

EXHIBIT B-1

FIRST AMENDED CHAPTER 11 PLAN FOR SCOTIA PACIFIC COMPANY, LLC PROPOSED BY THE BANK OF NEW YORK TRUST COMPANY, N.A., INDENTURE TRUSTEE FOR THE TIMBER NOTES

**UNITED STATES BANKRUPTCY COURT
SOUTHERN DISTRICT OF TEXAS
CORPUS CHRISTI DIVISION**

In re:	§	
	§	Case No. 07-20027
Scotia Development, LLC, et al.,	§	
	§	Chapter 11
Debtors.	§	Jointly Administered

**FIRST AMENDED CHAPTER 11 PLAN FOR SCOTIA PACIFIC COMPANY LLC
PROPOSED BY THE BANK OF NEW YORK TRUST COMPANY, N.A.,
INDENTURE TRUSTEE FOR THE TIMBER NOTES *(as modified)***

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INTRODUCTION

The Bank of New York Trust Company, N.A., as Indenture Trustee, proposes this First Amended Chapter 11 Plan for Scotia Pacific Company LLC (the “Plan”) pursuant to section 1121(b) of title 11 of the United States Code.

ARTICLE 1 DEFINITIONS AND CONSTRUCTION OF TERMS

Definitions. All capitalized terms not otherwise defined in the Plan shall have the meanings ascribed to them in Article 1 of the Plan. Any capitalized term used in the Plan that is not defined in either Article 1 of the Plan or elsewhere in the Plan shall have the meaning ascribed to that term in the Bankruptcy Code or the Bankruptcy Rules, as the case may be.

- 1.1 Administrative Claim** means a Claim, or that portion thereof, that is entitled to priority under sections 503(b) and 507(a)(1) of the Bankruptcy Code, including, without limitation: (i) the actual and necessary costs and expenses incurred after the Petition Date of preserving the Estate and operating the business of the Debtor (such as wages, salaries, or payments for goods and services); (ii) compensation for legal, financial advisory, accounting and other services, and reimbursement of expenses awarded or allowed under sections 330(a) or 331 of the Bankruptcy Code; (iii) all fees and charges assessed against the Estate under 28 U.S.C. § 1930; and (iv) Professional Fee Claims.
- 1.2 Administrative Claimant** means any Person asserting entitlement to payment of an Administrative Claim.
- 1.3 Administrative Tax Claim** means an Administrative Claim held by a Governmental Unit for taxes (and for interest and/or penalties related to such taxes) for any tax year or period, all or any portion of which accrued or became due from and after the Petition Date through and including the Effective Date.
- 1.4 Affiliate** means with respect to a Person, (i) an entity that directly or indirectly owns, controls or holds with power to vote, twenty percent or more of the outstanding voting securities of such Person, other than an entity that holds such securities (a) in a fiduciary or agency capacity without sole discretionary power to vote such securities or (b) solely to secure a debt, if such entity has not in fact exercised such power to vote; or (ii) a corporation twenty percent or more of whose outstanding voting securities are directly or indirectly owned, controlled or held with power to vote, by such Person, or by an entity that directly or indirectly owns, controls or holds with power to vote, twenty percent or more of the outstanding voting securities of such Person, other than an entity that holds such securities (a) in a fiduciary or agency capacity without sole discretionary power to

vote such securities or (b) solely to secure a debt, if such entity has not in fact exercised such power to vote.

