ordinary course of business or (ii) advances to

employees or Managers, in the ordinary course of business, for reasonable business expenses or salary, not to exceed \$_____ in the aggregate at any one time), or own, purchase, repurchase or acquire (or agree contingently to do so) any stock, obligations or securities of, or any other ownership interest in, or all or substantially all of the assets of, or make any capital contribution to or any other investment in, any Affiliate or other Person.

4.11 Limitation on Restricted Payments. The Issuer shall not, directly or indirectly, declare, make or pay any distribution or other payment (whether in cash, property or obligations) in respect of any equity interest in the Issuer, or, directly or indirectly, purchase, redeem, retire or otherwise acquire for value any equity interest in the Issuer (a “**Restricted Payment**”), except for any such Restricted Payment made solely with funds or other assets that are free of the Lien of the Deed of Trust; provided, however, that if an Event of Default described in Section 7.1(8) (without regard to the grace period set forth therein) shall have occurred and be continuing, the Issuer shall not make any Restricted Payment (other than a Restricted Payment out of the proceeds of the sale or other disposition of any part of the Preserve Project pursuant to Section 6.1(a)).

4.12 Certain Consents. The Issuer shall not give consent to any amendment to the New Master Purchase Agreement, the New Services Agreement, any Conveyance Document, or the Escrow Agreement referred to in the definitions of Pacific Lumber Timber Rights Property and Company Timber Rights Property unless (i) such amendment has been approved by a resolution of the Board of Managers, including all Independent Managers and (ii) either (A) such amendment is to cure any ambiguity, omission, defect or inconsistency, or to add to the covenants of the other party thereto for the benefit of the Issuer or the Noteholders, or to surrender any right or power conferred therein on the other party thereto, or in respect of any action to be taken by the Issuer pursuant to Section 10 of the New Reciprocal Rights Agreement; provided, that no such amendment may adversely affect in any material respect the interests of the Holders of the Timber Notes or (B) such amendment has received approval of the Majority Holders. The Issuer will exercise its rights to require Pacific Lumber to utilize the Net Short Log Scribner Scale methodology of scaling, or to utilize third party scalers, under Sections 6.2 and 6.3, respectively, of the New Master Purchase Agreement, upon receipt of notice from the Trustee, or from the Holders of 25% in aggregate outstanding principal amount of the Timber Notes (to the extent specified in such notice).

4.13 Restrictions on Consolidation, Etc. Except as set forth below, the Issuer shall not consolidate with or merge with or into any other Person; or lease any of its assets to any other Person (other than leases constituting Permitted Encumbrances); or make any amendment to Section 2.5, 3.2 or 3.3 of the Operating Agreement. The Issuer shall not sell or convey all or substantially all of its assets to any other Person unless the Issuer, as a condition precedent to any such sale or conveyance, shall pay in full all principal of, interest on and other amounts payable with respect to the Timber Notes or under this Indenture.

Notwithstanding the foregoing, the Issuer may consolidate with or merge into any newly formed wholly-owned subsidiary of Pacific Lumber (or any successor to Pacific Lumber) that has no material assets or liabilities immediately prior to such consolidation or merger if (a) the Person formed by such consolidation or into which the Issuer is merged is a corporation, limited liability company or other entity organized and existing under the laws of the United States of

America, any State thereof or the District of Columbia and shall expressly assume, by a supplemental indenture in form and substance satisfactory to the Trustee, the due and punctual payment of the principal of and interest on all the Timber Notes then outstanding and the performance of every covenant of this Indenture and the other Operative Documents on the part of the Issuer to be performed or observed; (b) immediately after giving effect to such transaction, no Event of Default, and no event which, after notice or lapse of time or both, would become an Event of Default, shall have occurred and be continuing; (c) such consolidation or merger is approved by a Board Resolution, including the affirmative vote of both Independent Managers; (d) such consolidation or merger has obtained approval of the Majority Holders; and (e) the Issuer has delivered to the Trustee an Officer's Certificate and an Opinion of Counsel, each stating that such consolidation or merger and such supplemental indenture comply with this Indenture.

4.14 No Other Business. Except for sales of Company Owned Timberlands, Company Timber Rights or Company Timber or transfers of Company Owned Timberlands or Company Timber Rights in exchange for Substitute Timber Property in accordance with the procedures set forth in Article 6 of this Indenture, the Issuer will not engage in any business that is not related directly to (i) the operation, management, sale or maintenance of the Company Owned Timberlands, the Company Timber Rights and the Company Timber as provided by the Operative Documents, (ii) the execution, delivery and performance of the Operative Documents, and the New Additional Services Agreement, (iii) issuing and selling Timber Notes pursuant to this Indenture, (iv) issuing any Nonrecourse Timber Acquisition Indebtedness and acquiring property secured by such Nonrecourse Timber Acquisition Indebtedness, (v) acquiring Additional Timber Property, (vi) the development, operation and sale of the Preserve Project or (vii) actions reasonably incidental to the foregoing which do not, individually or in the aggregate, have a Material Adverse Effect.

4.15 Transactions with Affiliates. Except for sales of Company Owned Timberlands, Company Timber Rights or Company Timber or transfers of Company Owned Timberlands or Company Timber Rights in exchange for Substitute Timber Property in accordance with the procedures set forth in Article 6 of this Indenture, the Issuer will not enter into any transaction, arrangement or understanding, formal or informal, written or oral (collectively, a "**Transaction**") with any Affiliate of the Issuer unless (a) such Transaction has received approval of the Majority Holders if the amount involved in such Transaction and in all prior Transactions not excepted by the following proviso in any fiscal year shall exceed \$_____ and (b) either (x) such Transaction is on terms that are at least as favorable to the Issuer as would be available to the Issuer in a comparable Transaction with a Person that is not an Affiliate of the Issuer or (y) in the event no comparable Transaction between the Issuer and an unaffiliated third party is available, such Transaction is on terms that are fair from a financial point of view to the Issuer; provided, that this Section 4.15 shall not prohibit or otherwise restrict (i) compensation (in the form of reasonable Manager's fees and reimbursement or advancement of reasonable out-of-pocket expenses) paid to any Independent Manager of the Issuer for services rendered in such person's capacity as a Manager, (ii) indemnification of officers, Managers, and employees, and the obtaining of liability insurance for the Issuer's Managers, officers and employees, (iii) compensation and other benefits paid or made available to officers and employees of the Issuer (who are not also officers or employees of Pacific Lumber) for services actually rendered, comparable to those generally paid or made available by entities engaged in the same or similar

businesses (including reimbursement or advancement of reasonable out-of-pocket expenses), (iv) participation by employees of the Issuer in employee benefit plans of Pacific Lumber or other Affiliates of the Issuer, (v) lease of office space by the Issuer from Pacific Lumber in an annual amount not to exceed \$_____ per year, (vi) coverage for the Issuer under blanket insurance policies of Affiliates of the Issuer, (vii) the leasing of vehicles or other equipment by the Issuer from Pacific Lumber in an annual amount not to exceed \$_____ per year multiplied by the Producer Price Index Inflation Factor then applicable, (viii) leases of portions of Company Owned Timberlands to Pacific Lumber, provided that (A) such leases are Permitted Encumbrances pursuant to clause (g) of the definition of such term, (B) Pacific Lumber subleases, in the ordinary course of business, the portions of Company Owned Timberlands that it leases from the Issuer and (C) the rent paid by Pacific Lumber under such leases shall not be less than 80% of the rent received by Pacific Lumber under such subleases, (ix) participation by the Issuer with one or more of its Affiliates in the Takings Litigation, provided that any recovery in such litigation shall be allocated between the Issuer and its Affiliates on a pro rata basis so that the Issuer will receive as its share of such recovery a percentage of such recovery equal to the ratio of (A) the number of acres of the Company Timber Property which is the subject of such litigation to (B) the total number of acres of timberlands of the Issuer and its Affiliates that is the subject of such litigation, (x) transactions in connection with the Preserve Project or (xi) any other Transaction with an Affiliate of the Issuer to the extent such Transaction with such Affiliate is contemplated by, and conducted in all material respects in accordance with the terms of, the Operative Documents; and provided, further, that in the case of clauses (i), (ii), (iii) and (v), such amounts shall be paid solely from amounts on deposit in the Expense Reserve, from Excess Funds or from other available funds of the Issuer that are free and clear of the Lien of the Deed of Trust.

A Transaction permitted by Section 6.1, 6.3 or 6.4 between the Issuer and a Person, and a Transaction between an Affiliate of the Issuer and such Person (or an Affiliate of such Person), shall not be deemed a Transaction between the Issuer and an Affiliate of the Issuer for the purposes of this Section 4.15.

4.16 Insurance. The Issuer shall maintain or cause to be maintained with respect to the Mortgaged Property such insurance as is required by Section 7.1(i) of the Deed of Trust.

4.17 Company Timber Sales. All sales of Company Timber which are made by the Issuer to Pacific Lumber shall be made pursuant to the New Master Purchase Agreement and related log purchase agreements. All sales of Company Timber which are made by the Issuer to any other Person (other than Lump Sum Sales pursuant to Section 6.1 and 6.5) shall be made pursuant to written Purchase Agreements satisfying the criteria specified in Section 7.1(h)(1) of the Deed of Trust.

4.18 Opinion as to Mortgaged Property. Promptly after the execution and delivery of this Indenture, and on or before June 30 of each calendar year, commencing June 30, 1999, the Issuer shall furnish to the Trustee an Opinion of Counsel stating that, in the opinion of such counsel, either (a) such action has been taken with respect to the recording, filing, rerecording and refile of the Deed of Trust (other than with respect to any property released in accordance with Article 6 hereof) (including, without limitation, the recordation of the real property assignments referred to therein), any supplements and any other requisite documents and with

respect to the execution and filing of any UCC financing statements and continuation statements as is necessary to maintain the validity and perfection of the Lien of the Deed of Trust and reciting the details of such action or (b) as of the date of such opinion, no such action is necessary to maintain the validity and perfection of the Lien of the Deed of Trust. Such Opinion of Counsel shall also describe the recording, filing, rerecording and refiling of the Deed of Trust, any supplements and any other requisite documents and the execution and filing of any UCC financing statements and continuation statements that will, in the opinion of such counsel, be required to maintain the validity and perfection of the Lien of the Deed of Trust with respect to the Mortgaged Property (other than with respect to any property released in accordance with Article 6 hereof) in existence as of the date of such opinion until September 1 in the following calendar year.

4.19 Performance of Obligations.

(a) Except as expressly contemplated herein or in another Operative Document, the Issuer will not take any action, and will use all reasonable efforts not to permit any action to be taken by any other Person, that would release any Person from any of such Person's material covenants or obligations to the Issuer under any Operative Document or that would result in the amendment, modification, hypothecation, subordination, termination or discharge of, or impair the validity, enforceability or effectiveness of, any such Operative Document.

(b) The Issuer shall punctually perform and observe in all material respects all of its obligations and agreements contained in the New Services Agreement and the New Master Purchase Agreement and the other Operative Documents.

(c) The Issuer will make all deposits into the Collection Account that the Issuer is required to make under the Operative Documents.

4.20 New Services Agreement; Operating Default; Termination of New Services Agreement.

(a) If an Operating Default shall have occurred and be continuing, the Trustee may, and, upon receipt of written instructions from the Majority Holders directing the Trustee to take such action, shall, give notice to Pacific Lumber or any other entity which is then the Services Provider of its intention to terminate the New Services Agreement in accordance with the terms thereof; provided that any such termination of the New Services Agreement will not become effective, and the Services Provider will not be relieved of its obligations under the New Services Agreement and will continue (so long as the Services Provider continues to perform in all material respects the services as contemplated by the New Services Agreement with the same standard of care and diligence as were observed before such Operating Default) to receive compensation for the services performed by the Services Provider thereunder (as provided in Section 7.2 of the New Services Agreement), unless and until a replacement Services Provider shall have entered into a New Services Agreement.

(b) Upon any termination of the New Services Agreement as contemplated by Section 4.20(a), the Issuer shall promptly solicit bids from not fewer than three Persons to serve as a replacement Services Provider or Services Providers.

4.21 New Master Purchase Agreement; Purchase Agreement Default; Termination of New Master Purchase Agreement.

(a) If a Purchase Agreement Default shall have occurred and be continuing, the Trustee may, and, upon receipt of written instructions from the Majority Holders directing the Trustee to take such action, shall, give notice to Pacific Lumber of its intention to terminate the New Master Purchase Agreement in accordance with the terms thereof.

(b) Upon any termination of the New Master Purchase Agreement as contemplated by Section 4.21(a), the Issuer shall promptly solicit new purchasers on such terms as it deems appropriate, consistent with Section 4.17 (as provided in Section 10.2 of the New Master Purchase Agreement).

4.22 [Distributions from Accounts. The Issuer shall not, directly or indirectly, instruct the Trustee to make payments or distributions from the Accounts except in accordance with this Indenture and the Deed of Trust.] *[Subject to negotiation, may be modified or deleted – see note in Article 5.]*

4.23 Status of the Deed of Trust. At all times (a) the Deed of Trust shall be a valid and binding obligation of the Issuer; and (b) the Lien of the Deed of Trust shall be a valid and perfected mortgage lien on or a valid and perfected security interest in the Mortgaged Property, subject to no Liens other than Permitted Encumbrances. The Issuer shall cause to be delivered to the Collateral Agent a Title Insurance Policy (and such endorsements or additional policies as may from time to time be required pursuant to the terms and provisions of Sections 6.1, 6.3 and 6.4 of this Indenture) insuring the Collateral Agent in the principal amount of the Timber Notes that the Deed of Trust is a valid Lien against the Company Owned Timberlands and Company Timber Rights, subject only to Permitted Encumbrances.

4.24 No Other Agreements. The Issuer shall not enter into any agreements other than (i) the Operative Documents, the Intercreditor Agreement, the New Additional Services Agreement, the Operating Agreement or as contemplated by the Operative Documents, the New Additional Services Agreement, or the Operating Agreement, (ii) agreements for or in connection with the sale of Company Timber, Company Owned Timberlands or Company Timber Rights as permitted by this Indenture and the Deed of Trust, (iii) trade accounts payable in the ordinary course of business, (iv) agreements for expenditures expressly contemplated by the Operative Documents or the New Additional Services Agreement, or the Operating Agreement, (v) agreements required by this Indenture or the Deed of Trust, (vi) if Pacific Lumber is no longer the Services Provider under the New Services Agreement, such agreements as may be necessary or appropriate to obtain the Services, (vii) agreements in the ordinary course of business related to actions permitted by Section 4.14 and not otherwise prohibited by this Indenture, (viii) agreements in respect of the acquisition of Additional Timber Properties or property that secures Nonrecourse Timber Acquisition Indebtedness, (ix) agreements related to the development, operation and sale of the Preserve Project and (x) such other agreements as are not, individually or in the aggregate, material to the business, financial condition or results of operations of the Issuer.

4.25 Relocation of Chief Executive Office, Etc. The Issuer shall not (a) relocate its chief executive office or principal place of business from the address indicated in the preamble to this Indenture or (b) maintain any of its books and records with respect to the Mortgaged Property at any location other than such office or 5847 San Felipe, Suite 2610, Houston, Texas 77057 unless (i) the Trustee shall have been provided with notice 30 days prior to such relocation and (ii) the Issuer shall have delivered an Opinion of Counsel to the Trustee that any filings necessary to continue the perfection of the Lien of the Deed of Trust have been accomplished. Except in connection with a merger or consolidation permitted under Section 4.13, the Issuer shall not change its name, or the name under which it does business, from “Scotia Pacific Company LLC.”

4.26 Timber Harvesting Plans, Etc. The Issuer shall (i) prepare and file, and use its best efforts to obtain approval of, Timber Harvesting Plans with respect to all Company Timber to be sold pursuant to the Purchase Agreements, (ii) not enter into any Purchase Agreement (other than the New Master Purchase Agreement) for the sale of stumpage unless the Company Timber to be cut pursuant thereto is subject to a valid and subsisting Timber Harvesting Plan or the Issuer reasonably believes that the purchaser thereunder (or the Issuer) has the capacity to obtain a Timber Harvesting Plan with respect thereto, (iii) at all times retain sufficient persons with requisite professional qualifications to prepare and file Timber Harvesting Plans, (iv) comply in all material respects with all applicable federal, state or local regulations or statutes relating to the Timber Harvesting Plans and the harvesting, cutting or severing of Timber, including laws relating to wildlife habitat and endangered species, and (v) prepare and file any 10 year plan, master plan, or any other development or strategic plan required to be prepared in respect of the Company Timber Property by any Governmental Authority.

4.27 [Intentionally Omitted]

4.28 GIS. The Issuer shall maintain the GIS (including updates thereto) in accordance with the past practices of the Issuer and Pacific Lumber.

4.29 [Intentionally Omitted]

Deed of Trust Covenants. The Issuer shall perform each of the covenants and agreements made by the Issuer in the Deed of Trust.

ARTICLE 5

[ACCOUNTS]

[Article 5 and related definitions subject to negotiation, and may be modified or deleted as appropriate in connection with payment mechanics, lien and payment subordination provisions to be negotiated with First Lien Lenders.]

5.1 Establishment of Accounts.

(a) There are hereby established with the Securities Intermediary segregated trust accounts to be maintained at the Corporate Trust Office of the Securities Intermediary (collectively, the “**Accounts**”), as follows: the Collection Account, the Expense Reserve, the

Indebtedness Reserve Account and the Payment Account. The funds in each of the Accounts shall be held subject to a Lien in favor of the Collateral Agent for the benefit of the Noteholders.

(b) Amounts on deposit in the Accounts shall be under the exclusive dominion and control of the Collateral Agent and shall be subject to withdrawal only as expressly provided herein.

5.2 [Initial Deposits.

(a) On the Closing Date, the Issuer shall deposit in the Expense Reserve an amount equal to \$_____ from the net proceeds from the sale of the Timber Notes.

(b) On the Closing Date, the Issuer shall deposit in the Indebtedness Reserve Account an amount equal to \$_____ from the net proceeds of the sale of the Timber Notes.] ***[To be negotiated and modified or deleted as appropriate.]***

5.3 Collection Account.

(a) All payments received by the Issuer in connection with the harvesting, severing, cutting or sale of Company Timber and all other cash Proceeds received by the Issuer of or from the Mortgaged Property (including, without limitation, insurance proceeds, condemnation awards, proceeds from sales of Company Timber, including Pay-as-You-Harvest Sales, Lump Sum Sales and Unallocated Payments, whether pursuant to the New Master Purchase Agreement or otherwise, proceeds from the sales of Company Owned Timberlands (other than the Preserve Project) or Company Timber Rights, and proceeds in respect of any Agreement Not to Cut, but excluding proceeds of any Title Insurance Policy) shall be deposited in accordance with the Intercreditor Agreement. Funds from time to time in the Collection Account, including income on Eligible Investments with respect to amounts held in the Collection Account, will be withdrawn from the Collection Account on each Monthly Deposit Date as provided in Section 5.3(c).

(b) Not later than each Monthly Certificate Delivery Date, the Issuer shall prepare and submit or cause to be prepared and submitted to the Collateral Agent and the Trustee a Certificate in substantially the form of Exhibit C hereto (a “**Monthly Trustee Certificate**”), containing information (except as otherwise provided herein) as of the Monthly Calculation Date next preceding such Monthly Certificate Delivery Date (which certificate shall give effect, on a pro forma basis, to deposits to be made to, and interest to be earned on, the Accounts to 11:00 A.M. New York City time on the next succeeding Monthly Deposit Date) and signed by a Responsible Officer of the Issuer, setting forth (among other things):

(i) the balance in the Collection Account, including interest earned on investments from the prior Monthly Deposit Date, and the balance in the Expense Reserve, indicating separately for each item (A) the actual amount as of the opening of business on such Monthly Certificate Delivery Date and (B) an estimated pro forma amount as of 11:00 A.M. New York City time on the next succeeding Monthly Deposit Date; and

(ii) the amount (if any), stated separately as to each Item (and as to each applicable provision of Section 5.3(d)), that in accordance with this Indenture is to be deposited in or withdrawn from the Collection Account, the Expense Reserve, and the Payment Account, as applicable, on such Monthly Deposit Date pursuant to each of Items (i) through (v), inclusive, of Section 5.3(c). Withdrawals from the Collection Account on a Monthly Deposit Date pursuant to Items (i) through (v), inclusive, of Section 5.3(c) (and the applicable provisions of Section 5.3(d)) are called the “**Collection Account Disbursement**” for such Monthly Deposit Date, and the amounts to be deposited or withdrawn, as part of the Collection Account Disbursement for such Monthly Deposit Date, are called “**Collection Account Disbursement Funds**” for such Monthly Deposit Date.

In preparing the Monthly Trustee Certificate to be delivered on a Monthly Certificate Delivery Date, the Issuer shall, with respect to the information referred to in Section 5.3(b)(i), be entitled to rely in good faith on information provided by the Trustee or the Collateral Agent and on reasonable estimates of interest to be earned on the Accounts.

(c) On each Monthly Deposit Date, from amounts on deposit as of 11:00 A.M. New York City time on such Monthly Deposit Date (after giving effect to deposits to the Collection Account on such Monthly Deposit Date), and in accordance with the Monthly Trustee Certificate delivered in respect of such Monthly Deposit Date, on which Monthly Trustee Certificate the Trustee and the Collateral Agent may rely without inquiry, the Collateral Agent shall make deposits in and withdrawals from the Accounts as set forth below (said deposits and withdrawals to be made in the order and priority set forth below):

(i) any amount necessary to cause the balance in the Expense Reserve to equal the greater of (I) the sum of (a) all accrued and unpaid Yield Taxes attributable to Company Timber which was cut, harvested, severed or sold during the month to which such Monthly Deposit Date relates and all prior Monthly Periods and (b) an amount equal to all expenses of a nature permitted to be paid from the Expense Reserve (including capital expenditures, personnel costs, the Services Fee and other amounts payable under the New Services Agreement) known or estimated by the Issuer to be payable prior to the next Monthly Deposit Date and (ii) \$_____ million shall, to the extent of the balance in the Collection Account, be withdrawn from the Collection Account and deposited in the Expense Reserve;

(ii) all unpaid Trustee’s Expenses, Collateral Agent Expenses incurred during or prior to the Monthly Period to which such Monthly Deposit Date relates shall, to the extent of the balance in the Collection Account not theretofore withdrawn, be withdrawn from the Collection Account and, at the direction of the Issuer, be paid to the Trustee or the Collateral Agent, as the case may be, by the Collateral Agent or, if the Issuer shall have previously paid such expenses, such amounts shall be withdrawn by the Collateral Agent from the Collection Account and disbursed at the direction of the Issuer to reimburse itself for such expenses;

(iii) an amount equal to the product of (i) the Targeted Monthly Deposit Amount for such Monthly Deposit Date and (ii) the Reinvestment Factor for such Monthly Deposit Date;

(iv) if (a) the aggregate expenses of a nature permitted to be paid from the Expense Reserve known or estimated by the Issuer to be payable through any date within the following six months exceeds (b) the sum of (I) the amount in the Expense Reserve and (ii) the amounts that the Issuer estimates will become available to the Issuer through such date for the payment of the expenses referred to in the preceding clause (a), an amount equal to the amount of such excess shall, to the extent of the balance in the Collection Account not theretofore withdrawn, be withdrawn from the Collection Account and deposited in the Expense Reserve; and

(v) all unreserved funds in the Collection Account as of such Monthly Deposit Date, after giving effect to all deposits and withdrawals pursuant to the preceding Items (i) through (iv), inclusive, on such Monthly Deposit Date (collectively, “**Excess Funds**”), shall be paid to or as directed by the Issuer in the Monthly Trustee Certificate delivered with respect to such Monthly Deposit Date, free and clear of the Lien of the Deed of Trust, except as otherwise provided in Section 5.3(d).

(d) Notwithstanding the foregoing:

(i) if a Cash Retention Event shall have occurred and be continuing on such Monthly Deposit Date, 75% of the Excess Funds (up to the amount necessary to pay in full any Timber Notes remaining outstanding) shall be deposited in the Payment Account on such Monthly Deposit Date and the remainder shall be applied as set forth in Section 5.3(c)(v);

(ii) if an Event of Default described in clauses (1), (2), (3), (4) (but, in the case of clause (4), only (A) with respect to Sections 4.8, 4.9, 4.11, 4.13, 4.23 and 4.25 of this Indenture and Sections 7.1(c), (d) and (e) and 7.2(a) and (b) of the Deed of Trust and (B) if the default giving rise to such Event of Default has, or, with the passage of time, would have, a Material Adverse Effect) and (7) of Section 7.1 has occurred and is continuing on such Monthly Deposit Date, all Excess Funds shall be deposited in the Payment Account on such Monthly Deposit Date;

(iii) if (A) the Trustee or the Noteholders shall have caused the acceleration of the Timber Notes as provided in Section 7.2(b) or 7.2(c) of this Indenture and such acceleration shall not have been rescinded pursuant to Section 7.2(d) or (B) an Event of Default under Sections 7.1(5), (6), or (8) has occurred and is continuing, and the Trustee, within the previous 60 days, has commenced a consent solicitation for an election to accelerate the Timber Notes by reason of such Event of Default, all Excess Funds shall be deposited in the Payment Account on such Monthly Deposit Date (either of the events described in the preceding clause (ii) or this clause (iii), a “**Trapping Event**”); and

(iv) if the Collateral Agent holds any Section 6.1 Notes as of such Monthly Deposit Date, (x) if the amount of Excess Funds (computed as if such Section 6.1 Notes

were cash), reduced by any amount required to be deposited in the Payment Account pursuant to Section 5.3(d)(i) equals or exceeds the amount of such Section 6.1 Notes, so long as no Trapping Event shall have occurred and be continuing, the Section 6.1 Notes shall be released to or as directed by the Issuer, free and clear of the Lien of the Deed of Trust, (y) if the amount of Excess Funds (computed as if the Section 6.1 Notes were cash), reduced by any amount required to be deposited in the Payment Account pursuant to Section 5.3(d)(i) is less than the amount of such Section 6.1 Notes, so long as no Trapping Event has occurred and is continuing, a portion of Section 6.1 Notes, in an amount up to the amount of Excess Funds (computed on such basis), reduced by any amount required to be deposited in the Payment Account pursuant to Section 5.3(d)(i) shall be released to or as directed by the Issuer, free and clear of the Lien of the Deed of Trust, and the balance of such Section 6.1 Notes shall be sold by the Issuer to Pacific Lumber for a cash purchase price equal to the aggregate principal balance thereof plus accrued interest thereon and (z) if any Trapping Event has occurred and is continuing, the Issuer shall sell to Pacific Lumber all Section 6.1 Notes then held by the Collateral Agent, for a cash purchase price equal to the aggregate principal amount of such Section 6.1 Notes plus accrued interest thereon. Section 6.1 Notes shall not be included in any calculation pursuant to Section 5.7 and, except for the calculation made pursuant to this Section 5.3(d)(iv), shall not be included in any calculation of Excess Funds. All proceeds received by the Collateral Agent from any sale of some or all of the Section 6.1 Notes to Pacific Lumber pursuant to this Section 5.3(d)(iv) shall be deposited into the Collection Account on such Monthly Deposit Date, for application as provided in Section 5.3.