- 1.5 Allowance Date** shall mean (i) as to a Disputed Claim, the date on which such Claim becomes an Allowed Claim by Final Order; and (ii) as to any other claim that is not a Disputed Claim, the Initial Distribution Date.
- 1.6 Allowed** means, with respect to any Claim, such Claim or any portion thereof (a) that has been allowed by a Final Order; (b) as to which, on or by the Effective Date, (i) no Proof of Claim has been filed with the Bankruptcy Court and (ii) the liquidated and noncontingent amount of which is included in the Schedules of Assets and Liabilities, other than a Claim that is scheduled as zero, in an unknown amount or disputed; (c) for which a Proof of Claim in a liquidated amount has been timely filed with the Bankruptcy Court pursuant to the Bankruptcy Code, any Final Order of the Bankruptcy Court, or other applicable bankruptcy law, and as to which either (i) no objection to its allowance has been filed within the periods of limitations fixed by the Plan, the Bankruptcy Code, or any order of the Bankruptcy Court, or (ii) any objection to its allowance has been settled or withdrawn, or has been denied by a Final Order; (d) that is expressly allowed in a liquidated amount in the Plan; or (e) any Claim that the Plan Agent decides in its discretion should be Allowed.
- 1.7 Available Cash** means all Cash held by the Debtor less (i) any Cash held in Reserves; (ii) Cash used to pay Allowed Administrative Claims, Allowed Priority Unsecured Tax Claims, Allowed Class 1 Claims and Allowed Class 2(d) Claims on the Initial Distribution Date.
- 1.8 Avoidance Actions** means any causes of action arising under sections 506, 510, 542, 543, 544, 545, 546, 547, 548, 549, 550, 551, and 553 of the Bankruptcy Code.
- 1.9 Ballot** means the ballot for voting to accept or reject the Plan.
- 1.10 Bank of America** means Bank of America National Trust and Savings Association.
- 1.11 Bankruptcy Code** means title 11 of the United States Code.
- 1.12 Bankruptcy Court** means the United States Bankruptcy Court for the Southern District of Texas, Corpus Christi Division, or in the event such court ceases to exercise jurisdiction over the Debtor's chapter 11 case, such court as may have jurisdiction with respect to the reorganization or liquidation of the Debtor under chapter 11 or chapter 7 of the Bankruptcy Code.
- 1.13 Bar Date** means July 17, 2007 or such other date as may be set by the Bankruptcy Court as a deadline for Creditors to file proofs of claim (other than Administrative Claims and Professional Fee Claims).
- 1.14 Cash** means lawful currency of the United States of America, cash equivalents, and other readily marketable securities or instruments issued by a Person other than the Debtor,

including readily marketable direct obligations of the United States of America, certificates of deposit issued by federally insured banks, and money market accounts of federally insured banks.

- 1.15 Cash Collateral** shall have the meaning prescribed by 11 U.S.C. § 363(a).
- 1.16 CC&R** means covenants, conditions and restrictions which run with the land and remain binding on successors and assigns.
- 1.17 Claim** shall have the meaning set forth in 11 U.S.C. § 101(5).
- 1.18 Claimant** or **Claimholder** means the holder of an Allowed Claim.
- 1.19 Class** means a category of holders of Claims or Interests as classified in the Plan.
- 1.20 Class A-1 Notes** means the 6.55% Series B Class A-1 Timber Collateralized Notes issued pursuant to the Indenture.
- 1.21 Class A-2 Notes** means the 7.11% Series B Class A-2 Timber Collateralized Notes issued pursuant to the Indenture.
- 1.22 Class A-3 Notes** means the 7.71% Series B Class A-3 Timber Collateralized Notes issued pursuant to the Indenture.
- 1.23 Collateral** means substantially all of the Estate Property including, but not limited to, (i) the Scopac Timberlands; (ii) the Scopac Timber Rights; (iii) certain computer hardware and software, including a geographic information system containing information on numerous aspects of the Scopac Timberlands (subject to certain rights of concurrent use by Palco); and (iv) certain other assets all of which are subject to the joint senior lien of Bank of America and the Indenture Trustee pursuant to the Deed of Trust, Security Agreement, Financing Statement, Fixture Filing and Assignment of Proceeds dated as of July 20, 1998, as amended, from Scopac to Fidelity National Title Insurance Company for the Benefit of the Trustee.
- 1.24 Commercial Timberlands** means those lands owned by Scopac which consist of approximately 203,000 acres of land utilized for commercial timber production (other than the MMCA lands) and the Scopac Timber Rights.
- 1.25 Committee** means the Official Committee of Unsecured Creditors appointed in Debtor's bankruptcy case pursuant to section 1102 of the Bankruptcy Code.
- 1.26 Confirmation Date** means the date on which the Confirmation Order is entered on the docket of the Debtor's chapter 11 case by the clerk of the Bankruptcy Court.
- 1.27 Confirmation Hearing** means the date established by the Bankruptcy Court to consider confirmation of the Plan.