For purposes of this Section 5.3(d) and of Section 5.7, the Trustee and the Collateral Agent may rely, without further inquiry, on statements contained in the Monthly Trustee Certificate in respect of any Monthly Deposit Date as to whether a Cash Retention Event, a Trapping Event or an Acceleration Event has occurred and is continuing on such Monthly Deposit Date.

(e) The Issuer shall clearly indicate on each page of the Monthly Trustee Certificate that such material is to be maintained as confidential. The Trustee and the Collateral Agent shall treat any Monthly Trustee Certificate designated as confidential material as confidential, and any Monthly Trustee Certificate so designated shall not be available to Noteholders. Notwithstanding the foregoing, nothing in this Section 5.3(e) shall prohibit the Trustee and the Collateral Agent from disclosing such Monthly Trustee Certificate to bank regulatory authorities (or otherwise as required by law), auditors, attorneys or other agents of the Trustee within the scope of their engagement.

5.4 Expense Reserve; Payment of Expenses.

(a) The Issuer may cause the Collateral Agent to withdraw from the Expense Reserve (to the extent of amounts then on deposit in said Expense Reserve), at any time or from time to time (so long as the Timber Notes shall not have been accelerated pursuant to Section 7.2(a) of this Indenture), amounts which the Issuer certifies to the Collateral Agent are required to pay (i) capital costs or expenses, including the Services Fee and other amounts payable pursuant to the New Services Agreement, with respect to the Mortgaged Property, (ii) Taxes, (iii) Personnel Costs and (iv) other reasonable and necessary expenses related to the business operations of the

Issuer or as contemplated by the Operative Documents; provided, however, that no withdrawals from the Expense Reserve may be effected pursuant to this Section 5.4 at any time when (x) the Timber Notes have been accelerated pursuant to Section 7.2(b) of this Indenture, (y) such acceleration has not been rescinded pursuant to Section 7.2(c) of this Indenture, and (z) there shall be in effect a written notice delivered by the Trustee to the Issuer, or by the Majority Holders to the Issuer and the Trustee, stating that withdrawals from the Expense Reserve pursuant to this Section 5.4 are prohibited. The Collateral Agent may rely on the Issuer's certification without inquiry.

(b) The Issuer shall be permitted to issue checks, drafts, or other instruments to third party payees against, and to request wire transfers to a payroll account from, the funds on deposit in the Expense Reserve for purposes permitted by paragraph (a) without the need for additional certifications; provided that the presentment for payment to the Trustee of any such check, draft or instrument, and any request for such a wire transfer, shall be deemed a representation and warranty by the Issuer that such expenditure is for such purpose (upon which the Collateral Agent may rely without inquiry).

5.5 Deemed Production. Upon receipt by the Issuer of (i) any proceeds in respect of a Lump Sum Sale pursuant to Section 6.1, (ii) any proceeds in respect of any sale of Company Owned Timberlands (other than the Preserve Project) or Company Timber Rights pursuant to Section 6.1, (iii) any payments in respect of any condemnation or taking for public use under the power of eminent domain of any of the Mortgaged Property (including any recovery in the Takings Litigation), (iv) any insurance proceeds in respect of any damage to or loss or diminution in value of or income from any of the Mortgaged Property, (v) any proceeds of any Agreement Not to Cut or (vi) any Up Front Payment in respect of a Pay-As-You-Harvest-Sale (an "**Unallocated Payment**"), the Issuer shall recognize Deemed Production in the Monthly Period in which such amount is received (or, if received prior to the Monthly Deposit Date or prior to 11:00 a.m. New York City time on the Monthly Deposit Date, in the next preceding Monthly Period). In the case of the preceding clauses (i) to (iv) (other than a recovery in the Takings Litigation), Deemed Production shall be in respect of the number of Mbfe (as set forth in an Officer's Certificate delivered to the Trustee) of Company Timber (or Company Timber located on the Company Owned Timberlands (other than the Preserve Project) or on the Company Timber Rights Property that is subject to the Company Timber Rights, as applicable) sold, condemned, taken, damaged or destroyed. In the case of clause (v), Deemed Production shall be in respect of the number of Mbfe (as set forth in an Officer's Certificate delivered to the Trustee) of Company Timber to which such Agreement Not to Cut relates. In the case of a recovery in the Takings Litigation, Deemed Production shall be in respect of the number of Mbfe (as set forth in an Officer's Certificate delivered to the Trustee) of Company Timber equal to the amount of such recovery divided by the then applicable SBE price per Mbfe of old growth redwood, size quality code 2, for tractor logging. In the case of the preceding clause (vi), Deemed Production shall be in respect of the number of Mbfe (as set forth in an Officer's Certificate delivered to the Trustee) of Company Timber to which such Pay-As-You Harvest Sale relates, multiplied by the percentage that such Up Front Payment represents of the entire contract. Each Officer's Certificate delivered pursuant to this Section 5.5 (other than in the case of a recovery in the Takings Litigation) shall be based upon the information in the GIS (in the case of clauses (iv), (v) and (vi), to the extent practicable) and such Certificate shall so state.

Upon the occurrence of any transaction which results in the Issuer's election to recognize Deemed Production pursuant to Section 6.4(iii)(B), the Issuer shall recognize Deemed Production in the Monthly Period in which such transaction occurs (or, if such transaction occurs on or prior to the Monthly Deposit Date, in the next preceding Monthly Period). Such Deemed Production shall be computed as set forth in Section (iii)(B).

5.6 Investment of Accounts, Etc. Amounts on deposit in the Collection Account and the Expense Reserve shall be invested by the Collateral Agent in such Eligible Investments specified in writing (or by oral instructions confirmed promptly thereafter in writing) by the Issuer that are consistent with the need to make withdrawals therefrom; provided, however, that the Expense Reserve may be maintained as a non-interest bearing account if the Collateral Agent shall reasonably determine that maintaining the Expense Reserve as an interest bearing account is administratively burdensome. Amounts deposited in the Payment Account pursuant to clause (iii) of Section 5.3(c) or otherwise shall be invested by the Collateral Agent in such Eligible Investments specified in writing (or by oral instructions confirmed promptly thereafter in writing) by the Issuer that are consistent with the need to make withdrawals therefrom pursuant to Section 5.7. Amounts on deposit in the Indebtedness Reserve Account shall be invested by the Collateral Agent in such Eligible Investments specified in writing (or by oral instructions confirmed promptly in writing) by the Issuer that are consistent with the Issuer's judgment as to the need to make withdrawals therefrom pursuant to Section 5.10. Amounts earned on funds in the Payment Account shall be deposited in the Payment Account, amounts earned on funds in the Expense Reserve shall be deposited in the Expense Reserve, amounts earned on funds in the Collection Account shall be deposited in the Collection Account, and amounts earned on funds in the Indebtedness Reserve Account shall be deposited in the Indebtedness Reserve Account.

5.7 Withdrawals and Deposits on Note Payment Dates.

(a) Prior to 1:00 p.m., New York City time, on each Note Payment Date, the Collateral Agent shall deposit in the Payment Account, from any funds available to the Issuer, any amounts that the Issuer, at its option, elects to deposit therein to pay or prepay interest or principal on the Timber Notes then due and payable or becoming due and payable on such Note Payment Date.

(b) On each Note Payment Date (after giving effect to the deposits to the Payment Account on such date pursuant to Section 5.7(a)), the Collateral Agent shall withdraw from the Payment Account all amounts then on deposit in the Payment Account and apply such funds in the following order of priority:

- (i) from amounts on deposit in the Payment Account, to the Holders of the Timber Notes, an amount equal to all interest accrued and unpaid on the Timber Notes as of such date, computed on the basis of a 360-day year of twelve 30-day months (including interest on past due principal and interest);
- (ii) to the Holders of the Timber Notes, to prepay principal of the Timber Notes; and
- (iii) to the Issuer, free and clear of the Lien of the Deed of Trust.

(c) If, on any Note Payment Date, there are insufficient funds in the Payment Account to pay to the Holders of Timber Notes all amounts pursuant to clause (i), Section 5.7(b), any partial payment on such Notes with respect to any such clause shall be made to the Holders pro rata in proportion to the unpaid principal amount of the outstanding Timber Notes held by such Holders on such date.

(d) Not less than two Business Days prior to each Note Payment Date, the Issuer shall prepare and submit to the Trustee and the Collateral Agent a certificate substantially in the form of Exhibit E hereto (a “**Note Payment Trustee Certificate**”). Each Note Payment Trustee Certificate shall set forth the following amounts and other information, each determined as of the Note Payment Date to which such Certificate relates:

(i) the amount of all accrued and unpaid interest on the Timber Notes on such Note Payment Date;

(ii) the respective amounts, if any, to be deposited on such Note Payment Date in the Payment Account pursuant to Sections 5.3(c), 5.3(d) and 5.7(a), in each case identifying the Account or other source from which each deposit is to be made and the amount of each deposit from each such Account or other source, together with the aggregate amount expected to be on deposit in the Payment Account on such Note Payment Date from such Accounts and other sources; and

(iii) the respective amounts required to be distributed from the Payment Account pursuant to clauses (i) through (ii) of Section 5.7(b).

Each Note Payment Trustee Certificate shall contain calculations in reasonable detail of the amounts required to be set forth therein and shall be signed by a Responsible Officer of the Issuer who shall certify as true and correct all information therein set forth. The Trustee may rely on such Note Payment Trustee Certificate without inquiry.

(e) The Issuer shall clearly indicate on each page of the Note Payment Trustee Certificate that such material is to be maintained as confidential. The Trustee and the Collateral Agent shall treat any Note Payment Trustee Certificate designated as confidential material as confidential, and any Note Payment Trustee Certificate so designated shall not be available to Noteholders. Notwithstanding the foregoing, nothing in this Section 5.7(e) shall prohibit the Trustee and the Collateral Agent from disclosing such Note Payment Trustee Certificate to bank regulatory authorities (or otherwise as required by law) or to auditors, attorneys or other agents of the Trustee within the scope of their engagement.

5.8 Title Insurance Policy Proceeds. All proceeds of any Title Insurance Policy received by the Trustee or the Collateral Agent shall be held in Trust by the Collateral Agent subject to the Lien of the Deed of Trust for the benefit of the Secured Parties and shall be invested in Eligible Investments specified in writing (or by oral instructions confirmed promptly thereafter in writing) by the Issuer until distributed as provided herein. All such funds shall be held in a segregated trust account to be established at the Corporate Trust Office of the Securities Intermediary. Amounts on deposit in such account shall be under the exclusive dominion and control of the Collateral Agent and shall be subject to withdrawal only as provided in the

following sentence. On the Note Payment Date next succeeding the receipt of any such proceeds, after deducting any expenses of the Trustee and the Collateral Agent therefrom, the Collateral Agent shall deposit such proceeds into the Payment Account and apply all such proceeds as provided in Section 5.7.

5.9 Releases from Indebtedness Reserve Account. The Issuer may cause the Collateral Agent to withdraw from the Indebtedness Reserve Account (to the extent of amounts then on deposit in the Indebtedness Reserve Account), at any time or from time to time (so long as the Timber Notes shall not have been accelerated pursuant to Section 7.2(a)), amounts to be used to pay (or to reimburse the Issuer for amounts paid for) interest and principal on the Indebtedness referred to in clause (u) of Section 4.9 (the “**Indebtedness Reserve Debt**”) if, after giving effect thereto and to any principal then being paid on the Indebtedness Reserve Debt, the amount in the Indebtedness Reserve Account would not be less than the outstanding principal amount of the Indebtedness Reserve Debt. Notwithstanding the foregoing, no releases from the Indebtedness Reserve Account may be effected pursuant to this Section 5.10 at any time when (x) the Timber Notes have been accelerated pursuant to Section 7.2(b), (y) such acceleration has not been rescinded pursuant to Section 7.2(c) and (z) there shall be in effect a written notice delivered by the Trustee to the Issuer, or by the Holders of a majority of outstanding principal amount of the Timber Notes to the Issuer and the Trustee, stating that releases from the Indebtedness Reserve Account are prohibited.]

ARTICLE 6

SALE OF COMPANY OWNED TIMBERLANDS OR COMPANY TIMBER RIGHTS; CERTAIN TIMBER SALES; SUBSTITUTIONS

6.1 Release of Company Owned Timberlands or Company Timber Rights.

(a) The Issuer shall have the right, at any time and from time to time, to sell or otherwise dispose of any of the Preserve Project, and the Trustee shall instruct the Collateral Agent to release the relevant Company Owned Timberlands from the Lien of the Deed of Trust, upon receipt by the Trustee and the Collateral Agent of a Release Notice (as hereinafter defined) requesting such release and describing the property to be so released, which Release Notice (upon which the Trustee and the Collateral Agent may rely without inquiry) shall be accompanied by an Officer's Certificate certifying that the Company Owned Timberlands identified in the Release Notice (as hereinafter defined) are part of the Preserve Project. For the avoidance of doubt, any proceeds of the sale or transfer of any part of the Preserve Project shall not be subject to the Lien of the Deed of Trust. *[To be revised to the extent necessary to comply with Trust Indenture Act requirements.]*

(b) The Issuer shall have the right, at any time and from time to time, to (i) sell or otherwise dispose of any of the Company Owned Timberlands not referred to in 6.1(a) or any Company Timber Rights or (ii) enter into any Lump Sum Sale, only upon compliance with the requirements and conditions of this Section 6.1(b), and the Trustee shall instruct the Collateral Agent to (A) in the case of clause (i), release the relevant Company Owned Timberlands or Company Timber Rights from the Lien of the Deed of Trust or (B) in the case of clause (ii), release the relevant Company Timber from the Lien of the Deed of Trust or grant the proposed

purchaser harvesting rights to the relevant Company Timber prior to the Lien of the Deed of Trust, upon receipt by the Trustee and the Collateral Agent of a Release Notice (as hereinafter defined) requesting such release and describing the property to be so released, which Release Notice (upon which the Trustee and the Collateral Agent may rely without inquiry) shall be accompanied by the following items (unless such item is by its terms required to be provided simultaneously with such release):

(i) If the fair value of the Company Owned Timberlands, Company Timber Rights or Company Timber, as the case may be, to be released exceeds \$[2,500,000], a Board Resolution requesting such release and authorizing an application to the Trustee and Collateral Agent therefor.

(ii) An Officer's Certificate, dated not more than 30 days prior to the date of the application for such release, stating substantially as follows:

(1) that, in the opinion of the signer, the security afforded by the Deed of Trust will not be impaired by such release in contravention of the provisions of this Indenture or the Deed of Trust;

(2) that the Issuer will dispose of the Company Owned Timberlands, Company Timber Rights or Company Timber, as the case may be, so to be released, for a consideration representing, in the opinion of the signer, its fair value, and that either (A) in the case of a Lump Sum Sale, that such consideration consists solely of cash, or (B) in the case of a sale of Company Owned Timberlands or Company Timber Rights other than as described in clause (C), that such consideration consists solely of cash or (C) in the case of a sale of Company Owned Timberlands or Company Timber Rights, if such consideration does not consist solely of cash, that (x) the non-cash portion of such consideration consists of one or more promissory note(s) or other instruments representing the deferred portion of such sales price which do not, in the aggregate, exceed the Maximum Non-Cash Consideration Amount and (y) attached to such Release Notice is a schedule which sets forth the basis for computation of the Maximum Non-Cash Consideration Amount which schedule, to the best knowledge of such signer, represents a true, complete and accurate computation of such amount and (z) the non-cash portion of such consideration shall be subjected to the Lien of the Deed of Trust concurrently with any such release;

(3) that (A) no Event of Default has occurred and is continuing and (B) in the case of a sale of Company Owned Timberlands or Company Timber Rights, if such consideration does not consist solely of cash, that no event or condition exists which, with the giving of notice or passage of time, or both, would constitute a Trapping Event as of the next succeeding Monthly Deposit Date;

(4) the fair value, in the opinion of the signer, of the Company Owned Timberlands, Company Timber Rights or Company Timber, as the case may be, to be released at the date of such application for release and, in the case of a sale of

Company Owned Timberlands or Company Timber Rights, if the consideration does not consist solely of cash, the fair value of the non-cash portion of such consideration;

(5) if such release relates to Company Owned Timberlands, that the remaining Company Owned Timberlands have sufficient access to other portions of the Company Owned Timberlands, public or private roads and other transportation structures for the continued use of such remaining Company Owned Timberlands in substantially the manner carried on by the Issuer prior to such release;

(6) if the fair value of the property to be released is in excess of the greater of (A) 5% of the then-remaining aggregate principal balance of all outstanding Timber Notes or (B) \$[45] million multiplied by the Lumber PPI Inflation Factor applicable on the date of such Officer's Certificate, (i) that approval of the Majority Holders has been obtained or (ii) that (x) such sale is made at a price no less than the Collateral Release Price; and

(7) that all conditions precedent and other requirements provided for in the Indenture and the Deed of Trust relating to the release of the Company Owned Timberlands, Company Timber Rights or Company Timber, as the case may be, in question have been complied with (or, with respect to conditions that cannot be satisfied until the time of such release, that such conditions will be satisfied at the time of such release, and specifying the same).

(iii) If (i) the fair value of the Company Owned Timberlands, Company Timber Rights or Company Timber, as the case may be, to be released exceeds \$[25,000] and [1%] of the aggregate principal balance of the Timber Notes or (ii) the fair value of the Company Owned Timberlands, Company Timber Rights or Company Timber, as the case may be, to be released, together with the fair value of all Company Owned Timberlands, Company Timber Rights and Company Timber theretofore released in such calendar year, exceeds [10%] of the aggregate principal balance of the Timber Notes, a certificate of an Independent Appraiser, stating:

(1) the fair value, in the opinion of the signer, of the Company Owned Timberlands, Company Timber Rights or Company Timber, as the case may be, to be released at the date of such application for release and, in the case of the sale of Company Owned Timberlands or Company Timber Rights, if such consideration does not consist solely of cash, the fair value of the non-cash portion of such consideration; and

(2) that, in the opinion of the signer, the security afforded by the Deed of Trust will not be impaired by such release in contravention of the terms of the Deed of Trust or the Indenture.

(iv) Simultaneously with such release, all cash proceeds from the Company Owned Timberlands, Company Timber Rights or Company Timber, as the case may be,

shall have been deposited in accordance with the Intercreditor Agreement and, in the case of the sale of Company Owned Timberlands or Company Timber Rights, if such consideration does not consist solely of cash, (i) the non-cash portion of such consideration shall consist of one or more promissory note(s) or other instruments representing the deferred portion of such sales price which do not, in the aggregate, exceed the Maximum Non-Cash Consideration Amount and (ii) all action necessary to grant to the Trustee a second priority perfected security interest in the non-cash portion of such consideration shall have been taken.

(v) Simultaneously with such release, an Opinion of Counsel, substantially to the effect that all conditions precedent and other requirements herein and under the Deed of Trust relating to the release of such Company Owned Timberlands, Company Timber Rights or Company Timber, as the case may be, have been complied with.

(vi) If such release relates to Company Owned Timberlands or Company Timber Rights, and the Company Owned Timberlands or Company Timber Rights to be released are less than all of the Company Owned Timberlands and Company Timber Rights, simultaneously with such release evidence that a title insurance company shall have committed to issue an endorsement to the Title Insurance Policy relating to the remaining Company Owned Timberlands and Company Timber Rights confirming that after such release such mortgagee's Title Insurance Policy insures against any loss that may be sustained by the Trustee or the Collateral Agent by reason of any loss of priority of the Lien of the Deed of Trust on the remaining Company Owned Timberlands and Company Timber Rights occasioned by the release of the Company Owned Timberlands or Company Timber Rights being released.

In connection with any such release, the Issuer shall execute, deliver and record or file and obtain such instruments as the Collateral Agent and the Trustee may reasonably require.

The Issuer shall exercise its rights under this Section by delivery to the Collateral Agent and the Trustee of a notice (each, a "**Release Notice**"), which shall refer to this Section, describe with particularity the items of property proposed to be covered by the release and be accompanied by a form of the instruments proposed to give effect to the release in form for execution by the Collateral Agent and/or the Deed of Trust Trustee (the "**Release Documents**"). Upon compliance with this Section 6.1, the Issuer shall direct the Collateral Agent and/or the Deed of Trust Trustee to execute, acknowledge (if applicable) and deliver to the Issuer a counterpart of the Release Documents within two Business Days after receipt by the Collateral Agent and the Trustee of a Release Notice and the satisfaction of the requirements of this Section.

[Any promissory notes or instruments representing the deferred portion of the sales price of Company Owned Timberlands (other than the Preserve Project) or Company Timber Rights sold pursuant to this Section 6.1 (the "**Section 6.1 Notes**") shall be registered in the name of, or be payable to the order of, or be assigned to or endorsed to the order of the Collateral Agent, as collateral agent for the benefit of the Secured Parties, and shall be held by the Collateral Agent subject to the Lien of the Deed of Trust, until the next succeeding Monthly Deposit Date. On such Monthly Deposit Date, the Section 6.1 Notes shall be disposed of by the Collateral Agent in

the manner provided in Section 5.3(d)(iv). All payments of principal of, interest on, or other amounts payable with respect to any Section 6.1 Notes received by the Collateral Agent shall be deposited in accordance with the Intercreditor Agreement. The Collateral Agent is authorized to take such actions as are necessary and appropriate to transfer the Section 6.1 Notes as provided in Section 5.3(d)(iv).][*Subject to negotiation and modification in connection with allocation of funds under the Intercreditor Agreement.*]

Any releases of Company Owned Timberlands, Company Timber Rights or Company Timber, as the case may be, made in compliance with the provisions of this Section 6.1 shall be deemed not to impair the Lien of the Deed of Trust.

If any of the non-cash portion of any consideration received for the release of Company Owned Timberlands or Company Timber Rights consists of real property, then such release shall be governed by Section 6.4 and not this Section 6.1.

6.2 Sale of Company Timber. Nothing in Section or in the Deed of Trust shall be deemed to prohibit the Issuer from selling Company Timber pursuant to Pay-as-You-Harvest Sales in the manner and to the extent contemplated by this Indenture and the Deed of Trust (including, without limitation, pursuant to the New Master Purchase Agreement), which sales may be conducted without any release or consent by the Collateral Agent or Trustee.

6.3 Sale of Pacific Lumber Timber Rights Property. Nothing in this Indenture or the Deed of Trust shall be deemed to prohibit the Issuer from selling or otherwise disposing of any Pacific Lumber Timber Rights Property, and the Trustee shall instruct the Collateral Agent to release the relevant Pacific Lumber Timber Rights Property from the Lien of the Deed of Trust upon receipt by the Trustee and the Collateral Agent of a Pacific Lumber Timber Rights Property Release Notice (as hereinafter defined) requesting such release and describing the property to be so released, which Pacific Lumber Timber Rights Property Release Notice (upon which the Trustee and the Collateral Agent may rely without inquiry) shall be accompanied by the following items (unless such item is by its terms required to be provided simultaneously with such release):

(i) An Officer's Certificate, dated not more than 30 days prior to the date of the application for such release, stating substantially as follows:

(1) that the remaining Company Owned Timberlands have sufficient access to other portions of the Company Owned Timberlands, public or private roads and other transportation structures for the continued use of such remaining Company Owned Timberlands in substantially the manner carried on by the Issuer prior to such release;

(2) that the Company Owned Timberlands to be released consist solely of Pacific Lumber Timber Rights Property (or, if such Company Owned Timberlands consist partially of Pacific Lumber Timber Rights Property, that the conditions set forth in Section 6.1 or 6.4 with respect to the portion of such Company Owned Timberlands which is not Pacific Lumber Timber Rights Property have been satisfied) (or, with respect to conditions that cannot be satisfied until the time of such release, that such conditions will be satisfied at the time of such release, and specifying the same); and

(3) that all conditions precedent and other requirements provided for in the Indenture and the Deed of Trust relating to the release of such Pacific Lumber Timber Rights Property have been complied with (or, with respect to conditions that cannot be satisfied until the time of such release, that such conditions will be satisfied at the time of such release, and specifying the same).

(ii) Simultaneously with such release, evidence that a title insurance company shall have committed to issue an endorsement to the Title Insurance Policy relating to the remaining Company Owned Timberlands and Company Timber Rights confirming that after such release such Title Insurance Policy insures against any loss that may be sustained by the Trustee or the Collateral Agent by reason of any loss of priority of the Lien of the Deed of Trust on any of the remaining Company Owned Timberlands and Company Timber Rights occasioned by the release of the Company Owned Timberlands being released.

The Issuer shall exercise its rights under this Section by delivery to the Collateral Agent and the Trustee of a notice (each a **“Pacific Lumber Timber Rights Property Release Notice”**), which shall refer to this Section, describe with particularity the items of property proposed to be covered by the release and be accompanied by a form of the instruments proposed to give effect to the release in form for execution by the Collateral Agent and/or the Deed of Trust Trustee (the **“Pacific Lumber Timber Rights Property Release Documents”**). Upon compliance with this Section 6.3, the Issuer shall direct the Collateral Agent and/or the Deed of Trust Trustee to execute, acknowledge (if applicable) and deliver to the Issuer a counterpart of the Pacific Lumber Timber Rights Property Release Documents within two Business Days after receipt by the Collateral Agent and the Trustee of a Pacific Lumber Timber Rights Property Release Notice and the satisfaction of the requirements of this Section.

Any releases of Pacific Lumber Timber Rights Property made in compliance with the provisions of this Section 6.3 shall be deemed not to impair the Lien of the Deed of Trust.

The proceeds of a sale or other disposition of Pacific Lumber Timber Rights Property conducted in accordance with the provisions of this Section 6.3 shall be payable to the Issuer or as the Issuer may direct, free and clear of the Lien of the Deed of Trust.

6.4 Release of Company Owned Timberlands or Company Timber Rights Upon Substitution of Property. The Issuer shall have the right, at any time and from time to time, to obtain the release of Company Owned Timberlands (or timber rights thereon) or Company Timber Rights from the Lien of the Deed of Trust upon the addition of Substitute Timber Property and compliance with the requirements and conditions of this Section 6.4, and the Trustee shall instruct the Collateral Agent to release the same from the Lien of the Deed of Trust upon receipt by the Trustee and the Collateral Agent of a Release and Substitution Notice (as hereinafter defined) requesting such release and describing the property to be released and the Substitute Timber Property, which Release and Substitution Notice (upon which the Trustee and the Collateral Agent may rely without inquiry) shall be accompanied by the following items (unless such item is by its terms required to be provided simultaneously with such release):

(a) If the fair value of the Company Owned Timberlands (or timber rights thereon) or Company Timber Rights, as the case may be, to be released exceeds \$[2,500,000], a Board Resolution requesting such release and substitution and authorizing an application to the Trustee and the Collateral Agent therefor.

(b) An Officer's Certificate, dated not more than 30 days prior to the date of the application for such release and substitution, stating substantially as follows:

(i) that, in the opinion of the signer, after giving effect to the release and substitution, the security afforded by the Deed of Trust will not be impaired by such release and substitution in contravention of the provisions of this Indenture or the Deed of Trust;

(ii) that no Event of Default has occurred and is continuing;

(iii) the fair value, in the opinion of the signer, of the Company Owned Timberlands (or timber rights thereon) or Company Timber Rights to be released at the date of such application for release;

(iv) the fair value, in the opinion of the signer, of the Substitute Timber Property to be subjected to the Lien of the Deed of Trust;

(v) that the consideration to be received by the Issuer consists solely of Substitute Timber Property, or a combination of cash and Substitute Timber Property;

(vi) that the remaining Company Owned Timberlands (after giving effect to the addition of the Substitute Timber Property) have sufficient access to other Company Owned Timberlands, public or private roads and other transportation structures for the continued use of such remaining Company Owned Timberlands in substantially the manner carried on by the Issuer prior to such release;

(vii) if the fair value of the Company Owned Timberlands (or timber rights thereon) or Company Timber Rights to be released is in excess of the greater of (A) 5% of the then-remaining aggregate principal balance of all outstanding Timber Notes or (B) \$[45] million multiplied by the Lumber PPI Inflation Factor applicable on the date of such Officer's Certificate, that approval of the Majority Holders has been obtained;

(viii) that the signer knows of no reason why a Timber Harvesting Plan with respect to the Substitute Timber Property should not be available on terms not materially more onerous than would have been the case with respect to the released property;

(ix) that all conditions precedent and other requirements provided for in this Indenture and the Deed of Trust relating to the release of the Company Owned Timberlands (or timber rights thereon) or Company Timber Rights and substitution of the Substitute Timber Property in question have been complied with (or, with respect to conditions that cannot be satisfied until the time of such release and substitution, that such conditions will be satisfied at the time of such release and substitution, and specifying the same); and

(x) in the event that any of the Substitute Timber Property consists of timber rights, that such timber rights consist of the ownership of, and (subject to compliance with applicable law) the right, in perpetuity or until at least December 31, 2048, to harvest, all trees and timber (including standing timber) then located or thereafter growing in the soil of the timberlands which are subject to such timber rights.

(c) If (i) the fair value of the Company Owned Timberlands (or timber rights thereon) or Company Timber Rights to be released exceeds \$[25,000] and [1%] of the aggregate principal balance of the Timber Notes or (ii) the fair value of the Company Owned Timberlands (or timber rights thereon) or Company Timber Rights to be released, together with the fair value of all Company Owned Timberlands (or timber rights thereon), Company Timber Rights and Company Timber theretofore released in such calendar year, exceeds [10%] of the aggregate principal balance of the Timber Notes, a certificate of an Independent Appraiser, stating:

(1) the fair value, in the opinion of the signer, of (x) the Company Owned Timberlands (or timber rights thereon) or Company Timber Rights to be released and (y) the Substitute Timber Property to be substituted, in each case at the date of such application for release; and

(2) that, in the opinion of the signer, the security afforded by the Deed of Trust will not be impaired by such release and substitution in contravention of the terms of the Deed of Trust or this Indenture.

(d) The then fair value of the Substitute Timber Property, together with any cash consideration received, shall be at least equal to the then fair value of the Company Owned Timberlands (or timber rights thereon) or Company Timber Rights to be released as evidenced by the certificates delivered pursuant to clauses (b) and/or (c) above.

(e) Simultaneously with any release and substitution, all actions necessary to grant to the Collateral Agent a second priority perfected Lien on the Substitute Timber Property (subject only to Permitted Encumbrances) shall have been taken, and if any cash consideration is received, all such cash shall have been deposited in accordance with the Intercreditor Agreement.

(f) Simultaneously with such release an Opinion of Counsel, substantially to the effect that all conditions precedent and other requirements herein and under the Deed of Trust relating to the release of, and substitution for, such Company Owned Timberlands (or timber rights thereon) or Company Timber Rights have been complied with.

(g) Simultaneously with such release, evidence that a title company shall have committed to issue an endorsement to the Title Insurance Policy relating to the remaining Company Owned Timberlands and Company Timber Rights confirming that after such release such Title Insurance Policy insures against any loss that may be sustained by the Trustee or the Collateral Agent by reason of any loss of priority of the Lien of the Deed of Trust on the remaining Company Owned Timberlands or Company Timber Rights occasioned by the release of the Company Owned Timberlands or Company Timber Rights being released and further insuring, by endorsement to the existing Title Insurance Policy or by issuance of a new Title Insurance Policy in an amount equal to the lesser of (i) the fair value of the Substitute Timber

Property or (ii) the then outstanding principal balance of the Timber Notes, that the Lien of the Deed of Trust is a second priority perfected Lien upon the Substitute Timber Property, subject only to Permitted Encumbrances, and that the Substitute Timber Property is in compliance with the California Subdivision Map Act.

In connection with any such release, the Issuer shall execute, deliver and record or file and obtain such instruments as the Collateral Agent and the Trustee may reasonably require including, without limitation, an amendment to the Deed of Trust subjecting the Substitute Timber Property to the Lien thereof.

The Issuer shall exercise its rights under this Section 6.4 by delivery to the Collateral Agent and the Trustee of a notice (each, a “**Release and Substitution Notice**”), which shall refer to this Section, describe with particularity the items of property proposed to be covered by the release and proposed to be substituted for such released property and be accompanied by a form of the instruments proposed to give effect to the release and substitution in form for execution by the Collateral Agent and/or the Deed of Trust Trustee (the “**Release and Substitution Documents**”). Upon compliance with this Section 6.4, the Issuer shall direct the Collateral Agent and/or the Deed of Trust Trustee to execute, acknowledge (if applicable) and deliver to the Issuer a counterpart of the Release and Substitution Documents within two Business Days after receipt by the Collateral Agent and the Trustee of a Release and Substitution Notice and the satisfaction of the requirements of this Section. For purposes of this Section 6.4, timber rights on Company Owned Timberlands means the ownership of, and (subject to compliance with applicable law) the right in perpetuity (or for a period of time) to harvest, all or a portion of the trees and timber, including standing timber and crops, then located or thereafter growing in the soil of the Company Owned Timberlands which are subject to such timber rights.

Any releases and substitutions of Company Owned Timberlands (or timber rights thereon) or Company Timber Rights made in compliance with the provisions of this Section 6.4 shall be deemed not to impair the Lien of the Deed of Trust.

In addition to the foregoing requirements, no release and substitution of Company Owned Timberlands (or timber rights thereon) or Company Timber Rights shall be permitted pursuant to this Section 6.4 unless:

- (i) the aggregate fair value of all Company Owned Timberlands (or timber rights thereon) and Company Timber Rights released or to be released in accordance with this Section 6.4 at any time during the term of the Timber Notes would not exceed \$[90,000,000] multiplied by the Lumber PPI Inflation Factor then applicable (unless the Issuer shall have obtained approval of the Majority Holders);
- (ii) the types of timber contained in the Substitute Timber Property are of the same types as contained on the Company Owned Timberlands (or timber rights thereon) or Company Timber Rights to be released or are otherwise included on the Structuring Schedule; and
- (iii) either (A) the number of Mbfe of timber on the Substitute Timber Property being acquired (as indicated in an Officer’s Certificate) is at least equal to the number of

Mbfe of Company Timber on the Company Owned Timberlands (or in respect of the timber rights thereon), or subject to the Company Timber Rights, being released (as indicated in an Officer's Certificate) (or, if Company Owned Timberlands (or timber rights thereon) or Company Timber Rights are being released in exchange for Substitute Timber Property and cash, the number of Mbfe of timber on the Substitute Timber Property being acquired (as indicated in an Officer's Certificate) is at least equal to the number of Mbfe of Company Timber on the Company Owned Timberlands (or in respect of the timber rights thereon), or subject to the Company Timber Rights, being released (as indicated in an Officer's Certificate) multiplied by a fraction, the numerator of which is the fair value of the Substitute Timber Property to be acquired and the denominator of which is the sum of the fair value of the Substitute Timber Property to be acquired and the cash to be received) or (B) the Issuer elects (in an Officer's Certificate) to recognize Deemed Production in respect of a number of Mbfe of Company Timber equal to the excess, if any, of the number of Mbfe of Company Timber on the Company Owned Timberlands (or in respect of the timber rights thereon), or subject to the Company Timber Rights, being released (or, if Company Owned Timberlands (or the timber rights thereon) or Company Timber Rights are being released in exchange for Substitute Timber Property and cash, equal to the excess, if any, of the number of Mbfe of Company Timber on the Company Owned Timberlands (or in respect of the timber rights thereon), or subject to the Company Timber Rights, being released multiplied by a fraction, the numerator of which is the fair value of the Substitute Timber Property to be acquired and the denominator of which is the sum of the fair value of the Substitute Timber Property to be acquired and the cash to be received) over the number of Mbfe of timber on the Substitute Timber Property being acquired or (C) the value of the Company Owned Timberlands (or timber rights thereon) or Company Timber Rights being released is less than \$[100,000] multiplied by the Lumber PPI Inflation Factor then applicable. The Officer's Certificate delivered pursuant to the preceding clauses (A) and (B) may be based upon good faith estimates of a Responsible Officer of the Issuer of the Mbfe of Company Timber on the Substitute Timber Property to be acquired.

For the purposes of Sections 6.1(b)(iii) and 6.4(c), the fair value of Company Owned Timberlands (or timber rights thereon), Company Timber Rights and Company Timber released in any calendar year shall include (i) all Lump Sum Sales pursuant to Section 6.1, (ii) all sales of Company Owned Timberlands and Company Timber Rights pursuant to Section 6.1 and (iii) all releases and substitutions pursuant to Section 6.4, but shall exclude (A) all sales or other dispositions of Pacific Lumber Timber Rights Property pursuant to Section 6.3 and (B) all sales of Company Timber pursuant to Section 6.2.

6.5 Trust Indenture Act Requirements. The release of (i) any of the Company Owned Timberlands (or timber rights thereon) or Company Timber Rights or (ii) Company Timber pursuant to a Lump Sum Sale, from the Lien of the Deed of Trust will not be deemed to impair the Lien of the Deed of Trust in contravention of the provisions hereof and thereof if and to the extent such Company Owned Timberlands (or timber rights thereon), Company Timber Rights or Company Timber, as the case may be, is released pursuant to the terms of this Indenture and the Deed of Trust. The Trustee and each of the Noteholders acknowledge that a release of Company Owned Timberlands (or timber rights thereon), Company Timber Rights or Company Timber, as the case may be, in accordance with the terms of the Deed of Trust and this

Indenture will not be deemed for any purpose to be an impairment of the Lien of the Deed of Trust in contravention of the terms of this Indenture and the Deed of Trust. To the extent applicable, without limitation, the Issuer and each obligor on the Timber Notes shall cause TIA Section 314(d) relating to the release of property from the Lien of the Deed of Trust to be complied with. Any certificate or opinion required by TIA Section 314(d) may be made by a Responsible Officer of the Issuer, except in cases in which TIA Section 314(d) requires that such certificate or opinion be made by an Independent person.

ARTICLE 7

DEFAULTS AND REMEDIES

7.1 Events of Default. “Event of Default” with respect to the Timber Notes, wherever used herein, means any one of the following events:

- (1) default in the payment of principal of any Timber Note on the Final Maturity Date;
- (2) default in the payment of any Regular Interest or Default Interest on any Timber Note when the same becomes due and payable and the continuation of such default for a period of five days;
- (3) the sale, transfer, conveyance, pledge or hypothecation of any membership interest in the Issuer or any interest therein by Pacific Lumber (other than any transfer incidental to a merger or sale or other disposition of substantially all of the assets of Pacific Lumber (or substantially all of the assets of Pacific Lumber excluding its interest in Salmon Creek) permitted by Section 4.2 of the New Services Agreement or a transfer incidental to a merger, consolidation or transfer of assets of the Issuer permitted by Section 4.13 of this Indenture).
- (4) default in the performance or observance of any covenant or agreement of the Issuer set forth in Sections 4.4(b), (c), (d) and (e), 4.8, 4.9, 4.10, 4.11, 4.12, 4.13, 4.14, 4.15, 4.17, 4.20, 4.21, 4.22, 4.23, 4.24, 4.25 and 4.26 of this Indenture or Sections 7.1(c), (d), (e), (g) and (h), and 7.2(a), (b) and (c) of the Deed of Trust (and, in each such case, to the extent such default is remediable, such default shall continue for a period of 15 days following written notice from the Trustee, or from the Holders of 25% in aggregate principal amount of the outstanding Timber Notes);
- (5) default in the observance or performance of any covenant or agreement of the Issuer made in this Indenture or the Deed of Trust (other than a covenant or agreement, a default in the observance or performance of which is elsewhere in this Section 7.1 specifically dealt with); or the Services Provider shall default in the observance or performance of any covenant or agreement made by it in the New Services Agreement; or Pacific Lumber shall default in the observance of any covenant or agreement made by it in the New Master Purchase Agreement or in any Conveyance Document (and, in each such case, to the extent such default is remediable, such default

shall continue for a period of 30 days following written notice from the Trustee, or from the Holders of 25% in aggregate principal amount of the outstanding Timber Notes);

(6) any representation or warranty of the Issuer made in this Indenture, the Deed of Trust or any other Operative Document, or any representation or warranty made by Pacific Lumber in any Operative Document, or, in each such case, in any certificate or other writing delivered pursuant hereto or thereto, shall prove to have been incorrect in any material respect as of the time when the same was made (and, in each such case, to the extent such default is remediable, such default shall continue for a period of 30 days following written notice from the Trustee, or from the Holders of 25% in aggregate principal amount of the outstanding Timber Notes);

(7) the Issuer shall become Bankrupt or Insolvent; or

(8) a final judgment or judgments for the payment of money in excess of \$[500,000] in the aggregate shall be rendered against the Issuer by one or more courts, administrative tribunals or other bodies having jurisdiction over the Issuer and the same shall not be discharged (or provision shall not be made for such discharge), or a stay of execution thereof shall not be procured, within 30 days from the date of entry thereof and the Issuer shall not, within said period of 30 days, or such longer period during which execution of the same shall have been stayed, appeal therefrom and cause the execution thereof to be stayed during such appeal.

7.2 Acceleration of Maturity; Rescission and Annulment.

(a) If an Event of Default under Section 7.1(7) shall occur, an amount equal to all amounts payable with respect to the Timber Notes shall, without any demand, presentment or notice (all of which are expressly waived by the Issuer), become immediately due and payable.

(b) If any Event of Default under Sections 7.1(1) or (2) shall occur and be continuing, the Trustee may, or, if the Holders of 25% in aggregate outstanding principal amount of the Timber Notes so elect, shall, declare all amounts payable with respect to the Timber Notes to be immediately due and payable, and upon any such declaration of acceleration such amount shall become immediately due and payable.

(c) If an Event of Default under Sections 7.1(3), (4), (5), (6), or (8) shall occur and be continuing, if the Majority Holders so elect, the Trustee shall declare all amounts payable with respect to the Timber Notes to be immediately due and payable, and upon any such declaration of acceleration such amount shall become immediately due and payable.

(d) At any time after such declaration of acceleration of maturity has been made (other than a declaration approved by the Noteholders of 100% in aggregate principal amount of outstanding Timber Notes) and before a judgment or decree for payment of the money due has been obtained by the Trustee as hereinafter in this Article 7 provided, the Majority Holders, by written notice to the Issuer and the Trustee, may rescind and annul such declaration of acceleration and its consequences if:

(1) the Issuer has paid or deposited with the Trustee a sum sufficient to pay:

(x) all payments of principal of and interest on the Timber Notes and all other amounts that would then be due and payable hereunder or upon the Timber Notes otherwise than by virtue of such declaration of acceleration; and

(y) all sums paid or advanced by the Trustee and the Collateral Agent hereunder or under the Deed of Trust on behalf of the Issuer and the reasonable compensation, expenses, disbursements and advances of the Trustee and the Collateral Agent and their agents and counsel; and

(2) all Events of Default, other than the nonpayment of the principal of the Timber Notes that has become due and payable solely by such declaration of acceleration, have been cured or waived.

(e) No such rescission and annulment under this Indenture shall affect any subsequent default or impair any right consequent thereon.

7.3 Collection of Indebtedness and Suits for Enforcement by Trustee.

(a) The Issuer covenants that if the Timber Notes have been declared due and payable pursuant to paragraph (b) or (c) of Section 7.2 and such declaration has not been rescinded and annulled pursuant to Section 7.2(d), the Issuer will, upon demand of the Trustee, pay to the Trustee, for the benefit of the Noteholders, the whole amount then due and payable on all outstanding Timber Notes and in addition thereto, such further amount as shall be sufficient to cover the costs and expenses of collection, including, without limitation, the reasonable compensation, expenses, disbursements and advances of the Trustee and the Collateral Agent and their agents and counsel.

(b) If the Issuer fails forthwith to pay such amounts upon such demand, the Trustee, in its own name and as trustee of an express trust, may exercise all such rights as are provided under this Indenture and the Deed of Trust, may institute a Proceeding in any court of competent jurisdiction for the collection of the sums so due and unpaid, and may prosecute such Proceeding to judgment or final decree, and may enforce the same against the Issuer or other obligor upon such Timber Notes and collect in the manner provided by law out of the property of the Issuer or other obligor upon such Timber Notes, wherever situated, the monies adjudged or decreed to be payable.

(c) If an Event of Default occurs and is continuing, the Trustee may, as more particularly provided in Section 7.4, proceed to protect and enforce its rights and the rights of the Noteholders, by such appropriate Proceedings as the Trustee shall deem most effective to protect and enforce any such rights, whether for the specific enforcement of any covenant or agreement in this Indenture or the Deed of Trust or in aid of the exercise of any power granted herein or to enforce any other proper remedy or legal or equitable right vested in the Trustee by this Indenture or the Deed of Trust or by law.

(d) In any Proceeding brought by the Trustee, the Trustee shall be held to represent the Noteholders and it shall not be necessary for any such Noteholder to be a party to any such Proceeding.

7.4 **Trustee May File Proofs of Claim.**

(a) Without limiting the rights of any Noteholder to do the same, the Trustee, in case of the pendency of any receivership, insolvency, liquidation, bankruptcy, reorganization, arrangement, adjustment, composition or other similar Proceeding relating to the Issuer or any other obligor upon the Timber Notes or to the Mortgaged Property or any Person having or claiming any ownership interest in the Mortgaged Property, or to the creditors or property of the Issuer or such other obligor or Person (irrespective of whether the principal of any Timber Notes shall then be due and payable as therein expressed or by declaration or otherwise and irrespective of whether the Trustee shall have made any demand pursuant to the provisions of this Section 7.4), shall be entitled and empowered, by intervention in such Proceeding or otherwise:

(1) to file and prove a claim or claims for the aggregate amount of principal, interest owing and unpaid in respect of the Timber Notes and to file such other papers or documents as may be necessary or advisable in order to have the claims of the Trustee (including, without limitation, any claim for reasonable compensation, expenses, disbursements and advances of the Trustee and each predecessor Trustee, and their respective agents, attorneys and counsel, except as a result of negligence or bad faith) and of the Noteholders allowed in such Proceeding; and

(2) to collect and receive any monies or other property payable or deliverable on any such claims and to distribute the same, and any custodian, receiver, assignee, trustee, liquidator, sequestrator or similar official in any such judicial proceeding is hereby authorized by each Noteholder to make such payments to the Trustee and, in the event that the Trustee shall consent to the making of such payments directly to the Noteholders, to pay the Trustee and the Collateral Agent any amount due to either of them for the reasonable compensation, expenses, disbursements and advances of the Trustee and the Collateral Agent, their agents and counsel, and any other amounts due the Trustee and the Collateral Agent under Section 9.7.

(b) Nothing herein contained shall be deemed to authorize the Trustee to authorize or consent to or vote for or accept or adopt on behalf of any Noteholder any plan of reorganization, arrangement, adjustment or composition affecting the Timber Notes or the rights of any Noteholder thereof or to authorize the Trustee to vote in respect of the claim of any Noteholder in any such proceeding or to vote for the election of a trustee in bankruptcy or similar person.

7.5 Trustee May Enforce Claims Without Possession of Notes. All rights of action and of asserting claims under this Indenture or under any of the Timber Notes may be enforced by the Trustee without the possession of any of the Timber Notes or the production thereof in any Proceeding, and any such Proceeding instituted by the Trustee shall be brought in its own name as trustee of an express trust, and any recovery of judgment shall, after provision for the payment of the reasonable expenses, disbursements and compensation of the Trustee, each predecessor Trustee and their respective agents and attorneys, be for the ratable benefit of the Noteholders and shall be applied in accordance with Section 7.7.

7.6 Remedies. If an Event of Default shall have occurred and be continuing, the Trustee may institute a Proceeding in its own name and as trustee of an express trust for the

collection of all amounts then payable on the Timber Notes or under this Indenture or the Deed of Trust with respect thereto, and exercise all remedies under this Indenture or the Deed of Trust, whether by declaration or otherwise, enforce any judgment obtained and collect from the Issuer and any other obligor upon such Timber Notes monies adjudged due.

7.7 Application of Money Collected. On any date when the Timber Notes have been declared due and payable during the continuance of an Event of Default and such declaration and its consequences have not been rescinded and annulled (a “**Post-Acceleration Date**”), any monies collected by the Trustee pursuant to this Article Seven or otherwise with respect to the Timber Notes shall be deposited into the Payment Account and shall be applied, first, to amounts described in Section 9.7 (exclusive of indemnification payments), second, to the payment of interest due on the Timber Notes pro rata in proportion to the interest due on such Notes, third, to the payment of principal on the Timber Notes pro rata in proportion to the principal due on such Notes, fourth, to the payment of indemnification payments under Section 9.7 and, fifth, to the Issuer, free and clear of the Lien of the Deed of Trust.

7.8 Limitation of Suits. No Holder of any Timber Note shall have any right to institute any Proceeding with respect to this Indenture, the Timber Notes or the Deed of Trust, or for the appointment of a receiver or trustee, or for any other remedy hereunder, or under the Timber Notes or the Deed of Trust, unless:

- (a) such Noteholder has previously given written notice to the Trustee of a continuing Event of Default;
- (b) the holders of not less than 25% in aggregate outstanding principal amount of Timber Notes, shall have made a written request to the Trustee to institute a proceeding in respect of such Event of Default in its own name hereunder or under the Deed of Trust;
- (c) such holders have offered to the Trustee reasonable indemnity against the costs, expenses and liabilities to be incurred in complying with such request;
- (d) the Trustee for 60 days after its receipt of such notice, request and offer of indemnity has failed to institute such Proceeding; and
- (e) no direction inconsistent with such written request has been given to the Trustee during such 60-day period by the Majority Holders.

A Noteholder may not use this Indenture to prejudice the rights of another Noteholder or to obtain a preference or priority over such other Noteholder.

7.9 Unconditional Rights of Noteholders To Receive Principal and Interest. Notwithstanding any other provisions in this Indenture or the Deed of Trust, the Holder of any Timber Note shall have the right, which is absolute and unconditional, to receive payment of the principal of, and interest on, such Timber Note on or after the respective due dates thereof expressed in such Timber Note or in this Indenture and to institute suit for the enforcement of any such payment, and such right shall not be impaired without the consent of such Noteholder; provided, however, that no Holder shall have the right to institute any such suit, if and to the extent that the institution or prosecution thereof or the entry of judgment therein would, under

applicable law, result in the surrender, impairment, waiver or loss of the Lien of the Deed of Trust. Without limiting the foregoing, in no event shall any Noteholder exercise any right of set-off, banker's lien, or the like, against any deposit account or property of the Company held or maintained by such Noteholder or amount owing by such Noteholder to the Company, without prior consent of the Majority Holders, which rights of set-off, banker's lien and the like are waived by the Noteholder's acceptance of its Note and the benefit of this Indenture.