- 1.28 Confirmation Order** means the order of the Bankruptcy Court confirming the Plan in accordance with the provisions of chapter 11 of the Bankruptcy Code.
- 1.29 Creditor** shall have the meaning set forth in 11 U.S.C. § 101(10).
- 1.30 Cure** means the amount of Cash required for the cure and assumption of an Executory Contract pursuant to the provisions of section 365(b) of the Bankruptcy Code.
- 1.31 Debtor or Debtor-in-Possession** means Scotia Pacific Company LLC.
- 1.32 Debtors** means Scopac and the Palco Debtors, collectively.
- 1.33 Debtors' Lawsuit Against Regulators** means the lawsuit currently pending against the State of California and certain of its agencies asserting a claim for damages arising out of the Headwaters Agreement.
- 1.34 Disclosure Statement Approval Date** means the date of entry by the Bankruptcy Court of an order approving any disclosure statement concerning the Plan.
- 1.35 Disputed Claim** shall mean any Claim that is not an Allowed Claim.
- 1.36 Disputed Claim Reserve** means that certain reserve of Available Cash to be established by the Plan Agent pursuant to Section 12.1 of the Plan.
- 1.37 Distribution** means a distribution of Available Cash by the Plan Agent, the Litigation Trustee or the Scotia Pacific Liquidating Trust Trustee.
- 1.38 Distribution Date** means any date on which the Plan Agent, the Litigation Trustee or the Scotia Pacific Liquidating Trust Trustee makes Distributions to holders of Allowed Claims under the Plan.
- 1.39 Effective Date** means the date on which the Plan Agent shall file a Notice of Effective Date following the closing of the sale of substantially all of the Estate Property as contemplated by Article 7 of the Plan.
- 1.40 Environmental Obligations or Timber Permits** means the HCP and all related obligations, the CC&Rs, as well as any and all permits, agreements, plans, orders, or other governmental agency authorizations or approvals issued by federal, state, and/or local government agencies with respect to timber harvesting activities or other land use activities on Scopac's Timberlands.
- 1.41 Equity Interest** means an equity interest or security held in or with respect to the Debtor as defined in 11 U.S.C. § 101(16), including but not limited to all shares of common stock, all shares of preferred stock and any warrants or options to purchase shares of common stock, preferred stock or equity interests of Scotia Pacific Company, LLC.
- 1.42 Estate** means the bankruptcy estate of the Debtor and all property comprising the estate within the meaning of section 541 of the Bankruptcy Code.

- 1.43 Estate Property** means all rights, title, and interest in and to any property of every kind or nature owned by the Debtor or its Estate as of the Effective Date, including all property within the meaning of section 541 of the Bankruptcy Code.
- 1.44 Executory Contracts** means “executory contracts” as such term is used within the meaning of section 365 of the Bankruptcy Code.
- 1.45 Final Order** means an order or judgment of the Bankruptcy Court, or other court, of competent jurisdiction, that has not been reversed, stayed, modified or amended.
- 1.46 General Unsecured Claim** means an Unsecured Claim that is not (i) an Administrative Claim, (ii) a Professional Fee Claim, (iii) a Priority Unsecured Tax Claim, or (iv) a Priority Unsecured Non-Tax Claim; but shall specifically include any and all other Claims not separately classified under the Plan.
- 1.47 Governmental Unit** means a governmental unit as such term is defined in section 101(27) of the Bankruptcy Code; provided however, that the use of the term Governmental Unit shall not imply or constitute any admission or finding that the State of California is a unitary executive.
- 1.48 Headwaters Agreement** means the agreement between certain of the Debtors and various state and federal governmental entities settling “takings” litigation brought by the Debtors, pursuant to which the Debtors transferred lands in the “Headwaters Forest” to the governmental entities in exchange for the payment of approximately \$350,000,000 and certain regulatory accommodations.
- 1.49 Houlihan Lokey** means Houlihan Lokey Howard & Zukin.
- 1.50 Indenture** means that certain Indenture dated July 20, 1998, as amended and supplemented from time to time, by and between Debtor and State Street Bank and Trust Company pursuant to which the Timber Notes were issued.
- 1.51 Indenture Trustee** means The Bank of New York Trust Company, N.A., in its capacity as the Indenture Trustee pursuant to the Indenture.
- 1.52 Indenture Trustee Plan** or **Plan** means the Chapter 11 Plan for Scopac, as may be amended or modified, proposed by the Indenture Trustee.
- 1.53 Initial Distribution Date** means the Effective Date or the next most practicable date, as determined by the Plan Agent, for the first payment of Allowed Claims.
- 1.54 Insider** shall have the meaning set forth in 11 U.S.C. § 101(31).
- 1.55 Intercompany Claim** means a Claim held by an Affiliate of the Debtor.
- 1.56 Interest** means all rights (including unpaid dividends) arising from any equity security (as defined in section 101(16) of the Bankruptcy Code) of the Debtor.