7.10 Restoration of Rights and Remedies. If the Trustee, the Collateral Agent or any Noteholder has instituted any Proceeding to enforce any right or remedy under this Indenture or the Deed of Trust and such Proceeding has been discontinued or abandoned for any reason or has been determined adversely to the Trustee, the Collateral Agent or such Noteholder, then and in every such case the Issuer, the Trustee, the Collateral Agent and the Noteholders shall, subject to any determination in such Proceeding, be restored severally and respectively to their former positions hereunder and under the Deed of Trust, and thereafter all rights and remedies of the Trustee, the Collateral Agent and the Noteholders shall continue as though no such Proceeding had been instituted.

7.11 Rights and Remedies Cumulative. No right or remedy conferred upon or reserved to the Trustee, the Collateral Agent or the Noteholders in this Indenture or the Deed of Trust is intended to be exclusive of any other right or remedy, and every right and remedy shall, to the extent permitted by law, be cumulative and in addition to every other right and remedy given hereunder or thereunder or now or hereafter existing at law or in equity or otherwise. The assertion or employment of any right or remedy hereunder or thereunder, or otherwise, shall not prevent the concurrent assertion or employment of any other appropriate right or remedy.

7.12 Delay or Omission Not a Waiver. No delay or omission of the Trustee, the Collateral Agent or any Noteholder to exercise any right or remedy accruing upon any Event of Default shall impair any such right or remedy or constitute a waiver of any such Event of Default or an acquiescence therein. Every right and remedy given by this Article 7, by the Deed of Trust or by law to the Trustee, the Collateral Agent or the Noteholders may be exercised from time to time, and as often as may be deemed expedient, by the Trustee, the Collateral Agent or, subject to Section 7.8, the Noteholders, as the case may be.

7.13 Control by Majority Holders. Except as otherwise specified in this Indenture, the Majority Holders shall have the right to direct the time, method, and place of conducting any Proceeding for any remedy available to the Trustee under this Indenture or otherwise with respect to the Timber Notes or exercising any trust or power conferred on the Trustee or the Collateral Agent, including the giving of any notice or direction under the Deed of Trust, provided that:

(a) such direction shall not be in conflict with any rule of law or with this Indenture; and

(b) the Trustee may take any other action deemed proper by the Trustee that is not inconsistent with such direction.

7.14 Course of Dealing Not a Waiver. No course of dealing between the Trustee, the Collateral Agent and/or any Noteholder, on the one hand, and the Issuer or any person claiming through or under the Issuer, on the other hand, or any delay on the part of the Trustee, the Collateral Agent and/or any Noteholder in exercising any right available to them shall operate as a waiver of any rights of the Trustee, the Collateral Agent or the Noteholder.

7.15 Waiver of Stay or Extension Laws. The Issuer covenants (to the fullest extent that it may lawfully do so) that it will not at any time insist upon, or plead, or in any manner whatsoever claim or take the benefit or advantage of, any stay or extension law wherever enacted, now or at any time hereafter in force, that may affect the covenants or the performance of this Indenture or the Deed of Trust; and the Issuer (to the fullest extent that it may lawfully do so) hereby expressly waives all benefit or advantage of any such law, and covenants that it will not hinder, delay or impede the execution of any power granted herein to the Trustee or in the Deed of Trust to the Collateral Agent, but will suffer and permit the execution of every such power as though no such law had been enacted.

7.16 Action on Notes. The Trustee's right to seek and recover judgment on the Timber Notes or under this Indenture shall not be affected by the seeking, obtaining or application of any other relief under or with respect to this Indenture or the Deed of Trust. No rights or remedies of the Trustee, the Collateral Agent or the Noteholders shall be impaired by the recovery of any judgment by the Trustee or the Collateral Agent against the Issuer or by the levy of any execution under such judgment upon any portion of the Mortgaged Property or upon any of the assets of the Issuer.

7.17 Waiver of Past Defaults. Subject to Sections 7.9 and 10.2, the Majority Holders by notice to the Trustee may waive an existing Default and its consequences except (1) a Default or Event of Default in the payment of the principal of or interest on a Timber Note as specified in clauses (1) - (2) of Section 7.1 or (2) a Default in respect of a provision that under Section 10.2 cannot be amended without the consent of each Noteholder affected. When a Default or Event of Default is waived, it is deemed cured and ceases, but no such waiver shall extend to any subsequent or other Default or Event of Default or impair any right consequent thereon.

7.18 Certain Limitations on Exercise of Remedies under Deed of Trust. In connection with any trustee sale or judicial sale by the Deed of Trust Trustee under the Deed of Trust, the Collateral Agent shall not accept any cash bid in an amount less than the aggregate amount payable on the Timber Notes unless the holders of 66 2/3% in aggregate outstanding principal amount of Timber Notes shall have approved the taking of such action (which approval may be given generally and need not be given in respect of any specific sale or bid). In the event that relevant law provides that a trustee sale or judicial sale may be made in respect of less than all of the Company Owned Timberlands and Company Timber Rights, and the Collateral Agent shall determine to permit a trustee sale or judicial sale for less than all of the Company Owned Timberlands and Company Timber Rights, in connection with any such trustee sale or judicial sale by the Deed of Trust Trustee, the Collateral Agent shall not accept any cash bid in an amount less than the pro rata portion of the aggregate amount payable on the Timber Notes unless the holders of 66 2/3% in aggregate outstanding principal amount of Timber Notes shall have approved the taking of such action (which approval may be given generally and need not be given in respect of any specific sale or bid).

ARTICLE 8

[RESERVED]

ARTICLE 9

THE TRUSTEE AND THE COLLATERAL AGENT

9.1 **Duties of Trustee and Collateral Agent.** The Trustee and the Collateral Agent, prior to the occurrence of an Event of Default and after the curing or waiving of all Events of Default which may have occurred, undertake to perform such duties and only such duties as are specifically set forth in this Indenture and the Deed of Trust. If an Event of Default has occurred and is continuing, the Trustee and the Collateral Agent shall exercise the rights and powers vested in it by this Indenture and the Deed of Trust and use the same degree of care and skill in their exercise as a prudent person would exercise or use under the circumstances in the conduct of such person's own affairs.

(b) Except during the continuance of an Event of Default:

(1) the Trustee and the Collateral Agent need perform only those duties that are specifically set forth in this Indenture and the Deed of Trust and no covenants or obligations shall be implied in this Indenture or the Deed of Trust against the Trustee or the Collateral Agent; and

(2) in the absence of bad faith on its part, the Trustee and the Collateral Agent may conclusively rely, as to the truth of the statements and the correctness of the opinions expressed therein, upon certificates or opinions furnished to the Trustee or the Collateral Agent and conforming to the requirements of this Indenture and the Deed of Trust; provided, however, that the Trustee and the Collateral Agent shall examine the certificates and opinions to determine whether or not they conform to the requirements of this Indenture and the Deed of Trust.

(c) The Trustee and the Collateral Agent may not be relieved from liability for their own negligent action, their own negligent failure to act or their own willful misconduct, except that:

(1) this paragraph does not limit the effect of paragraph (b) of this Section 9.1;

(2) neither the Trustee nor the Collateral Agent shall be liable for any error of judgment made in good faith by a Responsible Officer, unless it is proved that the Trustee or the Collateral Agent was negligent in ascertaining the pertinent facts; and

(3) neither the Trustee nor the Collateral Agent shall be liable with respect to any action it takes or omits to take in good faith in accordance with a direction received by it pursuant to Section 7.13.

(d) Every provision of this Indenture and the Deed of Trust that in any way relates to the Trustee or the Collateral Agent is subject to paragraphs (a), (b) and (c) of this Section 9.1.

(e) Money held in trust by the Trustee need not be segregated from other funds except (i) to the extent provided by Article 5 of this Indenture and (ii) to the extent required by law.

(f) No provision of this Indenture or the Deed of Trust shall require the Trustee or the Collateral Agent to expend or risk its own funds or otherwise incur financial liability in the performance of any of its duties hereunder or thereunder, or in the exercise of any of its rights or powers, if it shall have reasonable grounds to believe that repayment of such funds or adequate indemnity against such risk or liability is not reasonably assured to it.

9.2 Rights of Trustee and Collateral Agent. Subject to Section 9.1:

(a) The Trustee and the Collateral Agent may rely on any document believed by it to be genuine and to have been signed or presented by the proper person. Neither the Trustee nor the Collateral Agent need investigate any fact or matter stated in the document.

(b) Before the Trustee or the Collateral Agent acts or refrains from acting, it may require an Officer's Certificate or an Opinion of Counsel.

(c) The Trustee and the Collateral Agent may act through agents and shall not be responsible for the misconduct or negligence of any agent appointed with due care.

(d) Neither the Trustee nor the Collateral Agent shall be liable for any action it takes or omits to take in good faith which it believes to be authorized or within its rights or powers conferred on it by this Indenture or the Deed of Trust; provided, however, that the Trustee's or the Collateral Agent's conduct does not constitute willful misconduct, negligence or bad faith.

(e) The Trustee and the Collateral Agent may consult with counsel, and the advice or Opinion of Counsel with respect to matters of law relating to this Indenture, the Timber Notes and the Deed of Trust shall be full and complete authorization and protection from liability in respect to any action taken, omitted or suffered by it hereunder or thereunder in good faith and in accordance with the advice or Opinion of Counsel.

9.3 Individual Rights of Trustee and Collateral Agent. The Trustee or the Collateral Agent, in its individual or any other capacity, may become the owner or pledgee of Timber Notes and may otherwise deal with the Issuer or its Affiliates with the same rights it would have if it were not Trustee or Collateral Agent. Any Paying Agent or Registrar may do the same with like rights. Notwithstanding the foregoing, the Trustee and the Collateral Agent must comply with Sections 9.10 and 9.12.

9.4 Trustee's and Collateral Agent's Disclaimer. Neither the Trustee nor the Collateral Agent shall be responsible for, and neither the Trustee nor the Collateral Agent makes

any representation as to the validity or adequacy of this Indenture, the Notes, or the Deed of Trust, and neither the Trustee nor the Collateral Agent shall be accountable for the Issuer's use of the proceeds from the Timber Notes, and neither the Trustee nor the Collateral Agent shall be responsible for any statement in this Indenture, the Notes, or the Deed of Trust other than its certificate of authentication.

9.5 Notice of Defaults. If a Default occurs and is continuing and if it is known to the Trustee, the Trustee shall mail to each Noteholder (in the manner and to the extent provided in TIA Section 313(c)), notices of the Default within 60 days after it occurs. Except in the case of a Default in payment of principal of or interest on any Timber Note, the Trustee may withhold the notice if and so long as a committee of its Responsible Officers in good faith determines that withholding the notice is in the interest of Noteholders.

9.6 Reports by Trustee to Noteholders. As promptly as practicable after each May 15, beginning with the May 15 following the date of this Indenture, and in any event prior to July 15 in each year, the Trustee shall mail to each Noteholder a brief report dated as of May 15 of such year that complies with TIA Section 313(a). The Trustee also shall comply with TIA Section 313(b)(1) and (2).

A copy of such report at the time of its mailing to Noteholders shall be filed with the SEC and each stock exchange, if any, on which the Timber Notes are listed. The Issuer agrees to notify the Trustee whenever the Timber Notes become listed on any stock exchange and of any delisting thereof.

9.7 Compensation and Indemnity. The Issuer shall pay to the Trustee and the Collateral Agent from time to time reasonable compensation for its services. The Trustee's and the Collateral Agent's compensation shall not be limited by any law on compensation relating to the trustee of an express trust. The Issuer shall reimburse the Trustee and the Collateral Agent upon request for all reasonable out-of-pocket expenses incurred by it, except any such expense as may arise from the Trustee's or Collateral Agent's negligence, bad faith or willful misconduct. Such expenses shall include the reasonable compensation and expenses of the Trustee's and the Collateral Agent's agents and counsel. The Issuer shall indemnify the Trustee and the Collateral Agent against any loss, liability or expense (including reasonable attorneys' fees) incurred by it without negligence or bad faith on its part in connection with the administration of this trust and the performance of its duties hereunder. The Trustee and the Collateral Agent shall notify the Issuer promptly of any claim for which it may seek indemnity. The Issuer shall have the right to defend the claim and the Trustee and the Collateral Agent shall cooperate in the defense. The failure of the Trustee or the Collateral Agent to so notify the Issuer shall not relieve the Issuer of its obligations hereunder. The Issuer need not pay for any settlement made without its written consent. The Issuer need not reimburse any expense or indemnify against any loss or liability incurred by the Trustee or the Collateral Agent through willful misconduct, negligence or bad faith. Until principal, interest and all other amounts payable in respect of the Timber Notes have been paid in full, all amounts payable by the Issuer in respect of its indemnification obligations pursuant to this paragraph shall be payable solely from Excess Funds.

The Issuer's payment obligations pursuant to this Section shall survive the discharge of this Indenture and release of the Deed of Trust. When the Trustee or Collateral Agent incurs

expenses after the occurrence of an Event of Default specified in Section 7.1(8) with respect to the Issuer, the expenses are intended to constitute expenses of administration under the Bankruptcy Law.

9.8 Replacement of Trustee and Collateral Agent. A resignation or removal of the Trustee or the Collateral Agent and the appointment of a successor Trustee and Collateral Agent shall become effective only upon the successor Trustee's and Collateral Agent's acceptance of appointment as provided in this Section 9.8. The Trustee and the Collateral Agent may resign at any time by so notifying the Issuer and the Holders in writing. The Majority Holders may remove the Trustee and the Collateral Agent by so notifying the Trustee and the Collateral Agent in writing and may appoint a successor Trustee and Collateral Agent with the Issuer's consent. The Issuer shall remove the Trustee and the Collateral Agent if:

- (1) the Trustee or Collateral Agent fails to comply with Section 9.10;
- (2) the Trustee or Collateral Agent is adjudged as bankrupt or insolvent or an order for relief is entered with respect to the Trustee or Collateral Agent under any Bankruptcy Law;
- (3) a custodian, receiver or other public officer takes charge of the Trustee or Collateral Agent or its property; or
- (4) the Trustee or Collateral Agent otherwise becomes incapable of acting.

If the Trustee or Collateral Agent resigns or is removed or if a vacancy exists in the office of Trustee or Collateral Agent for any reason, the Issuer shall promptly appoint a successor Trustee and Collateral Agent.

A successor Trustee and Collateral Agent shall deliver a written acceptance of its appointment to the retiring Trustee and Collateral Agent and to the Issuer. Thereupon the resignation or removal of the retiring Trustee and Collateral Agent shall become effective, and the successor Trustee and Collateral Agent shall have all the rights, powers and duties of the Trustee and Collateral Agent under this Indenture and the Deed of Trust. The successor Trustee and Collateral Agent shall mail a notice of its succession to Noteholders. The retiring Trustee and Collateral Agent shall promptly transfer all property held by it as Trustee or Collateral Agent to the successor Trustee. If a successor Trustee and Collateral Agent does not take office within 60 days after the retiring Trustee and Collateral Agent resigns or is removed, the retiring Trustee and Collateral Agent, the Issuer or the Majority Holders may petition any court of competent jurisdiction for the appointment of a successor Trustee and Collateral Agent.

If the Trustee and Collateral Agent fails to comply with Section 9.10, any Noteholder may petition any court of competent jurisdiction for the removal of the Trustee and Collateral Agent and the appointment of a successor Trustee and Collateral Agent.

9.9 Successor Trustee or Collateral Agent by Merger. If the Trustee or Collateral Agent consolidates with, merges or converts into, or transfers all or substantially all its corporate trust business or assets (including the trust created by this Indenture) to, another corporation or banking association, the resulting, surviving or transferee corporation without any further act

shall be the successor Trustee and Collateral Agent; provided that in the case of a transfer of all or substantially all of its corporate trust business to another corporation, the transferee corporation expressly assumes all the Trustee's and Collateral Agent's liabilities under the Indenture and the Deed of Trust.

In case at the time such successor or successors by merger, conversion or consolidation to the Trustee shall succeed to the trusts created by this Indenture and the Deed of Trust, any of the Timber Notes shall have been authenticated but not delivered, any such successor to the Trustee may adopt the certificate of authentication of any predecessor trustee, and deliver such Timber Notes so authenticated; and in case at that time any of the Timber Notes shall not have been authenticated, any successor to the Trustee may authenticate such Timber Notes either in the name of any predecessor hereunder or in the name of the successor to the Trustee; and in all such cases such certificates shall have the full force which it is anywhere in the Timber Notes or in this Indenture provided that the certificate of the Trustee shall have; provided, however, that the right to adopt the certificate of authentication of any predecessor trustee or authenticate Timber Notes in the name of any predecessor trustee shall only apply to its successors by merger, conversion or consolidation.

9.10 Eligibility; Disqualification. The Trustee and the Collateral Agent shall at all times satisfy the requirements of TIA Section 310(a)(1) and (2). In addition, without limiting the foregoing, the Trustee and the Collateral Agent shall at all times be authorized to conduct a corporate trust business, in good standing, and be either (a) a bank or trust company having, or (b) a wholly-owned subsidiary of a bank or trust company having, a combined capital and surplus of at least \$250,000,000 as set forth in its most recent published annual report of condition. The Trustee and the Collateral Agent shall comply with TIA Section 310(b), including the optional provision permitted by the second sentence of TIA Section 310(b)(9).

9.11 Preferential Collection of Claims Against Issuer. The Trustee and the Collateral Agent shall comply with TIA Section 311(a), excluding any creditor relationship listed in TIA Section 311(b). A Trustee and Collateral Agent who has resigned or been removed shall be subject to TIA Section 311(a) to the extent indicated therein.

9.12 Trustee and Collateral Agent. The Trustee and the Collateral Agent shall at all times be one and the same Person.

9.13 Escrow Agreement. The Trustee is authorized to enter into a confidentiality agreement satisfactory to the Trustee pursuant to Section 6 of the Escrow Agreement among the Issuer, Pacific Lumber, Salmon Creek and U.S. Bank of California.

ARTICLE 10

AMENDMENTS

10.1 Without Consent of Noteholders. The Issuer and the Trustee may amend, supplement or otherwise modify this Indenture or the Timber Notes without notice to or consent of any Noteholder:

- (1) to cure any ambiguity, omission, defect or inconsistency;

(2) to provide for uncertificated notes in addition to or in place of certificated notes; provided, however, that the uncertificated notes are issued in registered form for purposes of Section 163(f) of the Code, or in a manner such that the uncertificated notes are described in Section 163(f)(2)(B) of the Code;

(3) to make any change that does not adversely affect the rights of any Noteholder;

(4) to add to the covenants of the Issuer for the benefit of the Noteholders or to surrender any right or power herein conferred upon the Issuer;

(5) to comply with the TIA; or

(6) to comply with the provisions of Section 4.13.

After an amendment, supplement or modification under this Section becomes effective, the Issuer shall mail to Noteholders a notice briefly describing such amendment, supplement or other modification. The failure to give such notice to all Noteholders, or any defect therein, shall not impair or affect the validity of an amendment, supplement or other modification under this Section 10.1.

10.2 With Consent of Noteholders.

(a) The Issuer and the Trustee may amend, supplement or otherwise modify this Indenture or the Timber Notes without notice to any Noteholder but (i) with the written consent of the Majority Holders. Subject to Sections 7.9 and 7.17, the Majority Holders may waive compliance by the Issuer with any provision of this Indenture, the Deed of Trust or the Timber Notes without notice to any Noteholder.

(b) Notwithstanding anything to the contrary contained in Sections 10.1 and 10.2(a), without the consent of each Noteholder affected, an amendment, supplement, other modification or waiver may not:

(1) reduce the aggregate outstanding principal amount of Timber Notes (or of Timber Notes, as applicable) whose Noteholders must consent to an amendment, supplement, other modification or waiver;

(2) reduce the rate of or extend the time for payment of interest on any Timber Note;

(3) reduce the principal of or extend the fixed maturity of any Timber Note; or

(4) make any Timber Note payable in money other than that stated in the Timber Note;

(5) impair the right to institute suit for the enforcement of any payment on or with respect to any Timber Note; or

(6) make any change in this Section 10.2.

(c) It shall not be necessary for the consent of the Noteholders under this Section 10.2 to approve the particular form of any proposed amendment, but it shall be sufficient if such consent approves the substance thereof.

(d) After an amendment, supplement, waiver or other modification under this Section becomes effective, the Issuer shall mail to Noteholders a notice briefly describing such amendment. The failure to give such notice to all Noteholders, or any defect therein, shall not impair or affect the validity of an amendment, supplement, waiver or other modification under this Section. Any amendment, supplement, waiver or other modification shall be binding upon all subsequent transferees of Notes.

10.3 Compliance with Trust Indenture Act. Every amendment, supplement or other modification to this Indenture, the Timber Notes shall comply with the TIA as then in effect.

10.4 Effect of Consents and Waivers; No Revocation of Consents. A consent to an amendment, supplement or other modification or a waiver by a Noteholder under or in connection with this Indenture or the Deed of Trust shall bind the Noteholder and every subsequent holder of that Timber Note or portion of the Timber Note that evidences the same debt as the consenting Noteholder's Timber Note, even if notation of the consent or waiver is not made on the Timber Note. Once such consent shall be given by a Noteholder, such consent may not be revoked by such Noteholder or any subsequent holder. After an amendment, supplement or other modification or waiver becomes effective, it shall bind every Noteholder, unless it makes a change described in any of clauses (1) through (6) of Section 10.2(b). In that case, the amendment, supplement, waiver or other modification shall bind each Noteholder who has consented to it and every subsequent Holder of a Timber Note or a portion of a Timber Note that evidences the same debt as the consenting Noteholder's Timber Note.

The Issuer shall (or, if Definitive Timber Notes have been issued, may, but shall not be obligated to) fix a record date for the purpose of determining the Noteholders entitled to give their consent or take any other action described above. If a record date is fixed, then notwithstanding the immediately preceding paragraph, those persons who were Noteholders at such record date (or their duly designated proxies), and only those persons, shall be entitled to give such consent or to take any such action, whether or not such persons continue to be Holders after such record date. No such consent shall be valid or effective for more than 130 days after such record date.

10.5 Notation on or Exchange of Notes. If an amendment changes the terms of a Timber Note, the Trustee may require the Noteholder to deliver it to the Trustee. The Trustee may place an appropriate notation on the Timber Note regarding the changed terms and return it to the Holder. Alternatively, if the Issuer or the Trustee so determines, the Issuer in exchange for the Timber Note shall issue and the Trustee shall authenticate a new Timber Note that reflects the changed terms. Failure to make the appropriate notation or to issue a new Timber Note shall not affect the validity of such amendment, supplement or other modification.

10.6 **Trustee to Sign Amendments, Etc.** The Trustee shall sign any amendment, supplement or other modification authorized pursuant to this Article 10 if the amendment, supplement or other modification does not adversely affect the rights, duties, liabilities or immunities of the Trustee. If it does, the Trustee may, but need not sign it. In signing such amendment, supplement or other modification the Trustee shall be entitled to receive, and (subject to Section 9.1) shall be fully protected in relying upon, an Officers' Certificate and an Opinion of Counsel stating that such amendment, supplement, waiver or other modification is authorized or permitted by this Indenture.

ARTICLE 11

[RESERVED]

ARTICLE 12

MISCELLANEOUS

12.1 **Trust Indenture Act Controls.** If any provision of this Indenture limits, qualifies or conflicts with another provision which is required to be included in this Indenture by the TIA, the required provision shall control.

12.2 **Notices.** Any notice or communication shall be in writing and delivered in person, transmitted by facsimile (confirmed in writing by mail simultaneously dispatched) or mailed by first-class mail addressed as follows:

If to the Issuer:

Scotia Pacific Company LLC
P.O. Box 712
125 Main Street Second Floor
Scotia, California 95565
Telecopy No.: (707) 764-5001
Attention: Vice President, Finance and Administration

With copies to:

Scotia Pacific Company LLC
5847 San Felipe, Suite 2610
Houston, Texas 77057
Telecopy No.: (713) 267-3702
Attention: General Counsel

and

if to the Trustee:

The Bank of New York
[Two International Place, 4th Floor
Boston, Massachusetts 02110
Attention: Corporate Trust Administration
(Scotia Pacific Company LLC Timber Collateralized Notes)
Telecopy No.: (617) 664-5371]

and

The Issuer, or the Trustee by notice to the others may designate additional or different addresses for subsequent notices or communications.

Any notice or communication mailed to a Noteholder shall be mailed to the Noteholder at the Noteholder's address as it appears on the registration books of the Registrar and shall be sufficiently given if so mailed within the time prescribed.

Failure to mail a notice or communication to a Noteholder or any defect in it shall not affect its sufficiency with respect to other Noteholders. If a notice or communication is mailed in the manner provided above, it is duly given, whether or not the addressee receives it. Notwithstanding anything to the contrary in this Section 12.2, notices to the Issuer or the Trustee shall only be deemed given when received by the Issuer or the Trustee, as the case may be.

12.3 Communication by Holders with Other Noteholders. Noteholders may communicate pursuant to TIA Section 312(b) with other Noteholders with respect to their rights under this Indenture or the Timber Notes and the Trustee will comply with TIA Section 312(b). The Issuer, the Trustee, the Registrar and anyone else shall have the protection of TIA Section 312(c).

12.4 Certificate and Opinion as to Conditions Precedent. Upon any request or application by the Issuer to the Trustee to take any action under this Indenture, the Issuer shall furnish to the Trustee upon the Trustee's request:

- (i) an Officer's Certificate stating that, in the opinion of the signers, all conditions precedent, if any, provided for in this Indenture relating to the proposed action have been complied with (or will have been complied with upon the execution and delivery of designated instruments); and
- (ii) an Opinion of Counsel stating that, in the opinion of such counsel, all such conditions precedent have been complied with (or will have been complied with upon the execution and delivery of designated instruments).

except that in the case of any application or request as to which the furnishing of such Officers' Certificate or Opinion of Counsel is specifically required by any provisions of this Indenture relating to such particular application or request, no additional certificate or opinion need be furnished.

12.5 Statements Required in Certificate or Opinion.

(a) Each certificate or opinion with respect to compliance with a covenant or condition provided for in this Indenture shall include:

(1) a statement that the person making such certificate or rendering such opinion has read such covenant or condition;

(2) a brief statement as to the nature and scope of the examination or investigation upon which the statements or opinions contained in such certificate or opinion are based;

(3) a statement that, in the opinion of such person, he or she has made such examination or investigation as is necessary to enable him or her to express an informed opinion as to whether or not such covenant or condition has been complied with; and

(4) a statement as to whether or not, in the opinion of such person, such covenant or condition has been complied with.

(b) Unless otherwise expressly provided herein, any application, request, order, certified resolution, certificate, notice, statement or other instrument of the Issuer or of any other Person required or permitted to be filed with the Trustee or to be made or given under this Indenture shall be dated and shall state the provision or provisions of this Indenture pursuant to which it is filed, made or given and shall be signed by a Responsible Officer of the Person taking such action.

(c) Any counsel giving an Opinion of Counsel that an instrument conforms to the requirements of this Indenture, or with respect to any similar matter, may state that such counsel is not passing upon the truth, accuracy or good faith of the facts or opinions stated in any application, request, order, certified resolution, Officer's Certificate, appraiser's certificate, notice, statement or other instrument required to be delivered to the Trustee signed by any Person other than such counsel.

(d) Any Officer's Certificate of the Issuer or certificate of an appraiser, forester or other expert may be based, insofar as the matters therein are of a legal nature, upon an Opinion of Counsel, unless such officer, appraiser or forester knows that such Opinion of Counsel is, or any of the facts upon which such Opinion of Counsel is based is, erroneous.

(e) Any Opinion of Counsel may be based, insofar as it relates to factual matters or information in possession of the Issuer or the Services Provider, upon an Officer's Certificate or representations of a Responsible Officer of the Issuer or the Services Provider, unless such counsel knows that such Officer's Certificate or representations are erroneous.

(f) Any Opinion of Counsel may be based, insofar as it relates to appraisal matters, upon an appraiser's certificate, unless such counsel knows that the appraiser's certificate is erroneous.

(g) Any Opinion of Counsel may be based on the written opinion of other counsel reasonably satisfactory to the Trustee, in which event such Opinion of Counsel shall be accompanied by a copy of such other counsel's opinion addressed to the Trustee.

12.6 When Timber Notes Disregarded. In determining whether the Holders of the required principal amount of Timber Notes have concurred in any request, demand, authorization, direction, notice, consent or waiver under or in connection with this Indenture or the Deed of Trust, Timber Notes owned by the Issuer or by any person described in the last clause of the definition of "outstanding" shall be disregarded and deemed not to be outstanding, except that, for the purpose of determining whether the Trustee shall be protected in relying on any such request, demand, authorization, direction, notice, consent or waiver, only Timber Notes which the Trustee knows are so owned shall be so disregarded. Also, subject to the foregoing, only Timber Notes outstanding at the time shall be considered in any such determination.

12.7 Rules by Trustee, Paying Agent and Registrar. The Trustee may make reasonable rules for action by or a meeting of Noteholders. The Registrar and the Paying Agent may make reasonable rules for their functions.

12.8 Business Days. If a payment date is not a Business Day, payment shall be made on the next succeeding Business Day, and no interest shall accrue for the intervening period. If a regular record date is not a Business Day, the record date shall not be affected.

12.9 GOVERNING LAW. THE LAWS OF THE STATE OF NEW YORK SHALL GOVERN THIS INDENTURE, THE TIMBER NOTES, WITHOUT GIVING EFFECT TO APPLICABLE PRINCIPLES OF CONFLICTS OF LAW TO THE EXTENT THAT THE APPLICATION OF THE LAWS OF ANOTHER JURISDICTION WOULD BE REQUIRED THEREBY.

12.10 No Recourse Against Others. A manager, director, officer, employee, member or stockholder, as such, of the Issuer or the Trustee shall not have any liability for any obligations of the Issuer or the Trustee under the Timber Notes or this Indenture or for any claim based on, in respect of or by reason of such obligations or their creation. By accepting a Timber Note, each Noteholder shall waive and release all such liability. The waiver and release shall be part of the consideration for the issue of the Timber Notes.

12.11 Successors. All agreements of the Issuer in this Indenture and the Timber Notes shall bind its successors. All agreements of the Trustee in this Indenture shall bind its successors.

12.12 Severability. In case any provision of this Indenture or in the Timber Notes shall be invalid, illegal or unenforceable, the validity, legality and enforceability of the remaining provisions thereof shall not in any way be affected or impaired thereby.

12.13 Multiple Originals. The parties may sign any number of copies of this Indenture. Each signed copy shall be an original, but all of them together represent the same agreement. One signed copy is enough to prove this Indenture. This Indenture may be executed in two or more counterparts, each of which shall be an original, but all of them together constitute the same agreement.

12.14 Table of Contents; Headings. The table of contents, cross reference sheet and headings of the Articles and Sections of this Indenture and the Timber Notes have been inserted for convenience of reference only, are not intended to be considered a part hereof and shall not modify, restrict or otherwise affect the meaning or interpretation of any of the terms or provisions hereof.

12.15 Benefits of Indenture. Nothing in this Indenture or the Notes, express or implied, shall give to any person, other than the parties hereto and their successors hereunder, and the Noteholders, any benefit or any legal or equitable right, remedy or claim under this Indenture.

12.16 Limitations on Bankruptcy Petition Against Issuer. The Trustee and each of the Noteholders hereby covenant and agree that, prior to the date which is one year and one day after the payment in full of all outstanding Timber Notes, it will not institute against, or join any other Persons in instituting against, the Issuer any bankruptcy, reorganization, arrangement, insolvency or liquidation proceeding or other similar proceeding under any Bankruptcy Law, unless the consent of the Holders of 51% in aggregate outstanding principal amount of the Timber Notes to the taking of such action is obtained.

12.17 Entire Agreement. This Indenture constitutes the entire agreement of the parties with respect to the subject matter hereof.

12.18 Concerning Paying Agents, Registrars, Securities Intermediaries and Collateral Agents. Whether or not any applicable provision of this Indenture or any other Operative Document expressly so provides, and notwithstanding any other provision of this Indenture or any other Operative Document to the contrary, any document, investment direction or other written or oral statement of any other Person on which the Trustee is entitled to rely may also be relied upon by any Paying Agent, Registrar, Securities Intermediary or Collateral Agent.

ARTICLE 13

DISCHARGE

13.1 Discharge. This Indenture shall cease to be of further effect at such time as (i) all outstanding Timber Notes have become due and payable, will become due and payable within six months (based upon the actual principal amount of the Timber Notes previously paid, or have been called for redemption on a redemption date that is within six months under arrangements satisfactory to the Trustee for giving the notice of redemption and the Issuer shall have irrevocably (i.e., without condition or right of withdrawal) deposited with the Trustee funds sufficient to pay all outstanding Timber Notes and any Additional Notes, including unpaid principal thereof, accrued and unpaid Regular Interest, accrued and unpaid Default Interest, if any, thereon, and the Issuer shall have paid in full all other sums payable hereunder and under the Deed of Trust by the Issuer and (ii) an Officer's Certificate and an Opinion of Counsel to the effect of the preceding clause (i) shall have been delivered to the Trustee; provided that the Issuer's obligations under Sections 2.3, 2.5, 2.6, 2.7, 2.8, 2.9, 9.7 and 9.8 shall survive until the Timber Notes have been paid in full, and thereafter the Issuer's obligations under Section 9.7 shall continue to survive. Upon satisfaction of the conditions in the preceding clauses (i) and (ii),

the Trustee shall acknowledge in writing the discharge of the Issuer's obligations under the Timber Notes and this Indenture except for those surviving obligations specified herein.

IN WITNESS WHEREOF, the parties have caused this Indenture to be duly executed as of the date first written above.

SCOTIA PACIFIC COMPANY LLC

By: /S/ GARY L. CLARK
Name: Gary L. Clark
Title: Vice President-Financial Administration

THE BANK OF NEW YORK, as Trustee

By: /S/ EARL W. DENNISON
Name: Earl W. Dennison
Title: Vice President

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SCHEDULE A

DEFINITIONS

An “**Acceleration Event**” will be deemed to exist at any time when the Timber Notes have been accelerated and such acceleration has not been rescinded.

“**Accounts**” has the meaning given to such term in Section 5.1(a) of the Indenture.

“**Actual Production**” through any date means the number of Mbfe of Company Timber actually harvested and sold from July 20, 1998 through such date, except any such Company Timber that has been included in Deemed Production for such period.

“**Additional Services**” has the meaning given to such term in Schedule 1 to the New Additional Services Agreement.

[“**Additional Timber Properties**” means the Elk River Timberlands if and when the Elk River Timberlands become subject to the Lien of the Deed of Trust.]

“**Affiliate**” of any specified Person means any other Person directly or indirectly controlling or controlled by or under direct or indirect common control with such specified Person. For the purposes of this definition of “Affiliate,” “control,” when used with respect to any specified Person, means the power to direct the management and policies of such Person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise, and the terms “controlling” and “controlled” have meanings correlative to the foregoing.

“**Agreement Not to Cut**” means any agreement by the Issuer to limit or refrain from cutting, harvesting, severing or selling any Company Timber in exchange for a monetary payment to the Issuer.

“**Alternate Property**” means timberlands (a) containing at least the number of Mbfe of timber as the Headwaters Acquisition Property, (b) having a fair value at least equal to the Headwaters Acquisition Property, (c) having expected operating costs not materially greater than the Headwaters Acquisition Property, and (d) having sufficient access or access rights to enable harvesting operations to be conducted thereon, all of which matters shall be reflected in an Officer’s Certificate.

“**Ancient Redwood Groves**” means approximately 6,600 acres of Timberlands also known as the marbled murrelet conservation areas. The Ancient Redwood Groves are comprised of six noncontiguous aggregations of nesting habitat for the seasonal use of redwood forest by a robin-sized seabird, the “marbled murrelet” in accord with the Issuer’s existing habitat conservation plan approved in March 1999.

“**Assigned Proceeds**” has the meaning given to such term in Section 2.1 of the Deed of Trust.

“Assigned Proceeds Obligor” means any Person (a) owing any Assigned Proceeds, (b) having in their possession any Assigned Proceeds or (c) obligated to pay, perform or deliver any Assigned Proceeds.

“Authenticating Agent” has the meaning given to such term in Section 2.2 of the Indenture.

“Bankruptcy Law” means any Federal or State bankruptcy, insolvency, reorganization or similar law for the relief of debtors from time to time in effect.

“Bankrupt or Insolvent” or **“Bankruptcy or Insolvency”** shall have occurred or exist with respect to any Person if:

(a) such Person shall (i) apply for or consent to the appointment of, or the taking of possession by, a receiver, custodian, trustee or liquidator of itself or of all or a substantial part of its property under any Bankruptcy Law, (ii) make a general assignment for the benefit of its creditors, (iii) commence a voluntary case under the Federal Bankruptcy Code, (iv) file a petition seeking to take advantage of any other Bankruptcy Law, or (v) acquiesce in writing to any petition filed against it in an involuntary case under the Federal Bankruptcy Code;

(b) a proceeding or case shall be commenced, without the application or consent of such Person, in any court of competent jurisdiction, seeking under any Bankruptcy Law (i) its liquidation, reorganization, dissolution or winding-up, or the composition or readjustment of its debts, (ii) the appointment of a trustee, receiver, custodian, liquidator or the like of such Person, or of all or any substantial part of its assets or (iii) similar relief in respect of such Person under any Bankruptcy Law, and such proceeding or case shall continue undismissed, or an order, judgment or decree approving or ordering any of the foregoing (other than an order referred to in clause (c) below) shall be entered and continue unstayed and in effect, for a period of 60 or more consecutive days; or

(c) an order for relief against such Person shall be entered in an involuntary case under the Federal Bankruptcy Code.

“Bill of Sale” has the meaning given to such term in the definition of “Conveyance Documents.”

“Board of Managers” means:

- (a) the Board of Managers of the Issuer; or
- (b) any Manager or committee of such Board of Managers duly authorized under applicable law to act on behalf of such Board of Managers.

“Board Resolution” means a resolution duly adopted by the Board of Managers of the Issuer.

“Book-Entry Note” means any beneficial interest in the Timber Notes, ownership and transfers of which shall be made through book entries by a Clearing Agency as described in

Section 2.6 of the Indenture; provided, that after the occurrence of a condition whereupon book-entry registration and transfer are no longer permitted and Definitive Notes are issued to all Note Owners, such Timber Notes shall no longer be “Book-Entry Notes.”

“**Business Day**” means any day other than a Saturday, a Sunday or a day on which banking institutions in the Borough of Manhattan, the City of New York, New York, in San Francisco, California or in the Commonwealth of Massachusetts, are authorized or required by law or executive order to close.

[A “**Cash Retention Event**” shall be deemed to exist on any date, subsequent to January 20, 2014, on which any Timber Notes are outstanding.]

“**Cedel**” means Cedel Bank, société anonyme.

“**CERCLA**” means the Comprehensive Environmental Response, Compensation and Liability Act, as the same may be in effect from time to time, any successor statute, and the rules and regulations thereunder.

“**Certificate**” means a certificate conforming to the requirements of Section 12.5 of the Indenture and Section 10.9 of the Deed of Trust.

“**Clearing Agency**” shall mean an organization registered as a “clearing agency” pursuant to Section 17A of the Exchange Act, and meeting the requirements of the definition of the term “clearing corporation” in Article Eight of the Uniform Commercial Code of the State of New York, which is the Holder of any Book-Entry Note.

“**Clearing Agency Agreement**” shall mean the letter of representations dated on or prior to the Closing Date, among the Issuer, the Trustee and the initial Clearing Agency relating to the Book-Entry Notes, as the same may be amended, modified or supplemented.

“**Clearing Agency Participant**” shall mean a broker, dealer, bank, other financial institution or other Person for whom from time to time a Clearing Agency records in a book-entry system ownership, transfers and pledges of securities deposited with such Clearing Agency.

“**Clearing System Certificate**” A certificate in substantially the form of Exhibit L to the Indenture or such other form of certificate as shall be satisfactory to the Registrar, Euroclear and Cedel.

“**Closing Date**” shall mean the date on which the Timber Notes are issued pursuant to the Indenture.

“**Code**” means the Internal Revenue Code of 1986, as amended.

“**Collateral Agent**” means The Bank of New York, in its capacity as collateral agent for the Holders of the Timber Notes pursuant to the Deed of Trust and the Indenture, together with its successors in such capacity.

“Collateral Agent Expenses” means any expenses or damages of or compensation owing to the Collateral Agent (including, without limitation, the reasonable fees and disbursements of counsel to the Collateral Agent) incurred with respect to the enforcement or administration of the Deed of Trust or owing to the Collateral Agent as part of the Secured Obligations.

“Collateral Mortgaged Property” means and includes all Mortgaged Property (including both those now and hereafter existing), to which Article 9 of the Uniform Commercial Code may now or hereafter apply, including, but not limited to, personal property (tangible and intangible), fixtures, goods, documents, instruments, general intangibles, chattel paper, accounts, deposit accounts, products and proceeds, and further including, without limitation, Harvested Timber, Company Timber to be cut pursuant to a Purchase Agreement, the Assigned Proceeds, the Data Processing Equipment, Data Processing Information, the Subject Contracts and the Accounts.

“Collateral Release Price” means, as of any date, in respect of any Company Owned Timberlands or Company Timber Rights to be released from the Lien of the Deed of Trust on such date pursuant to Section 6.1 of the Indenture, an amount equal to the product of (a) the number of Mbfe of Company Timber located on the Company Owned Timberlands to be released (or on the Company Timber Rights Property that is subject to the Company Timber Rights to be released, as applicable) and (b) an amount equal to \$[724], escalated at rate of [3-1/2%] per annum (compounded annually, commencing January 1, 1999) to such date.

“Collateral Value Factor,” for any Monthly Calculation Date, shall be the factor indicated as of such date in the Structuring Schedule under the caption “Collateral Value Factor” (column H).

[**“Collection Account”** means account number [GE4767] established pursuant to Section 5.1(a) of the Indenture with the Securities Intermediary in the name of “The Bank of New York, as Collateral Agent for the Scotia Pacific Company LLC Noteholders--Collection Account,” and all successor accounts thereto.]

“Collection Account Disbursement” has the meaning given to such term in Section 5.3(b) of the Indenture.

“Collection Account Disbursement Funds” has the meaning given to such term in Section 5.3(b) of the Indenture.

“Collection Account Rate” means, for any date, a rate per annum equal to the rate per annum (determined as of a date not more than three Business Days prior to such date) for the offering to leading banks in the London interbank market of Dollar deposits having a term of 30 days and in an amount comparable to the amount to which such rate is applied.

“Company Timber” means (i) all trees and timber, including, without limitation, standing timber and crops, now located on or hereafter planted or growing in the soil of any Company Timber Property (other than the Pacific Lumber Timber Rights Property), or any part or parcel thereof, and all additions, substitutions and replacements thereof (including timber to be cut pursuant to a Purchase Agreement) and (ii) any and all Harvested Timber.

“Company Timber Property” means the Company Owned Timberlands and the Company Timber Rights Property.

“Company Timber Rights” means (i) the timber rights of the Issuer in respect of the Company Timber Rights Property referred to in clause (i) of the definition of such term, including, without limitation, the ownership of, and (subject to compliance with applicable law) the right in perpetuity (or, in the case of Company Timber Rights in respect of not more than 200 acres of timberlands, the right expiring not earlier than November 1, 2027) to harvest, all trees and timber, including, without limitation, standing timber and crops, now located on or hereafter planted or growing in the soil of such Company Timber Rights Property or any part or parcel thereof and (ii) any timber rights which are (A) in perpetuity or expire no earlier than December 31, 2048 and (B) described in an amendment to the Deed of Trust.

“Company Timber Rights Property” means (i) those portions of the timberlands owned by Pacific Lumber, Salmon Creek or an unrelated third party on the date hereof which are subject to the Company Timber Rights and are described with particularity in the Pacific Lumber Timber Deeds and, as to a portion of such lands, in certain maps referenced in the Pacific Lumber Timber Deeds and held by an escrow agent pursuant to an Escrow Agreement by and among the Issuer, Pacific Lumber, Salmon Creek and such escrow agent, dated as of the Closing Date, and (ii) any timberlands that are subject to timber rights referred to in clause (ii) of the definition of Company Timber Rights.

“Company Owned Timberlands” means:

(a) the parcels of land described in (i) Exhibit A to the Deed of Trust and (ii) any amendment to the Deed of Trust with respect to the addition of Substitute Timber Property or Additional Timber Properties, together with the entire right, title and interest of the Issuer in and to such parcels of land, subject to Permitted Encumbrances, together with (a) all right, title and interest of the Issuer in and to all buildings, structures and other improvements now standing, or at any time hereafter constructed or placed, upon such land, including, without limitation, all right in and to all equipment and fixtures of every kind and nature on such land or in any such buildings, structures or other improvements (such buildings, structures, other improvements, equipment and fixtures being herein collectively called the **“Improvements”**), (b) all right, title and interest of the Issuer in and to all and singular the tenements, hereditaments, easements, rights of way, rights, privileges and appurtenances in and to such land belonging or in any way appertaining thereto, including without limitation, all right, title and interest of the Issuer in, to and under any streets, ways, alleys, vaults, gores or strips of land adjoining such land and (c) all claims or demands of the Issuer, in law or in equity, in possession or expectancy of, in and to such land together with all rents, income, revenues, issues and profits from and in respect of the property described above in this paragraph (a) and the present and continuing right to make claim for, collect, receive and receipt for the same as hereinafter provided. It is the intention of the Issuer that, so far as may be permitted by law, all of the foregoing, whether now owned or hereafter acquired by the Issuer, affixed, attached or annexed to such land shall be and remain or become and constitute a part of the Mortgaged Property and the security covered by and subject to the Lien of the Deed of Trust;

(b) all right, title and interest of the Issuer in and to (i) all extensions, improvements, betterments, renewals, substitutes and replacements of and on the property described in the foregoing clause (a) and (ii) all additions and appurtenances thereto not presently leased to or owned by the Issuer and hereafter leased to, acquired by or released to the Issuer or, constructed, assembled or placed upon the Company Owned Timberlands immediately upon such leasing, acquisition, release, construction, assembling or placement, and without any further grant or other act by the Issuer (including, without limitation, all lands added by lot line adjustment to any existing legal parcel constituting part of the Company Owned Timberlands); and

(c) all the estate, right, title and interest of the Issuer, in and to all contract rights, actions and rights in action, relating to the property described in clause (a), including, without limitation, all rights to insurance proceeds and unearned premiums arising from or relating to damage to such property.

Notwithstanding the foregoing, Company Owned Timberlands shall not include any Pacific Lumber Timber.

“Contingent Obligation” means, as to any Person, any obligation of such Person guaranteeing any Indebtedness, leases, dividends or other obligations (**“primary obligations”**) of any other Person (the **“primary obligor”**) in any manner, whether directly or indirectly, including, without limitation, any obligations of such Person, whether or not contingent, (i) to purchase any such primary obligation or any property constituting direct or indirect security therefor, (ii) to advance or supply funds (x) for the purchase or payment of any such primary obligation or (y) to maintain working capital or equity capital of the primary obligor or otherwise to maintain the net worth or solvency of the primary obligor, (iii) to purchase property, securities or services primarily for the purpose of assuring the owner of any such primary obligation of the ability of the primary obligor to make payment of such primary obligation or (iv) otherwise to assure or hold harmless the holder of such primary obligation against loss in respect thereof; provided, however, that the term Contingent Obligation shall not include endorsements of instruments for deposit or collection in the ordinary course of business or obligations in connection with surety or appeal bonds.

“Conveyance Documents” means (i) the Grant Deed dated March 18, 1993 from Pacific Lumber, as grantor, to Scotia Pacific Holding Company, a Delaware corporation (**“Scotia Pacific”**), as grantee, conveying certain of the Company Owned Timberlands to Scotia Pacific and reserving in Pacific Lumber certain timber rights (the **“First Pacific Lumber Grant Deed”**), (ii) the Grant Deed dated on or prior to the Closing Date from Pacific Lumber, as grantor, to the Issuer, as grantee, conveying certain Company Owned Timberlands to the Issuer (the **“Second Pacific Lumber Grant Deed”**), (iii) the Quitclaim Deed dated on or prior to the Closing Date from Pacific Lumber to the Issuer conveying to the Issuer all of Pacific Lumber’s interest in certain of the timber rights previously reserved by Pacific Lumber in the First Pacific Lumber Grant Deed (the **“Pacific Lumber Quitclaim Deed”**), (iv) three Grant Deeds, each dated on or prior to the Closing Date, from Pacific Lumber, as grantor, to the Issuer, as grantee, conveying the Company Timber Rights to the Issuer (the **“Pacific Lumber Timber Deeds”**), (v) the Bill of Sale and General Assignment dated as of March 23, 1993 transferring from Pacific Lumber certain of the Data Processing Information and other personal property to Scotia Pacific (the **“Bill of Sale”**), (vi) the Bill of Sale and General Assignment dated as of the Closing Date

transferring from Pacific Lumber certain Data Processing Information and other personal property with respect to certain Company Owned Timberlands and the Company Timber Rights to the Issuer (the **“New Bill of Sale”**), (vii) the New Environmental Indemnification Agreement, (viii) the New Reciprocal Rights Agreement and (ix) the Transfer Agreement dated as of the Closing Date (the **“New Transfer Agreement”**) among the Issuer, Pacific Lumber and Salmon Creek.

“Corporate Trust Office” means the office of the Trustee, the Collateral Agent or the Registrar, as applicable, at which the trust created by this Indenture shall be principally administered.

“Counsel” means legal counsel reasonably satisfactory to the Trustee. Such legal counsel may be an employee, officer, manager or director of the Issuer, Pacific Lumber or an Affiliate of either of them, unless otherwise indicated.

“Data Processing Equipment” means all hardware, software, or other data processing systems or equipment, whether now owned or hereafter acquired by the Issuer, and wherever located.

“Data Processing Information” means all information, programs, know-how, methods or methodology relating to the management of the Company Timber Property, the harvesting, severing or cutting of Company Timber, and the preparation of applications for Timber Harvesting Plans, including, without limitation, all such information, programs, know-how, methods or methodology relating to the GIS.

“Debt Obligations,” as of any date (in each case determined before giving effect to any payment made on such date), means the sum of (a) the outstanding principal balance of the Timber Notes as of such date plus (b) interest accrued and unpaid on the Timber Notes to such date, including any interest on unpaid interest (computed on the basis of a 360-day year of twelve 30-day months).

“Deed of Trust” means the Deed of Trust, Security Agreement, Financing Statement, Fixture Filing and Assignment dated the Closing Date by the Issuer, as trustor, in favor of the Deed of Trust Trustee for the benefit of the Collateral Agent, as beneficiary and agent for the Secured Parties, as the same may be amended, supplemented and otherwise modified and in effect from time to time.

“Deed of Trust Trustee” means Fidelity National Title Insurance Company, and its successors in the trust created by the Deed of Trust.

“Deemed Collateral Value,” for any Monthly Calculation Date, shall be an amount equal to the product (in Dollars) of the Collateral Value Factor for such date and the Deemed Remaining Harvest Quantity for such date.

“Deemed Production” through any date, means the number of Mbfe of Company Timber deemed harvested and sold from July 20, 1998 through such date pursuant to Section 5.5 of the Indenture.

“Deemed Remaining Harvest Quantity” means, for any Monthly Calculation Date, an amount equal to the excess of (i) of the Structured Harvest Quantity over (ii) the sum of all Actual Production and all Deemed Production (each expressed in Mbfe) through such date.

“Default” means any occurrence or condition that, with notice or the lapse of time, or both, would become an Event of Default.

“Default Interest” means the interest accruing at the Default Rate on any amount of Regular Interest on the Timber Notes that was not paid when such amount became due and payable.

“Default Rate” means the applicable Note Rate plus 2.00% per annum.

“Definitive Notes” has the meaning given to such term in Section 2.1.

“Depository” means, with respect to the Global Certificates, DTC or such other Person or Persons as shall be designated as Depository by the Registrar pursuant to Section 2.6(a) of the Indenture.

“Discounted Servicing Obligation,” at any Monthly Deposit Date or Note Payment Date, means the amount specified as the Discounted Servicing Obligation (column J) opposite the Monthly Period preceding such date on the Structuring Schedule.

“Disposal Site” means any site, facility or location to which any Hazardous Materials from or attributable to the Company Owned Timberlands have been transported for treatment, disposal, storage or deposit.

“Dollars” and **“\$”** means lawful money of the United States of America.

“DTC” means The Depository Trust Company, a New York corporation.

“DTC Custodian” has the meaning given to such term in Section 2.1.

“Eligible Investments” means any one or more of the following, which, in each case, matures (or is redeemable by the holder thereof without the incurrence of a loss) not later than the date the funds invested therein are required to be used: (a) direct obligations of, and obligations fully guaranteed or insured by, the United States of America or any agency or instrumentality of the United States of America, the obligations of which are backed by the full faith and credit of the United States of America; (b) demand deposits (including but not limited to controlled disbursement accounts or other similar accounts) and time deposits with, and certificates of deposit and bankers’ acceptances issued by, any bank or trust company organized under the laws of the United States of America or any State thereof whose unsecured, unguaranteed long-term senior debt obligations are rated “AA” by S&P and “Aa2” by Moody’s or higher, or whose unsecured, unguaranteed commercial paper obligations are rated “A-1” by S&P and “P-1” by Moody’s or higher, including the Trustee, so long as the Trustee otherwise satisfies such requirements (or, in the case of the Expense Reserve, whether or not the Trustee satisfies such requirements); (c) repurchase agreements entered into with entities whose unsecured, unguaranteed long-term debt obligations are rated “AA” by S&P and “Aa2” by

Moody's or higher, or whose unsecured, unguaranteed commercial paper obligations are rated "A-1" by S&P and "P-1" by Moody's or higher, pursuant to a written agreement with respect to any obligation described in clause (a) above; (d) commercial paper (including both noninterest-bearing discount obligations and interest-bearing obligations payable on demand or on a specified date not later than 150 days from the date of acquisition thereof) and having a rating of "A-1" by S&P and "P-1" by Moody's or higher; (e) direct obligations or shares of any money market fund or other similar investment company all of whose investments consist of obligations described in the foregoing clauses of this definition and that is rated "AAm" by S&P and "Aa" by Moody's or higher; (f) taxable auction rate securities commonly known as "money market notes" that at the time of purchase have been rated and the ratings for which (i) for direct issues, must not be less than "P-1" if rated by Moody's and not less than "A-1" if rated by S&P, or (ii) for collateralized issues which follow the asset coverage tests set forth in the Investment Company Act of 1940, as amended, must have long-term ratings of at least "AAA" if rated by S&P and "Aaa" if rated by Moody's; or (g) with prior approval of the Majority Holders, any investments hereafter developed which are substantially comparable to those described above.

"Elk River Timberlands" means, in the event that any Headwaters Acquisition Property is acquired by an Affiliate of the Issuer upon consummation of the Headwaters Agreement (as such term is defined in the Offering Memorandum), (a) such Headwaters Acquisition Property or (b) the Alternate Property, either (a) or (b) of which will be transferred to the Issuer within 180 days after consummation of the Headwaters Agreement and made subject to the Lien of the Deed of Trust promptly after the acquisition thereof by the Issuer.

"Environmental Laws" means all federal, state or local statutes, laws, ordinances, regulations, rules, rulings, orders, restrictions, requirements, writs, injunctions, decrees or other official acts relating to the environment or hazardous or similar substances (including, without limitation, CERCLA and similar state laws), whether now or hereafter enacted or imposed by any Governmental Authority.

"Euroclear" means Morgan Guaranty Trust Company of New York, Brussels office, as operator of the Euroclear System.

"Event of Default" has the meaning given to such term in Section 7.1 of the Indenture.

"Excess Debt Obligations Amount" means, on any Note Payment Date, an amount equal to the excess, if any, of (a) the sum of (i) the Adjusted Debt Obligations on such date plus (ii) the Discounted Servicing Obligation at such date over (b) the Total Collateral Value at such date.

"Excess Funds" has the meaning given to such term in Section 5.3(c)(v) of the Indenture.

"Exchange Act" means the Securities Exchange Act of 1934, as amended and in effect from time to time.

"Expense Reserve" means account number [GE4766] established pursuant to Section 5.1(a) of the Indenture with the Securities Intermediary in the name of "The Bank of New York, as Collateral Agent for the Scotia Pacific Company LLC Noteholders--Expense Reserve," and all successor accounts thereto.

“Final Maturity Date” means _____, 2018.

“Financial Asset” means “financial asset” as defined in Section 8-102(a)(9) of the Uniform Commercial Code.

“First Lien Credit Facility” means the means the [Credit Agreement] expected to be dated on or prior to the Closing Date among the Issuer and the financial institutions named therein, and any related notes, collateral documents, letters of credit and guarantees, including any appendices, exhibits or schedules to any of the foregoing (as the same may be in effect from time to time), in each case, as such agreements may be amended, modified, supplemented or restated from time to time, or refunded, refinanced, restructured, replaced, renewed, repaid or extended from time to time (whether with the original agents and lenders or other agents or lenders or otherwise, and whether provided under the original credit agreement or other credit agreements or otherwise).

“First Lien Lenders” means the financial institutions providing credit to the Issuer under the First Lien Credit Facility.

“First Pacific Lumber Grant Deed” has the meaning given to such term in the definition of “Conveyance Documents.”

“General Laws” means all applicable statutes, laws, ordinances, regulations, rules, rulings, orders, restrictions, requirements, writs, injunctions, decrees or other official acts of any Governmental Authority, now and hereafter existing at any time or times, other than Environmental Laws and Tax Laws.

“GIS” means the geographical information system of the Issuer, including any Data Processing Equipment and/or Data Processing Information which is a part of such system, and any updates, upgrades or modifications thereto developed by Pacific Lumber or the Issuer.

“Global Notes” has the meaning ascribed to such term in Section 2.1.

“Governmental Authority” means (a) the United States of America, (b) any State, commonwealth, county, parish, municipality, territory, possession or other governmental subdivision within the United States of America or under the jurisdiction of the United States of America and (c) any Tribunal.

“Grant Deeds” means the First Pacific Lumber Grant Deed and the Second Pacific Lumber Grant Deed.

“Harvested Timber” means all trees, timber and crops which have been severed, cut or harvested from the Company Timber Property (other than the Pacific Lumber Timber Rights Property), or any parcel thereof, and with respect to which title has not yet passed to a third party purchaser in compliance with the terms of the Indenture.

“Hazardous Materials” means (a) any “hazardous waste,” “hazardous substance,” “hazardous material,” “hazardous constituent,” “toxic chemical,” “toxic substance,” “acutely toxic substance,” “pollutant” or “contaminant,” or any other formulation intended to define, list

or classify substances by reason of hazardous, dangerous, toxic or other deleterious properties, such as ignitability, corrosivity, reactivity, carcinogenicity, reproductive toxicity or “EP toxicity,” as defined in any Environmental Law (including, without limitation, asbestos, polychlorinated biphenyls, oil, petroleum, petroleum-related or petroleum-derived products, natural gas, natural gas liquids, liquefied natural gas or synthetic natural gas), or any similar substances, (b) any substance the presence of which on any property included in the Company Owned Timberlands is prohibited by any Environmental Law, (c) any underground storage tanks, (d) any flammable substances or explosives or any radioactive materials and (e) any other substances subject to any rules or regulations (including, without limitation, any notice requirements or special handling requirements) of any Governmental Authority under any Environmental Law.

“Hazardous Materials Contamination” means the contamination (whether now existing or hereafter occurring) of any improvements, facilities, soil, groundwater, air or other elements on or of any property included in the Company Owned Timberlands or the contamination of any improvements, facilities, soil, groundwater, air or other elements on or of any other lands as a result of Hazardous Materials at any time (before or after date of the Deed of Trust) emanating from any Company Owned Timberlands.

“Holder” means the Person in whose name a Timber Note is registered on the Register.

“Headwaters Acquisition Property” means, of the approximately 7,700 acres of timberlands expected to be acquired by an Affiliate of the Issuer upon the consummation of the Headwaters Agreement, that portion of such timberlands, if any, actually so acquired by an Affiliate of the Issuer upon consummation of the Headwaters Agreement.

“Indebtedness” means, as to any Person, without duplication, (i) all indebtedness of such Person for borrowed money or for the deferred purchase price of property or services, (ii) the face amount of all letters of credit issued for the account of such Person and all drafts drawn thereunder, (iii) the aggregate amount payable under all capital leases under which such person is the lessee, (iv) all Contingent Obligations of such Person, (v) all net obligations of such Person under any interest rate protection agreements, (vi) all obligations of such Person under “take-or-pay” or other similar agreements and (vii) all liabilities of the types described in clauses (i), (ii), (iii), (iv), (v) and (vi) secured by any Lien on any property owned by such Person, whether or not such liabilities have been assumed by such Person; provided, however, that Indebtedness shall not include (a) trade payables due within 90 days, accrued expenses and other current liabilities arising in the ordinary course of business in commercially reasonable amounts not inconsistent with industry standards, (b) compensation, pension obligations and other obligations arising from employee benefits and employee arrangements in commercially reasonable amounts not inconsistent with industry standards, (c) indebtedness consisting of letters of credit or otherwise required by law in respect of workers’ compensation obligations or similar social insurance and (d) indebtedness the occurrence of which is expressly contemplated by the terms of the Indenture or other Operative Documents.

[“Indebtedness Reserve Account” means account number [GE4806] established pursuant to Section 5.1(a) of the Indenture with the Securities Intermediary in the name of “The Bank of New York, as Collateral Agent for the Scotia Pacific Company LLC Noteholders--Indebtedness Reserve Account,” and all successor accounts thereto.]

“Indebtedness Reserve Debt” has the meaning given to such term in Section 5.10 of the Indenture.

“Indenture” shall mean the Indenture between the Issuer and the Trustee, pursuant to which the Timber Notes have been issued, as the same may be amended, modified or supplemented.

“Independent” when used with respect to any specified Person, means that such Person:

- (a) is in fact independent of the Issuer and any other obligor upon the Timber Notes;
- (b) is not an employee, officer, manager, director or an Affiliate of the Issuer or such other obligor; and
- (c) does not own, and that no Affiliate of such Person owns, directly or indirectly, any beneficial or other interest in the Issuer or such other obligor or in any Affiliate of the Issuer or such other obligor.

“Independent Appraiser” means any person who in the course of his business appraises properties of a type similar to the Company Owned Timberlands or Company Timber Rights and who is Independent.

“Independent Manager” means a Person who, on any date on which a determination thereof is to be made:

- (a) is a voting member of the Board of Managers;
- (b) is not an Affiliate of the Issuer (otherwise than to the extent such Person may be deemed an Affiliate of the Issuer by virtue of such position as a manager or as a director of the Issuer or of any entity merged with or consolidated into the Issuer) or Pacific Lumber, or an employee, officer or director of Pacific Lumber, or an employee or officer of the Issuer;
- (c) has not received, directly or indirectly, at any time during the two years immediately preceding such date, material compensation or payment from the Issuer or Pacific Lumber or from any Affiliate of the Issuer or Pacific Lumber (except for director’s or manager’s fees and expense reimbursement for serving as such);
- (d) does not own, directly or indirectly, any beneficial or other interest in the Issuer or Pacific Lumber; and
- (e) shall have a fiduciary duty to the Noteholders.

“Insolvency Event of Default” means the Event of Default specified in Section 7.1(7) of the Indenture.

“Institutional Accredited Investor” means a Person which is an institution and is an “accredited investor” as defined in Rule 501(a)(1), (2), (3) or (7) of Regulation D under the Securities Act, but is not a QIB.

"Intercreditor Agreement" means the Intercreditor Agreement, dated as of the Restatement Date, by and among _____, in its capacity as administrative agent pursuant to the First Lien Credit Facility, the Collateral Agent, and the Issuer.

"Issuer" has the meaning given to such term in the recitals to the Indenture.

"Issuer Taxes" means (without duplication) all taxes, assessments, fees, levies, imposts, duties, deductions, withholdings or other charges, together with any interest and penalties payable in connection therewith, from time to time or at any time imposed or assessed by any statute, law, ordinance, regulation, rule, ruling, order, writ, injunction, decree or other official act of any Governmental Authority (a) against the Issuer by reason of the Issuer's ownership, harvesting, sale or other disposition or use of all or any part of the Mortgaged Property, (b) upon or with respect to, measured by or charged against, required to be deducted or withheld from or otherwise attributable to all or any part of the Mortgaged Property (or the use, sale or other disposition thereof) or (c) upon or against the Issuer, the Collateral Agent, the Services Provider, the Trustee or any Beneficiary (as defined in the Deed of Trust) by reason of the Deed of Trust or the Liens created thereby, including, without limitation, yield, franchise, sales, transfer, gross receipts, profits, income (other than income taxes imposed on amounts paid or accrued on the Notes), property, ad valorem, production and severance taxes.

"Legended Definitive Note" means a Definitive Note bearing the Securities Legend.

"Lien" means any deed of trust, security interest, assignment, pledge, hypothecation, charge or other encumbrance.

"Lien of the Deed of Trust" means the lien, assignment and security interest created or granted, or renewed, extended and continued in force and effect, by the Deed of Trust (including the after-acquired property provisions of the Deed of Trust), or created by any subsequent conveyance under the Deed of Trust or supplement to the Deed of Trust in favor of the Collateral Agent (whether made by the Issuer or any other Person), or otherwise created, effectively constituting any property a part of the security and Mortgaged Property held by the Collateral Agent for the benefit of the Secured Parties.

"Lumber PPI Index" means, with respect to any date, the most recent Producer Price Index (Lumber and Wood Products Commodity Groups) (Standard Industrial Classification No. 2400) as published by the United States Department of Labor, Bureau of Labor Statistics or any substitute index hereafter adopted by the Department of Labor.

"Lumber PPI Inflation Factor" means, with respect to any date, a fraction, the numerator of which is the then most recent Lumber PPI Index and the denominator of which is the Lumber PPI Index in effect with respect to January 1, 1998.

"Lump Sum Sale" means, with respect to any sale of Company Timber, any agreement or arrangement pursuant to which the Issuer receives full cash payment in advance for the purchase price for a specified quantity of Company Timber (or Company Timber covered by one or more Timber Harvesting Plans or contained on one or more parcels of land), and is required to provide, subsequent to the date of such payment, the quantity of timber provided therein (or covered by such Timber Harvesting Plans or contained on such parcels).

“Majority Holders,” at any date, means the Holders of a majority in aggregate outstanding principal amount of the Timber Notes at such date.

“Manager” means a manager of the Issuer.

“Material Adverse Effect” means any material adverse effect on (a) the Mortgaged Property or the operation, use or value thereof, (b) the ability of the Issuer to perform and observe in all material respects its covenants and obligations under the Deed of Trust, the Indenture or any of the other Operative Documents, (c) the condition (financial or otherwise), results of operations, business or business prospects of the Issuer or (d) the rights or remedies of the Trustee or any Noteholder under the Indenture or of the Deed of Trust Trustee or the Collateral Agent under the Deed of Trust.

“Maximum Non-Cash Consideration Amount” shall mean, as of the date of release of any Company Owned Timberlands or Company Timber Rights (the **“Release Date”**), an amount equal to the amount of Excess Funds which would be available for payment to or as directed by the Issuer pursuant to Section 5.3(c)(v) of the Indenture on the next succeeding Monthly Deposit Date, based upon the following assumptions: (i) all Section 6.1 Notes proposed to be received in connection with the sale of Company Owned Timberlands or Company Timber Rights were to be received in the form of cash, (ii) no proceeds from any Company Owned Timberlands or Company Timber Rights (pursuant to sales under the New Master Purchase Agreement or otherwise) were received during the period from the Release Date through and including the next succeeding Monthly Deposit Date (except for the proceeds of sales pursuant to the New Master Purchase Agreement made prior to the Release Date in the Monthly Period to which such next succeeding Monthly Deposit Date relates), (iii) except for Deemed Production attributable to such sale of Company Owned Timberlands or Company Timber Rights, there was no Actual Production or Deemed Production during the period, if any, from and including the Release Date through the end of the Monthly Period to which such next succeeding Monthly Deposit Date relates, (iv) the balances in the Collection Account and the Expense Reserve shall equal the respective balances as of such Release Date (giving effect to transactions on such date and to payments under the New Master Purchase Agreement to be made on such next succeeding Monthly Deposit Date in respect of sales made prior to the Release Date) and (v) all transfers to and from the Collection Account as described in Sections 5.3(c)(i) through (iv), except to the extent provided in clauses (ii), (iii) and (iv) of this definition, shall be computed in the same manner as such items would be computed on the next succeeding Monthly Deposit Date.

“Mbfe” means, with respect to (i) old growth redwood, one Mbfe for each one thousand board feet, net Scribner scale, of Company Timber, (ii) old growth Douglas-fir, 0.723757 Mbfe for each one thousand board feet, net Scribner scale, of Company Timber, (iii) young growth redwood, 0.751381 Mbfe for each one thousand board feet, net Scribner scale, of Company Timber, (iv) young growth Douglas-fir, 0.488950 Mbfe for each one thousand board feet, net Scribner scale, of Company Timber and (v) each other species or category of Company Timber other than hardwoods (i.e., trees which are not conifers), 0.309392 Mbfe for each one thousand feet, net Scribner scale, of Company Timber.

“Minimum Obligations” means, on any Note Payment Date, the sum of all accrued and unpaid interest due and payable to the Holders of the Timber Notes on such Note Payment Date.

“Monthly Calculation Date” means the last day of each calendar month.

“Monthly Certificate Delivery Date,” with respect to any Monthly Calculation Date, means the day which is two Business Days prior to the Monthly Deposit Date with respect to such Monthly Calculation Date.

“Monthly Deposit Date,” with respect to any Monthly Calculation Date, means (a) the 20th day of the calendar month following such Monthly Calculation Date or (b) if such day is not a Business Day, the Business Day immediately succeeding such day (provided, however, that all calculations as of such Monthly Deposit Date shall be computed as of the date that would have been a Monthly Deposit Date if such date were a Business Day).

“Monthly Period” means, with respect to any Monthly Calculation Date, the calendar month ending on such Monthly Calculation Date.

“Monthly Noteholder Certificate” means a Certificate in substantially in the form of Exhibit D to the Indenture.

“Monthly Trustee Certificate” means a Certificate as of a Monthly Calculation Date prepared and delivered by the Issuer pursuant to Section 5.3(b) of the Indenture (which Certificate, except as otherwise provided herein, shall relate to the sale of Company Timber during the Monthly Period ending on such Monthly Calculation Date).

“Moody’s” means Moody’s Investors Service, Inc. or any successor to such corporation’s business of rating securities.

“Mortgaged Property” means all of the rights, titles, interests and estates now owned or hereafter acquired by the Issuer in, to and under, each of the following:

- (a) the Company Owned Timberlands;
- (b) the Company Timber Rights;
- (c) all Company Timber;
- (d) the Accounts, all funds, investments, securities and Financial Assets from time to time held in or credited to any Account, all Security Entitlements with respect to any Account and all interests, profits, Proceeds, or other income derived from such funds, investments, securities, Financial Assets and Security Entitlements and all the Issuer’s rights in any funds held in any Account;
- (e) all the Subject Contracts, and all the Proceeds now or hereafter receivable, owing, deliverable, performable or attributable to or under the Subject Contracts;
- (f) all Data Processing Equipment and all other machinery, equipment and other tangible personal property and all fixtures and improvements now or hereafter situated upon any part of the Company Owned Timberlands;

(g) all Data Processing Information and all other information, programs, know-how, methods or methodology relating to the management of the Company Timber Property and the harvesting, severing or cutting of Company Timber;

(h) all existing and future permits, licenses, rights-of-way, easements, leases, franchises, certificates of public convenience and necessity, and all similar rights and privileges, that relate to or are appurtenant to any part of the Company Timber Property;

(i) all Proceeds of and other rights relating to insurance or condemnation (including, without limitation, any judgments, insurance proceeds, awards of damages and settlements) receivable or accruing by reason of the loss of, damage to, diminution in the value of or income or revenues from, or taking (by power of eminent domain or otherwise) of all or any part of the properties or interests hereinabove or hereinbelow described in this definition of the Mortgaged Property;

(j) all documents, instruments, drafts, acceptances, general intangibles, chattel paper, deposit accounts, accounts, and all the Proceeds therefrom or attributable thereto, whether now or hereafter existing, arising out of or relating to the sale, use, exchange, development, operation, cutting, harvesting, storage, gathering, transportation, improvement, marketing, disposal, lease, handling or other dealings with or of all or any portion of the properties or interests hereinabove or hereinbelow described in this definition of Mortgaged Property;

(k) without limiting the foregoing descriptions, all equipment and inventory (as such terms are defined in the Uniform Commercial Code) and all documents (as defined in the Uniform Commercial Code) now and at any time or times hereafter obtained or acquired by the Issuer covering or representing all or any portion of the properties or interests hereinabove or hereinbelow described in this definition of Mortgaged Property;

(l) all Timber Harvesting Plans and any other permits, documents or other governmental approvals pertaining to the harvesting, cutting, severing, transporting, storing, processing or handling of the Company Timber; and all plans, engineering reports, land planning, maps, surveys, and information and any other reports, plans, maps, surveys or information to be used in connection with the Company Owned Timberlands or Company Timber Rights.

(m) all property of any kind or description that (i) may from time to time after the date of the Deed of Trust by delivery or by writing of any kind be conveyed, mortgaged, pledged, assigned or transferred to the Collateral Agent by the Issuer, or by any Person, with the consent of the Issuer, or otherwise as expressly permitted by the terms of the Deed of Trust and accepted by the Collateral Agent to be held as part of the Mortgaged Property or (ii) is required by the terms of the Indenture or the Deed of Trust to be subjected to the Lien of the Deed of Trust;

(n) each and every right, privilege, hereditament and/or appurtenance in anywise incident or appertaining to any of the properties or interests hereinabove or hereinbelow described in this definition of the Mortgaged Property;

(o) the Proceeds from or attributable to the rights, titles, interests and estates hereinabove referred to in this definition of the Mortgaged Property (including, without limitation, all Assigned Proceeds), all guarantees and suretyship agreements relating to any such

Proceeds, and the rights, titles and interests of the Issuer therein, and all security for payment or performance thereof, now or hereafter existing or arising;

(p) all other personal property used in connection with the above-described Mortgaged Property; and

(q) all extensions, renewals, proceeds, accessions, improvements, substitutions and replacements of and to any of the above-described Mortgaged Property.

Notwithstanding the foregoing, Mortgaged Property shall not include (i) any Pacific Lumber Timber, (ii) any motor vehicles subject to a certificate of title law, (iii) any Timber Harvesting Plans, to the extent that the Issuer is prohibited from granting a security interest therein, (iv) any permits, documents or other governmental approvals other than Timber Harvesting Plans which the Issuer is prohibited by applicable law from granting a security interest in or (v) any accounts or inventory (as each such term is defined in the Uniform Commercial Code) of Pacific Lumber or any proceeds thereof.

“New Additional Services Agreement” means the New Additional Services Agreement dated as of the Closing Date between the Issuer and Pacific Lumber, as the same may be amended, modified or supplemented.

“New Bill of Sale” has the meaning assigned to such term in the definition of “Conveyance Documents.”

“New Environmental Indemnification Agreement” means the New Environmental Indemnification Agreement dated as of the Closing Date between the Issuer and Pacific Lumber, as the same may be amended, modified or supplemented.

“New Master Purchase Agreement” means the New Master Purchase Agreement dated as of the Closing Date between the Issuer and Pacific Lumber, as the same may be amended, modified or supplemented.

“New Reciprocal Rights Agreement” means the New Reciprocal Rights Agreement dated as of the Closing Date among the Issuer, Pacific Lumber and Salmon Creek, as the same may be amended, modified or supplemented.

“New Services Agreement” means the New Services Agreement entered into between the Issuer and Pacific Lumber dated as of the Closing Date, as the same may be amended, modified or supplemented, and any similar agreement hereafter entered into between the Issuer and any Person (other than Pacific Lumber) as successor Services Provider, as the same may be amended, modified or supplemented.

“New Transfer Agreement” has the meaning assigned to such term in the definition of “Conveyance Documents.”

“Nonrecourse Timber Acquisition Indebtedness” means purchase money indebtedness incurred by the Issuer in the course of acquisition of any timberlands or timber rights, provided that (i) in the event of nonpayment of such purchase money indebtedness, the holder thereof shall

only have recourse for repayment to the property securing such indebtedness and (ii) the agreements in respect of such purchase money indebtedness shall contain a non-petition agreement substantially similar to that included in the New Master Purchase Agreement.

“Note Owner,” with respect to a Book-Entry Note, means the person who is the owner of such Book-Entry Note, as reflected on the books of the Clearing Agency, or on the books of a Person maintaining an account with such Clearing Agency (directly or through a Clearing Agency Participant, in accordance with the rules of such Clearing Agency).

“Note Payment Date” means January 20, 1999, and the 20th day of each January and July thereafter through and including the Final Maturity Date. Notwithstanding the foregoing provisions of this definition, if any date or day that would constitute a Note Payment Date is not a Business Day, the next succeeding such date or day shall constitute the Note Payment Date (provided, however, that interest payable on such Note Payment Date, and all other calculations as of such Note Payment Date, shall be computed as of the date which would have been a Note Payment Date if such date were a Business Day).

“Note Payment Noteholder Certificate” means a Certificate substantially in the form of Exhibit F to the Indenture.

“Note Payment Trustee Certificate” means the Certificate required to be prepared and submitted by the Issuer pursuant to Section 5.7(d) of the Indenture.

“Note Purchase Agreement” means the Purchase Agreement dated as of July 9, 1998 among the Issuer, Pacific Lumber and Salomon Brothers Inc., as Representative of the Initial Purchasers, in respect of the initial purchase of the Timber Notes.

“Note Rate” means, for the Timber Notes, the interest rate indicated on the face of the Timber Notes.

“Noteholder” means a Holder.

[**“Offering Memorandum”** means the Offering Memorandum dated July 9, 1998 relating to the offering of the Timber Notes, as such Offering Memorandum may be amended or supplemented.] [*Discuss any necessary updates.*]

“Officer” has the meaning given to such term in the definition of “Responsible Officer.”

“Officer’s Certificate” means a certificate that:

(a) is signed by a Responsible Officer of the Person or Persons required to furnish or submit such certificate; and

(b) complies with the applicable requirements of Section 12.5 of the Indenture or Section 10.9 of the Deed of Trust, as the case may be.

“Operating Agreement” means the Agreement of Limited Liability Company of the Issuer, as amended from time to time.

“Operating Default” means:

- (a) any failure by the Services Provider to provide any certificate, report or notice to the Issuer or the Trustee, all in accordance with the New Services Agreement, and the continuation of such failure for five Business Days after notice thereof from the Issuer or the Trustee;
- (b) any failure by the Services Provider to observe or perform any covenant or agreement of the Services Provider under the New Services Agreement that has a Material Adverse Effect (and if such default is remediable, the continuation of such default for a period of 30 days after notice thereof from the Issuer or the Trustee);
- (c) the execution by the Services Provider of any instrument purporting to assign any of its duties or responsibilities under the New Services Agreement except as expressly permitted by the New Services Agreement;
- (d) any representation or warranty made by Pacific Lumber as initial Services Provider in the New Services Agreement (or by any successor Services Provider in any other New Services Agreement) shall prove to have been incorrect as of the time when the same was made and the circumstance or condition in respect of which such representation or warranty was incorrect has a Material Adverse Effect (and if such default is remediable, the continuation of such default for a period of 30 days after notice thereof from the Issuer or the Trustee); or
- (e) the Bankruptcy or Insolvency of the Services Provider.

“Operative Documents” means the Indenture, the Deed of Trust, the Timber Notes from time to time outstanding, the New Services Agreement, the New Master Purchase Agreement (and log purchase agreements entered into pursuant thereto) and the Conveyance Documents.

“Opinion of Counsel” means a written opinion of Counsel which:

- (a) complies with the applicable requirements of Section 12.5 of the Indenture or Section 10.9 of the Deed of Trust, as applicable;
- (b) is addressed to the Trustee or the Collateral Agent, as applicable; and
- (c) is in form and substance reasonably satisfactory to the addressee.

“outstanding” when used with reference to any Timber Notes means, as of any particular time, all Timber Notes theretofore authenticated and delivered by the Trustee, other than Timber Notes in respect of which all outstanding or accrued principal of, Regular Interest and Default Interest on shall have been paid in full in accordance with the Indenture; Timber Notes theretofore canceled by the Trustee, or surrendered to the Trustee for cancellation, pursuant to Section 2.9 of the Indenture; Timber Notes in substitution for which other Timber Notes shall theretofore have been authenticated and delivered pursuant to the Indenture; and solely for purposes of determining whether the holders of the requisite aggregate outstanding principal amount of Timber Notes have given any request, demand, authorization, direction, notice, consent or waiver hereunder, Timber Notes registered in the name of (i) the Issuer or any other

obligor upon the Timber Notes, (ii) any nominee or Affiliate of the Issuer or such other obligor, (iii) any successor to the interest of the Issuer in all or substantially all of the Mortgaged Property, (iv) any nominee or Affiliate of any such successor, (v) Pacific Lumber or (vi) any nominee or Affiliate or nominee of any Affiliate of Pacific Lumber.

“Pacific Lumber” means The Pacific Lumber Company and any successor in interest thereto.

“Pacific Lumber Timber” means (i) all trees and timber, including, without limitation, standing timber and crops, now located on or hereafter planted or growing in the soil of any Pacific Lumber Timber Rights Property, or any part or parcel thereof, and all additions, substitutions and replacements thereof and (ii) any and all of the foregoing which have been severed, cut or harvested from the Pacific Lumber Timber Rights Property or any part of parcel thereof.

“Pacific Lumber Timber Deeds” has the meaning assigned to such term in the definition of “Conveyance Documents.”

“Pacific Lumber Timber Rights” means the timber rights of Pacific Lumber in respect of the Pacific Lumber Timber Rights Property, including, without limitation, the ownership of, and (subject to compliance with applicable law) the right in perpetuity to harvest, all trees and timber, including, without limitation, standing timber and crops, now located on or hereafter planted or growing in the soil of any Pacific Lumber Timber Rights Property or any part or parcel thereof.

“Pacific Lumber Timber Rights Property” means those portions of the Company Owned Timberlands specifically identified as Pacific Lumber Timber Rights Property on those certain maps held by an escrow agent pursuant to an Escrow Agreement by and among the Issuer, Pacific Lumber, Salmon Creek and such escrow agent, dated as of the Closing Date.

“Pacific Lumber Timber Rights Property Release Documents” has the meaning assigned to such term in Section 6.3 of the Indenture.

“Pacific Lumber Timber Rights Property Release Notice” has the meaning set forth in Section 6.3 of the Indenture.

“Pay-as-You-Harvest Sale” means, with respect to any sale of Company Timber, any agreement or arrangement pursuant to which (A) the Issuer shall receive partial payment in advance (the **“Up-Front Payment”**) for the purchase of a specified quantity of Company Timber (or Company Timber covered by one or more Timber Harvesting Plans or contained on one or more parcels of land), and the balance of which shall be paid as (or after) such Company Timber is harvested and/or delivered or (B) the Issuer shall receive payments for the purchase of a specified quantity of Company Timber (or Company Timber covered by one or more Timber Harvesting Plans or contained on one or more parcels of land) as (or after) such Company Timber is harvested and/or delivered.

“Paying Agent” has the meaning given to such term in Section 2.3 of the Indenture.

[**“Payment Account”** means account number [GE4765] established pursuant to Section 5.1(a) of the Indenture with the Securities Intermediary in the name of “The Bank of New York, as Collateral Agent for the Scotia Pacific Company LLC Noteholders--Payment Account,” and all successor accounts thereto.]

“Payment Default” means any Event of Default specified in paragraph (1), (2), (3), (4) or (5) of Section 7.1 of the Indenture.

“Permitted Encumbrances” means:

- (a) the specific matters, if any, to which the Deed of Trust is expressly made subject as set forth in a Schedule to a mortgagee title insurance policy in favor of the Trustee or Collateral Agent in respect of the Mortgaged Property;
- (b) the New Reciprocal Rights Agreement;
- (c) easements, restrictions, rights-of-way, servitudes, restrictive covenants, permits, licenses, use agreements, boundary agreements, surface leases, subsurface leases, or other similar encumbrances on, over or in respect of the Company Timber or the Company Timber Property contained in or arising from or in respect of any document, instrument or agreement entered into by or with the consent of the Issuer in connection with any Timber Harvesting Plans, Timber Laws or Environmental Laws;
- (d) discrepancies, conflicts in boundary lines, shortages in area, encroachments or any other facts which a correct survey would disclose, none of which, singly or in the aggregate, materially adversely affects the operation or value of the Mortgaged Property or materially adversely impairs the Issuer’s or the Collateral Agent’s right to receive and retain the proceeds of cutting, harvesting or severing of Company Timber attributable to the Company Owned Timberlands or the Company Timber Rights;
- (e) Liens for Issuer Taxes not yet delinquent or that are being diligently contested by the Issuer in good faith by appropriate proceedings and against which adequate reserves are being maintained in accordance with generally accepted accounting principles by the Issuer, provided that the enforcement or foreclosure of any such lien shall have been stayed pending the resolution of such proceedings;
- (f) operators’ liens or mechanics’ or materialmen’s liens arising in the ordinary course of business and incidental to the incurrence of reasonable expenses permitted by the Indenture or Deed of Trust with respect to the Mortgaged Property for amounts not yet due and payable or that are being diligently contested by the Issuer in good faith by appropriate proceedings and against which adequate reserves are being maintained by the Issuer, provided that the enforcement or foreclosure of any such lien shall have been stayed pending the resolution of such proceedings and such lien is fully subordinate to and subject in right of prior payment of the Secured Obligations;
- (g) easements, restrictions, rights-of-way, servitudes, restrictive covenants, permits, licenses, use agreements, boundary agreements, surface leases, subsurface leases or other similar encumbrances on, over or in respect of the Company Timber or Company Owned Timberlands,

none of which, singly or in the aggregate, materially adversely affects the operation or value of the Mortgaged Property or materially adversely impairs the Issuer's or the Collateral Agent's right to receive and retain the Proceeds of cutting, harvesting or severing Company Timber attributable to the Company Owned Timberlands or the Company Timber Rights;

(h) such sales contracts and other similar agreements as are customarily found in connection with operating properties comparable to the Company Owned Timberlands or Company Timber Rights, none of which, singly or in the aggregate, materially adversely affects the operation or value of the Mortgaged Property or materially adversely impairs the Issuer's or the Collateral Agent's right to receive and retain the Proceeds of cutting, harvesting or severing Company Timber attributable to the Company Owned Timberlands or the Company Timber Rights;

(i) any lease, contract or other agreement or encumbrance (including, without limitation, the interest of any purchaser under a Lump Sum Sale Agreement entered into in accordance with Section 6.1 of the Indenture in and to the Company Timber so purchased) granted or created by the Issuer after the date of the Deed of Trust that is specifically permitted and authorized under the terms of the Indenture and/or the Deed of Trust;

(j) Liens securing the Indebtedness referred to in clause (u) of Section 4.9 of the Indenture;

(k) Liens on property utilized in the Preserve Project; and

(l) Liens securing Indebtedness under the First Lien Credit Facility.

"Permitted Investments" means (i) Eligible Investments, (ii) any Section 6.1 Notes, (iii) investments of a nature described in the definition of Eligible Investments, without regard to the required ratings or maturities set forth therein, and any investments in the Preserve Project.

"Person" means an individual, a corporation, a partnership, a trust, an unincorporated organization, a limited liability company (including, without limitation, the Issuer), or a government or political subdivision thereof.

"Personnel Costs" means all costs and expenses incurred by the Issuer after the Closing Date attributable to individuals employed by the Issuer.

"Post-Acceleration Date" has the meaning given to such term in Section 7.7 of the Indenture.

"PPI Index" means, with respect to any date, the most recent Producer Price Index (all Commodities) as published by the United States Department of Labor, Bureau of Labor Statistics or any substitute index hereafter adopted by the Department of Labor.

"Preserve Project" means the undertaking of the Issuer to market, [operate] and sell the Ancient Redwood Groves and develop, market and sell the Redwood Preserve Development.

“Proceeding” means any suit in equity, action at law or other judicial or administrative proceeding.

“Proceeds” means all proceeds, products, offspring, rents or profits of or derived from the Mortgaged Property. The term “Proceeds” includes whatever is receivable or received when any of the Mortgaged Property or Proceeds is sold, collected, exchanged or otherwise disposed of, whether such disposition is voluntary or involuntary, and includes, without limitation, all rights to payment, including return premiums, with respect to any insurance relating thereto.

“Producer Price Index Inflation Factor” means, with respect to any date, a fraction, the numerator of which is the then most recent PPI Index and the denominator of which is the PPI Index in effect with respect to January 1, 1998.

“Purchase Agreement” shall mean (i) the New Master Purchase Agreement or (ii) any other agreement for the purchase of stumpage or logs between the Issuer and any other Person, as the same may be extended, renewed, modified, amended or supplemented.

“Purchase Agreement Default” means:

(a) any failure by Pacific Lumber to make any payment, transfer or deposit to the Issuer or the Trustee in accordance with the New Master Purchase Agreement, and the continuation of such failure for ten Business Days after notice from the Issuer or the Trustee;

(b) any failure by Pacific Lumber to observe or perform any covenant or agreement of Pacific Lumber under the New Master Purchase Agreement that has a Material Adverse Effect (and if such default is remediable, the continuation of such default for a period of 30 days after notice from the Issuer or the Trustee);

(c) the execution by Pacific Lumber of any instrument purporting to assign any of its duties or responsibilities under the New Master Purchase Agreement except as expressly permitted by the New Master Purchase Agreement;

(d) any representation or warranty of Pacific Lumber in the New Master Purchase Agreement shall prove to have been incorrect as of the time when the same was made and the circumstance or condition in respect of which such representation or warranty was incorrect has a Material Adverse Effect (and if such default is remediable, the continuation of such default for a period of 30 days after notice from the Issuer or the Trustee);

(e) the Bankruptcy or Insolvency of Pacific Lumber; or

(f) the failure by the applicable Affiliate of the Issuer to transfer the Elk River Timberlands, if any, to the Issuer within the time period specified under the definition of “Elk River Timberlands,” and the continuation of such failure for ten Business Days after notice from the Issuer or the Trustee.

“QIB” means “qualified institutional buyer” as defined in Rule 144A under the Securities Act.

“Quitclaim Deed” has the meaning assigned to such term in the definition of “Conveyance Documents.”

“Record Date” for any Note Payment Date, means the close of business on the fifth day of the month in which such Note Payment Date occurs. If a Record Date is not a Business Day, the Record Date shall not be affected.

“Redwood Preserve Development” means the approximately 22,000 acres of timberlands and ranchlands, with views of, and in some cases adjacent to, the Ancient Redwood Groves that the Issuer intends to develop and sell.

“Register” shall have the meaning set forth in Section 2.3 of the Indenture.

“Registrar” shall have the meaning set forth in Section 2.3 of the Indenture.

“Regular Interest” means interest on the unpaid portions of the principal amounts of the outstanding Timber Notes (computed on the basis of a 360-day year of twelve 30-day months).

“Regulation S Exchange Certificate” means a certificate substantially in the form of Exhibit I to the Indenture.

“Regulation S Transfer Certificate” means a certificate substantially in the form of Exhibit H to the Indenture.

[**“Reinvestment Factor”** means, for any Monthly Deposit Date in each year, the following factors:

<u>Monthly Deposit Dates</u>	<u>Factor</u>
January 20 and July 20	1.00000
February 20 and August 20	1.02872
March 20 and September 20	1.02291
April 20 and October 20	1.01713
May 20 and November 20	1.01139
June 20 and December 20	1.00568

]

“Release and Substitution Notice” has the meaning given to such term in Section 6.4 of the Indenture.

“Release and Substitution Documents” has the meaning given to such term in Section 6.4 of the Indenture.

“Release Date” has the meaning given to such term under the definition of “Maximum Non-Cash Consideration Amount.”

“Release Documents” has the meaning given to such term in Section 6.1 of the Indenture.

“Release Notice” has the meaning given to such term in Section 6.1 of the Indenture.

“Responsible Officer” or “Officer”

(a) of any Person that is a corporation (other than the Trustee), means the chairman of the board of directors, the president or any vice president, the controller or any assistant controller, the treasurer or any assistant treasurer, or the secretary or any assistant secretary of such Person;

(b) of any Person that is a partnership (other than the Trustee), means any such officer of a corporate general partner of such Person or any individual general partner of such Person;

(c) of any Person that is a limited liability company (other than the Trustee), means the chairman of the board of managers and any other person performing functions comparable to the functions of the officers enumerated in (a) of this definition); and

(d) of the Trustee or the Collateral Agent, means (i) any officer in the Corporate Trust Office of the Trustee and (ii) any other officer of the Trustee to whom a matter is referred because of such officer’s knowledge of and familiarity with such matter.

“Restatement Date” means _____, 2008.

“Restricted Global Notes” has the meaning set forth in Section 2.1 of the Indenture.

“Restricted Payment” shall have the meaning set forth in Section 4.11 of the Indenture.

“Restricted Period” means the period from the Closing Date through the 40th day after the Closing Date.

“Rule 144A Exchange Certificate” means a certificate substantially in the form of Exhibit J to the Indenture.

“Rule 144A Transfer Certificate” means a certificate substantially in the form of Exhibit G to the Indenture.

“Salmon Creek” means Salmon Creek Corporation, a Delaware corporation, and any successor in interest thereto.

“Scotia Pacific” means Scotia Pacific Holding Company, a Delaware corporation.

“SEC” means the Securities and Exchange Commission or any successor agency responsible for the administration of the Securities Act.

“Second Pacific Lumber Grant Deed” has the meaning given to such term in the definition of “Conveyance Documents.”

“S&P” means Standard & Poor’s, a division of The McGraw-Hill Companies, or any successor to such division’s business of rating securities.

“Section 6.1 Notes” shall have the meaning given to such term in Section 6.1 of the Indenture.

“Secured Obligations” means all indebtedness, liabilities and other obligations described or referred to in and provided to be secured by the Deed of Trust as set forth in the granting clause of the Deed of Trust.

“Secured Parties” means any Persons who at any time or from time to time are holders of any of the Secured Obligations or any portion thereof.

“Securities Act” means the Securities Act of 1933, as amended and in effect from time to time.

“Securities Intermediary” means The Bank of New York, acting in its capacity as a “securities intermediary” (as defined in Section 8-102(a)(14) of the Uniform Commercial Code, and any successor entity thereto.

“Securities Legend” means the legend set forth in Section 2.6(b) of the Indenture.

“Security Agreement” means the security agreement set forth in Article III of the Deed of Trust, covering and describing the Collateral Mortgaged Property and other rights and interests of the Issuer and securing payment of the Secured Obligations.

“Security Entitlement” means “security entitlement” as defined in Section 8-102(a)(17) of the Uniform Commercial Code.

“Services” has the meaning given to such term in the New Services Agreement.

“Services Fee” means, for any month, the fee for such month payable by the Issuer to the Services Provider pursuant to Section 5.1(a)(i) of the New Services Agreement as partial compensation for the Services provided during such month by the Services Provider pursuant to the New Services Agreement.

“Services Provider” means Pacific Lumber, as the initial service provider under the New Services Agreement, together with its successors in such capacity under the New Services Agreement.

“State” means any one of the 50 states of the United States of America (and any additional states that may be admitted after the Closing Date) or the District of Columbia.

“Structured Harvest Quantity” shall mean 3,397,345 Mbfe.

“Structuring Schedule” means the schedule attached to and incorporated in the Indenture as Schedule C.

“Structuring Prices” means the prices per Mbfe set forth under Column C in the Structuring Schedule.

“Subject Contracts” means (a) all presently existing and future contracts or leases relating in any manner to the purchase, sale, removal, regeneration, cutting, harvesting, hauling or storing of any Company Timber, including, without limitation, the New Master Purchase Agreement, (b) the New Services Agreement, (c) the Conveyance Documents, and (d) any other agreements entered into by the Issuer subsequent to the date of the Deed of Trust, whether or not of the same general nature as set forth in clauses (a) through (d).

“Substitute Timber Property” means any parcel or parcels of land or any timber rights subjected to the Lien of Deed of Trust in accordance with Section 6.4 of the Indenture.

“Supermajority Holders,” at any date, means the Holders of 66 2/3% in aggregate outstanding principal amount of Timber Notes at such date.

“Takings Litigation” means any existing or future action brought by the Issuer alleging uncompensated taking, by any governmental authority, of Company Owned Timberlands or Company Timber Rights for public use, and seeking just compensation from or other relief against such governmental authority.

[“Targeted Monthly Deposit Amount” means, for any Monthly Deposit Date, the excess of (a) the sum of (i) the Debt Obligations as of such Monthly Deposit Date plus (ii) the Discounted Servicing Obligation as of such Monthly Deposit Date over (b) the sum of (i) the Total Collateral Value as of such Monthly Deposit Date plus (ii) all amounts then on deposit in the Payment Account, including interest earned thereon as of such Monthly Deposit Date (before giving effect to any deposits made in the Payment Account, or to any transactions effected pursuant to Section 5.7 of the Indenture, on such Monthly Deposit Date after the immediately preceding Note Payment Date or, if the first Note Payment Date has not yet occurred, after the Closing Date); provided that in no event shall the Targeted Monthly Deposit Amount be less than the excess (if any) of (x) the amount of accrued and unpaid interest on the principal of the outstanding Timber Notes on such Monthly Deposit Date over (y) the balance in the Payment Account on such Monthly Deposit Date (before giving effect to any deposits made in the Payment Account, or to any transactions effected pursuant to Section 5.7 of the Indenture, on such Monthly Deposit Date after the immediately preceding Note Payment Date or, if the first Note Payment Date has not yet occurred, after the Closing Date).]

“Tax Laws” means all applicable statutes, laws, ordinances, regulations, rules, rulings, orders, restrictions, requirements, writs, injunctions, decrees or other official acts relating to the reporting, imposition, rendition, collection, enforcement or other aspects of Issuer Taxes, of every kind or character now imposed or hereafter enacted by any Governmental Authority.

“Taxes” means all Yield Taxes and all ad valorem, occupation, property and other taxes and assessments imposed with respect to the Company Owned Timberlands or Company Timber Rights subject to the Lien of the Deed of Trust (excluding income taxes and franchise taxes).

“TIA” means the Trust Indenture Act of 1939, as amended and in effect from time to time.

“Timber Harvesting Plans” means all permits, whether now existing or hereafter created, filed with any Governmental Authority with respect to the harvesting, cutting or severance of Timber.

“Timber Laws” means all applicable statutes, laws, ordinances, regulations, rules, rulings, orders, restrictions, requirements, writs, injunctions, decrees or other official acts relating to the harvesting, cutting, severance, handling or transporting of Company Timber, and the maintenance, operation and management of the Company Timber Property, whether now or hereafter enacted or imposed by any Governmental Authority, including, without limitation, those relating to streams, waterways, wildlife habitat and endangered species, exclusive of Environmental Laws.

“Timber Note” or **“Note”** means any of the Timber Notes.

“Title Commitment” means the commitment for a Title Insurance Policy.

“Title Defect” means any encumbrance, encroachment, irregularity, defect, or deficiency in or objection to the Issuer’s title to any portion of the Company Owned Timberlands or Company Timber Rights subject to the Lien of the Deed of Trust (other than Permitted Encumbrances) that, alone or in combination with other defects, renders the Issuer’s title to such Company Owned Timberlands or Company Timber Rights other than good and marketable title.

“Title Insurance Policy” means any ALTA mortgagee’s policy of title insurance in favor of the Trustee or the Collateral Agent in respect of the Company Owned Timberlands and Company Timber Rights subject to the Lien of the Deed of Trust.

“Total Collateral Value” means, on any date, an amount equal to the lesser of (a) the Deemed Collateral Value for the Monthly Calculation Date immediately preceding such date and (b) the Structuring Collateral Value for the Monthly Calculation Date immediately preceding such date.

“Transaction” has the meaning assigned to such term in Section 4.15 of the Indenture.

“Transferee Letter” means a letter substantially in the form of Exhibit K to the Indenture.

“Tribunal” means any court or any governmental department, commission, board, bureau, agency or instrumentality of the United States of America or of any State, commonwealth, territory, possession, county, parish, municipality or other governmental subdivision within the United States of America or under the jurisdiction of the United States of America, whether now or hereafter constituted or existing.

“Trustee” means the Person named as “Trustee” in the recitals to the Indenture, in its capacity as trustee under the Indenture, together with its successors in such capacity.

“Trustee’s Expenses” means any fees, expenses, and damages of, or compensation to, the Trustee (including, without limitation, the reasonable fees and disbursements of counsel to

the Trustee) incurred pursuant to the Indenture or owing to the Trustee as part of the Secured Obligations.

“Trustor” means the Issuer, as trustor under the Deed of Trust.

“Unallocated Payment” has the meaning given to such term in Section 5.5 of the Indenture.

“Uniform Commercial Code” means the Uniform Commercial Code as now or hereafter in effect in the State of California.

“Unlegended Definitive Note” means a Definitive Note which does not bear the Securities Legend.

“Unrestricted Global Notes” has the meaning ascribed to such term in Section 2.1 of the Indenture.

“Up-Front Payment” has the meaning set forth in the definition of Pay-as-You-Harvest-Sale.

“U.S. Government Obligations” shall have the meaning set forth in Section 8.4 of the Indenture.

“Yield Taxes” means all yield, severance, excise, sales and other taxes imposed on the cutting, harvesting, severing or sale of Company Timber from the Company Owned Timberlands or the Company Timber Rights Property subject to the Lien of the Deed of Trust (excluding income taxes and franchise taxes).

EXHIBIT A-1-1**(FORM OF FACE OF NOTE)**

UNLESS THIS NOTE IS PRESENTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITORY TRUST COMPANY, A NEW YORK CORPORATION (“**DTC**”), TO THE TRUSTEE OR ITS AGENT FOR REGISTRATION OF TRANSFER, EXCHANGE, OR PAYMENT, AND ANY NOTE ISSUED IS REGISTERED IN THE NAME OF CEDE & CO. OR IN SUCH OTHER NAME AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC (AND ANY PAYMENT IS MADE TO CEDE & CO. OR TO SUCH OTHER ENTITY AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC), ANY TRANSFER, PLEDGE OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL SINCE THE REGISTERED OWNER HEREOF, CEDE & CO., HAS AN INTEREST HEREIN.

PRINCIPAL OF THIS NOTE IS PAYABLE IN INSTALLMENTS, AS SET FORTH HEREIN, WITHOUT SURRENDER OF THIS NOTE. ACCORDINGLY, THE UNPAID PRINCIPAL AMOUNT OF THIS NOTE AT ANY TIME MAY BE LESS THAN THE INITIAL PRINCIPAL AMOUNT SET FORTH BELOW (DUE TO PRINCIPAL PAYMENTS BEFORE OR AFTER THE DATE OF THIS NOTE). ANYONE ACQUIRING BENEFICIAL OWNERSHIP OF THIS NOTE MAY ASCERTAIN THE CURRENT PRINCIPAL AMOUNT BY INQUIRY OF THE TRUSTEE.

No. _____ \$ _____

CUSIP No. _____

SCOTIA PACIFIC COMPANY LLC**7.50% Timber Collateralized Notes, due 2018**

Scotia Pacific Company LLC, a Delaware limited liability company, promises to pay to _____, or registered assigns, the principal sum of _____ Dollars (or such other amount (not in excess of Two Hundred Twenty-Five Million Dollars (\$225,000,000)) as shall equal the unpaid principal amount of this Note) on _____, 2018 (the “**Final Maturity Date**”) and, on each Note Payment Date, such amounts as provided in the Indenture.

Note Payment Dates: [January 20th and July 20th]

Record Dates: [January 5th and July 5th]

Note Rate: 7.50%

Reference is made to the further provisions of this Note set forth on the reverse hereof, which further provisions are incorporated and shall for all purposes have the same effect as if set forth at this place. Capitalized terms used and not defined in this Note which are defined in the Indenture referred to herein have the meanings assigned to them in the Indenture.

IN WITNESS WHEREOF, the Issuer has caused this Note to be signed manually or by facsimile by its duly authorized officers.

Dated: _____, _____

SCOTIA PACIFIC COMPANY LLC

By _____
President or Vice President

By _____
Secretary or Assistance Secretary

TRUSTEE'S CERTIFICATE OF AUTHENTICATION

THE BANK OF NEW YORK

as Trustee,
certifies that this is one
of the Timber Notes referred
to in the Indenture.

by _____
Authorized Signatory

7.50% Timber Collateralized Notes, due 2018

1. Interest; Principal

SCOTIA PACIFIC COMPANY LLC, a Delaware limited liability company (such limited liability company, and its successors and assigns under the Indenture hereinafter referred to, being herein called the “**Issuer**”), promises to pay to the registered Holder hereof, or to its registered assigns, the initial principal amount indicated on the face hereof (or such lesser amount as shall equal the unpaid principal amount of this Note) on the Final Maturity Date indicated on the face hereof and, on each Note Payment Date that precedes the Final Maturity Date, (i) the principal amount required to be paid on such date by Sections 2.11 and 5.7 of the Indenture, (ii) interest (computed on the basis of a 360-day year of twelve 30-day months) on the unpaid principal balance hereof, from and including the most recent Note Payment Date on which interest has been duly paid to but excluding such Note Payment Date at the rate per annum indicated on the face hereof, and (iii) without duplication of any amount payable pursuant to clause (ii), interest (computed on the basis of a 360-day year of twelve 30-day months) on any principal of this Note, and, to the extent lawful, interest payable under the foregoing clause (ii), that is not paid on the date such principal or interest becomes due and payable, for the period from and including the date such principal or interest becomes due and payable to but excluding the date such principal or interest is paid in full, at the Default Rate. If the date scheduled to be a Note Payment Date is not a Business Day, the next succeeding day that is a Business Day shall

be the Note Payment Date, but all calculations of interest and other items will be as of the 20th day of the applicable month. For the purposes of Section 2.11(b) of the Indenture, if any portion of the principal amount of any Note remains unpaid after the final Maturity Date, and, if the Notes shall not have been accelerated pursuant to Section 7.2 of the Indenture, the last day of each month that occurs after such Final Maturity Date and prior to the date on which the entire unpaid principal amount of such Note is paid shall be deemed to constitute a Note Payment Date.

2. **Method of Payment**

The Issuer will pay the amounts payable on the Notes on each Note Payment Date to the persons who are registered Holders of Notes at the close of business on the fifth day of the month in which such Note Payment Date occurs (the “**Record Date**”), even if Notes are canceled after the Record Date and on or before such Note Payment Date. Holders need not surrender Notes to a Paying Agent to collect principal or other amounts payable in respect of the Notes, except that Notes must be surrendered to a Paying Agent after due notice to collect the final installment of principal thereon. The Issuer will pay all amounts payable on the Notes in money of the United States that at the time of payment is legal tender for payment of public and private debts. Payments on Definitive Notes will be made (i) by a U.S. dollar check drawn on a bank in New York City or Boston, Massachusetts mailed to the Holder at such Holder’s registered address or (ii) upon application by a Holder of at least U.S. \$[5,000,000] in principal amount of Definitive Notes to a Paying Agent not later than five Business Days prior to the related Record Date, by wire transfer in immediately available funds to a U.S. dollar account maintained by such Holder with a bank in New York City or Boston, Massachusetts. Payments to Holders of the Global Notes will be made (i) by a U.S. dollar check drawn on a bank in New York City or Boston, Massachusetts delivered to the registered owner of such Global Notes, at its registered address or (ii) by wire transfer in immediately available funds to a U.S. dollar account maintained by such registered owner with a bank in New York City or Boston, Massachusetts. However, the final distribution with respect to the Timber Notes will be made only against surrender of the Timber Notes at the corporate trust office of a Paying Agent, in Boston, Massachusetts or New York, New York.

3. **Paying Agent and Registrar**

The Trustee will initially act as sole Paying Agent and the Trustee, initially, will act as Registrar. The Issuer may appoint and change any Registrar without notice. The Issuer may act as Registrar. The Issuer may appoint one or more other paying agents.

4. **Indenture; Deed of Trust**

The Issuer has issued the Notes under an Indenture dated as of July 20, 1998 (the “**Indenture**”), between the Issuer and The Bank of New York, a [New York banking association]. The terms of the Notes include those stated in the Indenture and those made part of the Indenture by reference to the Trust Indenture Act of 1939 (15 U.S.C. §§ 77aaa-77bbb) as in effect on the date of the Indenture (the “**TIA**”). The Notes are subject to all such terms, and Noteholders are referred to the Indenture and the TIA for a statement of those terms.

The Notes and the obligations of the Issuer pursuant to the Indenture and the Deed of Trust are secured by a Deed of Trust, Security Agreement, Financing Statement, Fixture Filing and Assignment of Proceeds dated on or prior to July 20, 1998 (the “**Deed of Trust**”) by the Issuer, as trustor, in favor of a trustee under the Deed of Trust, for the benefit of The Bank of New York, in its capacity as collateral agent for the Holders of the Timber Notes pursuant to the Deed of Trust. Noteholders are referred to the Deed of Trust for a statement of the terms thereof. Subject to certain exceptions set forth in the Deed of Trust, (i) the Deed of Trust may be amended with the written consent of the Majority Secured Parties and (ii) any default or noncompliance with any provision may be waived with the written consent of the Majority Secured Parties. Subject to certain exceptions set forth in the Deed of Trust, the Collateral Agent and the Issuer may amend the Deed of Trust to cure any ambiguity, omission, defect or inconsistency, to add to the covenants of the Issuer for the benefit of the Collateral Agent or the Secured Parties or to surrender any right or power conferred upon the Issuer or to make any change that does not adversely affect the rights of any Noteholder. The Indenture and the Deed of Trust impose certain restrictions upon, among other things, the ability of the Issuer to incur Indebtedness, to enter into agreements other than the Operative Documents, to create Liens on the Mortgaged Property, and to enter into transactions with Affiliates.

5. **Collateral**

Pursuant to the Deed of Trust, the Issuer has pledged the Mortgaged Property. The Notes do not constitute obligations of The Pacific Lumber Company (“**Pacific Lumber**”), and the Notes are not guaranteed by Pacific Lumber or any other Person.

6. **Optional Redemption or Prepayment**

The Issuer may redeem the Notes, in whole or in part, at any time, at a redemption price equal to (i) all unpaid principal amounts thereof as of the redemption date, (ii) all accrued and unpaid Regular Interest, Default Interest thereon as of the redemption date. The issuer may also make optional partial or total prepayments of principal on any Note Payment Date as provided in the Indenture.

7. **Notice of Redemption**

Notice of redemption will be mailed at least 15 days (or 30 days if legally required by DTC) but not more than 60 days before the redemption date to each Holder of Notes to be redeemed at his or her registered address. If money sufficient to pay the redemption price of all Notes called for redemption is deposited with the Paying Agent on or before the redemption date and certain other conditions are satisfied, on and after the redemption date interest shall cease to accrue on the Notes called for redemption.

8. **Denominations; Transfer; Exchange**

The Notes are in registered form without coupons in denominations of \$100,000 original principal amount or any integral multiple of \$1,000 in excess thereof. A Holder may transfer or exchange Notes in accordance with the Indenture. The Registrar may require a Holder, among other things, to furnish appropriate certificates, opinions, endorsements and transfer documents and to pay any taxes and fees required by law or permitted by the Indenture. The Registrar need

not transfer or exchange (i) any Notes called for redemption or (ii) any Notes for a period of 15 days before a Note Payment Date.

9. Persons Deemed Owners

The registered Holder of this Note may be treated as the owner of it for all purposes.

10. Unclaimed Money

If money for the payment of principal of, or interest on any Note remains unclaimed for two years, the Trustee or Paying Agent shall pay the money back to the Issuer at its request unless an abandoned property law designates another person. After any such payment, Holders entitled to the money must look only to the Issuer and not to the Trustee for payment.

11. Amendment; Waiver

Subject to certain exceptions set forth in the Indenture, (i) the Indenture or the Notes may be amended with the written consent of the Majority Holders and (ii) any default or noncompliance with any provision may be waived with the written consent of the Majority Holders. Subject to certain exceptions set forth in the Indenture, without the consent of any Noteholder, the Issuer and the Trustee may amend the Indenture or the Notes to cure any ambiguity, omission, defect or inconsistency, to make any change that does not adversely affect the rights of any Noteholder, to add to the covenants of the Issuer for the benefit of the Holders or to surrender any right or power conferred upon the Issuer, to comply with the TIA, to comply with the provisions of Section 4.13 of the Indenture (in connection with certain consolidations or mergers), to provide for uncertificated Notes in addition to or in place of certificated Notes.

12. Defaults and Remedies

The occurrence of any of the events enumerated in Section 7.1 of the Indenture shall constitute an Event of Default.

If an Event of Default under Section 7.1(7) of the Indenture shall occur, the Indenture provides that an amount equal to all amounts payable with respect to the Notes shall, without any demand, presentment or notice, become immediately due and payable. If any Event of Default described in any of Section 7.1(1) through (2) shall occur and be continuing, the Trustee may, or, if the Holders of 25% in aggregate outstanding principal amount of the Notes so elect, shall, declare all amounts payable with respect to the Notes to be immediately due and payable, and upon any such declaration of acceleration such amount shall become immediately due and payable. If any Event of Default described in causes (3) through (6) or in clause (8) of Section 7.1 of the Indenture shall occur and be continuing, if the Majority Holders so elect, the Trustee shall declare all amounts payable with respect to the Notes to be immediately due and payable, and upon any such declaration of acceleration such amount shall become immediately due and payable. If certain conditions set forth in Section 7.2(d) of the Indenture have been satisfied, the Majority Holders may rescind and annul a declaration of acceleration.

Noteholders may not enforce the Indenture or the Notes except as provided in the Indenture. The Trustee may refuse to enforce the Indenture or the Notes unless it receives

reasonable indemnity or security. Subject to certain limitations, Holders of a majority in principal amount of the Notes may direct the Trustee in its exercise of any trust or power. The Trustee may withhold from Noteholders notice of any continuing Default known to the Trustee (except a Default in payment of principal or interest) if it determines that withholding notice is in their interest.

Acceptance of this Note constitutes the waiver of certain rights of setoff, banker's lien, or the like against property of, or any amounts owing to, the Company as set forth in Section 7.9 of the Indenture.

13. Trustee Dealings with the Issuer

Subject to certain limitations imposed by the TIA if and when the Indenture is qualified under the TIA, the Trustee under the Indenture, in its individual or any other capacity, may become the owner or pledgee of Notes and may otherwise deal with and collect obligations owed to it by the Issuer or its Affiliates and may otherwise deal with the Issuer or its Affiliates with the same rights it would have if it were not Trustee.

14. No Recourse Against Others

A director, manager, officer, employee, member or stockholder, as such, of the Issuer or the Trustee shall not have any liability for any obligations of the Issuer or the Trustee under the Notes or the Indenture or the Deed of Trust or for any claim based on, in respect of or by reason of such obligations or their creation. By accepting a Note, each Noteholder waives and releases all such liability. The waiver and release are part of the consideration for the issue of the Notes.

15. Authentication

This Note shall not be valid until an authorized signatory of the Trustee (or an authenticating agent appointed by the Trustee and acceptable to the Issuer) manually signs the certificate of authentication on the other side of this Note.

16. Abbreviations

Customary abbreviations may be used in the name of a Noteholder or an assignee, such as TEN COM (=tenants in common), TEN ENT (=tenants by the entirety), JT TEN (=joint tenants with right of survivorship and not as tenants in common), CUST (=custodian), and U/G/M/A (=Uniform Gift to Minors Act).

17. CUSIP Numbers

Pursuant to a recommendation promulgated by the Committee on Uniform Security Identification Procedures, the Issuer has caused CUSIP numbers to be printed on the Notes and has directed the Trustee to use CUSIP numbers in notices of redemption as a convenience to Noteholders. No representation is made as to the accuracy of such numbers either as printed on the Notes or as contained in any notice of redemption and reliance may be placed only on the other identification numbers placed thereon.

The Issuer will furnish to any Noteholder upon written request and without charge a copy of the Indenture, the Deed of Trust, the New Services Agreement and the New Master Purchase Agreement. Requests may be made to:

Scotia Pacific Company LLC
5847 San Felipe
Suite 2610
Houston, Texas 77257
Attention: Secretary

18. Transfer Restrictions

TRANSFERS AND EXCHANGES OF THIS NOTE ARE SUBJECT TO RESTRICTIONS AS PROVIDED IN THE INDENTURE UNTIL THE EXPIRATION OF THE RESTRICTED PERIOD (AS DEFINED IN THE INDENTURE.)

ASSIGNMENT FORM

To assign this Note, fill in the form below and have your signature guaranteed:

I or we assign and transfer this Note to

(Print or type assignee's name, address and zip code)

(Insert assignee's soc. sec. or tax I.D. No.)

and irrevocably appoint _____ attorney or agent to transfer this Note on the books of the Issuer. The attorney or agent may substitute another to act for him.

Date:

Your Signature: _____
Sign exactly as your name appears on the other side of this Note.

Signature Guarantee: _____
(Signature must be guaranteed by a member firm of the New York Stock Exchange, commercial bank or trust company or another entity with membership in an approved signature guarantee medallion program pursuant to Securities and Exchange Commission Rule 17Ad-15.)

IMPORTANT NOTICE: WHEN YOU SIGN YOUR NAME TO THIS ASSIGNMENT FROM WITHOUT FILLING IN THE NAME OF YOUR "ASSIGNEE" OR "ATTORNEY OR AGENT," THIS NOTE BECOMES FULLY NEGOTIABLE, SIMILAR TO A CHECK ENDORSED IN BLANK. THEREFORE, TO SAFEGUARD A SIGNED NOTE, IT IS RECOMMENDED THAT YOU EITHER (i) FILL IN THE NAME OF THE NEW OWNER IN THE "ASSIGNEE" BLANK, OR (ii) IF YOU ARE SENDING THE SIGNED NOTE TO YOUR BANK OR BROKER, FILL IN THE NAME OF THE BANK OR BROKER IN THE

“ATTORNEY OR AGENT” BLANK. ALTERNATIVELY, INSTEAD OF USING THIS ASSIGNMENT FORM, YOU MAY SIGN A SEPARATE “POWER OF ATTORNEY” FORM AND THEN MAIL THE UNSIGNED NOTE AND THE SIGNED “POWER OF ATTORNEY” IN SEPARATE ENVELOPES. FOR ADDED PROTECTION, USE CERTIFIED OR REGISTERED MAIL FOR A NOTE.

**EXHIBIT B-1
TO INDENTURE**

**FORM OF REPORT OF
INDEPENDENT ACCOUNTANTS**

[Letterhead of Accountants]

_____, ____

The Bank of New York
as Trustee under the Indenture
referred to below
[Two International Place, 4th Floor
Boston, Massachusetts 02110]

Scotia Pacific Company LLC
P.O. Box 712
Scotia, California 95565

Ladies and Gentlemen:

This letter is delivered pursuant to Section 4.6(a) of the Indenture dated as of July 20, 1998 (as amended, supplemented and otherwise modified and in effect on the date of this letter, the “**Indenture**”) between Scotia Pacific Company LLC, a Delaware limited liability company (the “**Issuer**”), and The Bank of New York, as trustee.

Capitalized terms used but not defined herein have the respective meanings given to such terms in the Indenture.

We confirm that we are independent public accountants with respect to the Issuer, within the meaning of the Securities Act of 1933 and the Securities Exchange Act of 1934 and the applicable rules and regulations thereunder. We have read such provisions of the Indenture, the Deed of Trust and the New Services Agreement as we have deemed necessary for the purposes of delivering this letter.

We have previously audited, in accordance with generally accepted auditing standards, the balance sheet of the Issuer as of December 31, _____ [insert last date of most recent fiscal year] and the related statements of operations, cash flows and changes in member’s capital for [relevant period described] [insert last date of most recently audited balance sheet] and have issued our report thereon dated _____, _____. We have not audited any financial

statements of the Issuer as of any date or for any period subsequent to December 31, _____
[insert last day of most recent fiscal year].

The sufficiency of the agreed-upon procedures we have been requested to perform, as set forth in subsequent paragraphs of this report, is the sole responsibility of the Issuer and the Trustee. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purposes for which this report has been requested or for any other purpose. Further, we make no representations regarding questions of legal interpretation, nor do we provide any assurance as to any matters relating to the Issuer's solvency, adequacy of capital or ability to pay its debts.

Pursuant to Section 4.6(a) of the Indenture, we have performed the procedures enumerated below:

1. We read the Monthly Trustee Certificates (which are attached hereto as Annex A) and the Note Payment Trustee Certificates (which are attached hereto as Annex B) issued by the Issuer to the Trustee in respect of the Monthly Periods from [insert first day of the fiscal year referred to above except with respect to its fiscal year 1998, insert July 20, 1998] through [insert last day of fiscal year referred to above]. For each such Certificate, we recalculated the amounts deposited in and withdrawn from the Collection Account, the Expense Reserve, and the Payment Account, which were established pursuant to the Indenture and found them to be mathematically correct. Our recalculations of such amounts was based on the procedures provided by the Issuer and set forth in Annex C hereto.
2. We compared our recalculations of the amounts described above to the amounts set forth in Annex A and Annex B and found them to be in agreement[, except as described below].
3. We compared the amounts indicated in the Monthly Trustee Certificates with respect to Mbfe of Timber sold by the Issuer during the Monthly Periods covered by each such Monthly Trustee Certificate to the Issuer's books and records for such Monthly Period (including records with respect to MBF, net Scribner Scale, of Company Timber sold), and found them to be in agreement, [except as described below].
4. We did not perform any procedures with respect to portions of the Monthly Trustee Certificates, which contain the Issuer's estimates of amounts to be deposited or interest that will be earned in succeeding months.

[list exceptions, if any]

Because the procedures described above do not constitute an audit made in accordance with generally accepted auditing standards, we do not express an opinion on any of the items referred to above. In addition, we make no representations, and express no opinion as to, (a) questions of legal interpretation of the Operative Documents, (b) the sufficiency of the foregoing procedures for your purposes, (c) the sufficiency of the requirements set forth in Section 4.6(a) of the Indenture, (d) the methodology set forth in the Indenture or (e) the assumptions set forth in the attached Annex C. Had we performed additional procedures, or had we made an audit in

accordance with generally accepted auditing standards, other matters might have come to our attention that would have been reported to you.

This letter is intended solely for the management of the Issuer and the Trustee, and should not be used for any other purpose. We have no responsibility to update this report to reflect any events or circumstances occurring after the date of this letter.

Very truly yours,

**Annex C to
Exhibit B-1
to Indenture**

Agreed Upon Procedures

I. Monthly Trustee Certificate Procedures

1. Compared the opening balances in the Collection Account, the Payment Account, and the Expense Reserve to amounts shown on bank statements from the Trustee.
2. Compared the amount deposited in the Expense Reserve to (i) accrued and unpaid Yield Taxes as reflected on the Issuer's books and records and (ii) additional known expenses reflected on a schedule prepared by the Issuer. Compared the Services Fee included in clause (ii) of this Item 2 to the amount payable under the New Services Agreement, including recomputation of the adjustment provided in Section 5.1(a) of the New Services Agreement.
3. Compared the Trustee's, and Collateral Agent's to the amounts payable under the fee agreement between the Trustee and the Issuer, and the fee agreement between the Collateral Agent and the Issuer, respectively.
4. Recomputed the Targeted Monthly Deposit Amount and compared the amount deposited to the Payment Account in respect of the Targeted Monthly Deposit Amount to such recomputed amount.
5. Recomputed the amount of Excess Funds. If any Section 6.1 Notes were in existence on such Monthly Deposit Date, recomputed the amount of Excess Funds as if such Section 6.1 Notes were cash, and compared the amount of such recomputed Excess Funds (based on such assumption) to the amount of such Section 6.1 Notes. Compared the amount released to the Issuer (or, if any Section 6.1 Notes were in existence, the sum of the amount released to the Issuer and the face amount of and accrued interest on such Section 6.1 Notes distributed to the Issuer) to such recomputed amounts. Compared the amount, if any, paid by Pacific Lumber to the Issuer in respect of any Section 6.1 Notes to such recomputed amounts.
6. Reviewed the Monthly Production reports delivered by Pacific Lumber pursuant to the New Master Purchase Agreement for the Monthly Periods for which Monthly Trustee Certificates were reviewed. Compared the net Scribner scale production data in the Monthly Production Reports to a schedule prepared by Pacific Lumber. Recomputed the Mbfe production data in the Monthly Production Reports. Compared the Mbfe production data in each Monthly Trustee Certificate to the Mbfe production data in the related Monthly Production Report.

II. Note Payment Trustee Certificate Procedures

1. Compared the opening balances in the Payment Account to amounts shown on bank statements of the Trustee.

2. Compared the amount indicated in the Note Payment Certificate as an optional deposit to the Payment Account to amounts shown on bank statements of the Trustee.

3. Recomputed the amounts of interest (including interest on past due principal and interest) payable on the Timber Notes and compared the amount withdrawn from the Payment Account in respect thereof to such recomputed amount.

4. Made inquiries of Responsible Officer's of the Issuer as to whether or not a Cash Retention Event or a Trapping Event existed on such Note Payment Date.

5. Recomputed the amount distributable pursuant to clause (iii) of Section 5.7(b). Compared the amounts distributed pursuant to such clauses to such recomputed amount.

III. General Provisions

1. Terms used but not defined in this Annex C shall have the meaning set forth in Schedule A to the Indenture.

2. This Annex C may be modified by the Issuer, the independent accountants and the Trustee if (i) such modification has been approved by a resolution of the Board of Managers of the Issuer, including all Independent Managers and (ii) either (A) such modification is to cure any ambiguity, omission, defect or inconsistency in the agreed upon procedures, or to add additional procedures or (B) such modification shall have received approval of a Majority of Holders and (iii) the Issuer shall have delivered to the Trustee an Officer's Certificate as to compliance with the preceding clauses (i) and (ii).

**EXHIBIT B-2
TO INDENTURE**

**FORM OF REPORT OF
INDEPENDENT ACCOUNTANTS**

[Letterhead of Accountants]

_____, ____

The Bank of New York
as Trustee under the Indenture
referred to below
[Two International Place, 4th Floor
Boston, Massachusetts 02110]

Scotia Pacific Company LLC
P.O. Box 712
Scotia, California 95565

Ladies and Gentlemen:

This letter is delivered pursuant to Section 4.6(a) of the Indenture dated as of July 20, 1998 (as amended, supplemented and otherwise modified and in effect on the date of this letter, the “**Indenture**”) between Scotia Pacific Company LLC, a Delaware limited liability company (the “**Issuer**”), and The Bank of New York, as trustee (the “**Trustee**”).

We confirm that we are independent public accountants with respect to the Issuer, within the meaning of the Securities Act of 1933 and the Securities Act of 1934 and the applicable rules and regulations thereunder.

We have audited, in accordance with generally accepted auditing standards, the balance sheet of the Issuer as of December 31, _____ [insert last day of most recent fiscal year] and the related statements of operations, cash flows and changes in members’ capital for the year then ended [describe period covered] [date of most recent audited balance sheet] and have issued our report thereon dated _____, ____.

In connection with our audit, nothing came to our attention that caused us to believe that the Issuer was not in compliance with any of the terms, covenants, provisions or conditions of Section 7.1 of Article Seven of the Indenture, insofar as they relate to accounting matters, [except as described below]. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance.

[describe exceptions, if any]

This letter is intended solely for the management of the Issuer and the Trustee and shall not be used for any other purposes. We have no responsibility to update this report to reflect any events or circumstances occurring after the date of this letter.

Very truly yours,

[100406055_3.DOC](#)