- 1.57 Interestholder** means a holder of an Interest.
- 1.58 IRS** means the Internal Revenue Service.
- 1.59 Lien** means a lien, security interest, or other interest or encumbrance asserted against Estate Property as defined in section 101(37) of the Bankruptcy Code.
- 1.60 Liquidating Trustee** means the Plan Agent in his or her capacity as the trustee of the Scotia Pacific Liquidating Trust after his or her appointment pursuant to the Scotia Pacific Liquidating Trust Agreement.
- 1.61 Litigation Trust Agreement** means the agreement creating the trust to be implemented pursuant to Article 16 of the Plan.
- 1.62 Litigation Trust** means the trust created by the Litigation Trust Agreement.
- 1.63 Litigation Trust Transfer Date** means the date upon which the Litigation Trust is created as specified in Article 16 of the Plan.
- 1.64 Marathon** means Marathon Structured Finance Fund LP, lender to the Palco Debtors with a lien on essentially all assets of the Palco Debtors.
- 1.65 MMCA** means Marbled Murrelet Conservation Area, which consists of approximately 6,600 acres of land that were designated as MMCA lands as part of the Headwaters Agreement and on which commercial logging is significantly restricted until approximately the year 2049.
- 1.66 Operating Account** means that certain reserve of Available Cash to be established by the Plan Agent pursuant to Article 12 of the Plan.
- 1.67 Palco** means The Pacific Lumber Company, LLC.
- 1.68 Palco Debtors** means Palco and its affiliates, Scotia Development LLC (“Scotia Development”), Britt Lumber Co., Inc. (“Britt”), Salmon Creek LLC (“Salmon Creek”), and Scotia Inn Inc. (“Scotia Inn”), who have filed chapter 11 bankruptcy cases that have been jointly administered with the chapter 11 case of Scopac.
- 1.69 Person** means and includes natural persons, corporations, limited partnerships, general partnerships, joint ventures, trusts, land trusts, business trusts, unincorporated organizations, or other legal entities, irrespective of whether they are governments, agencies or political subdivisions.
- 1.70 Petition Date** means January 18, 2007, the date of filing of the Debtor’s chapter 11 case.
- 1.71 Plan Administration Cost** means any reasonable cost and expense of the Debtor and the Plan Agent in administering Estate Property, including paying taxes on behalf of the Debtor and Post-Confirmation Debtor and paying ordinary course professional fees of the Plan Agent and the Debtor or Post-Confirmation Debtor.

- 1.72 Plan Agent** means the Plan Agent as described in Article 8 of the Plan.
- 1.73 Post-Confirmation Debtor** means the Debtor on or after the Confirmation Date.
- 1.74 Priority Unsecured Non-Tax Claim** means an Unsecured Claim, or that portion thereof, that is entitled to priority in payment under sections 507(a)(2-7) and 507(a)(9) of the Bankruptcy Code.
- 1.75 Priority Unsecured Tax Claim** means an Unsecured Claim, or that portion thereof, that is entitled to priority in payment under section 507(a)(8) of the Bankruptcy Code.
- 1.76 Professional** means a professional employed in the Debtor's chapter 11 case under 11 U.S.C. §§ 327 and 1103.
- 1.77 Professional Fee Claim** means a Claim for compensation or reimbursement of expenses of a Professional retained in the Debtor's chapter 11 case and requested in accordance with the provision of sections 327, 328, 330, 331, 503(b) and 1103 of the Bankruptcy Code.
- 1.78 Professional Fee Reserve** means that certain reserve of Available Cash to be established by the Plan Agent pursuant to Article 12 of the Plan.
- 1.79 Proponent** means the Indenture Trustee.
- 1.80 Pro Rata** means, as to a particular holder of a Claim or Interest, the ratio that the amount of the Claim or Interest held by such holder bears to the total amount of all Claims held by holders of Claims within the same Class of Claims or Interests. Such ratio shall be calculated as if all Disputed Claims were Allowed Claims as of the Effective Date.
- 1.81 Recovery Rights** means all claims, torts, demands, actions or causes of action of any kind or nature whatsoever, whether known or unknown, that the Debtor, the Scotia Pacific Liquidating Trust, the Litigation Trust or the Estate may have, except to the extent that such rights, claims, and causes of action are expressly released in this Plan. The Recovery Rights shall include, without limitation, (a) all claims arising under state law, (b) all claims arising under federal law, (c) all claims associated with breaches of the Headwaters Agreement, and (d) all claims against any third party on account of an indebtedness or any other claim owed to or in favor of the Debtor or the Estate.
- 1.82 Reserves** means collectively the Administrative Expense Reserve, the Disputed Claim Reserve, the Operating Account, the Professional Fee Reserve or any other reserve account maintained by the Plan Agent under the Plan.
- 1.83 SAR Account** means the Scheduled Amortization Reserve Account used to support principal payments on the Timber Notes which is also collateral for the Timber Notes and the Scopac Line of Credit.

- 1.84 Schedules of Assets and Liabilities** means the schedules of assets and liabilities filed by the Debtor in its bankruptcy case, as amended or modified.
- 1.85 Scopac** means the Debtor, Scotia Pacific Company LLC.
- 1.86 Scopac Line of Credit** means the one-year, renewable line of credit pursuant to a Credit Agreement dated as of July 20, 1998, as amended, by and between Scopac and Bank of America as lender and as agent for itself and any other lender parties thereto.
- 1.87 Scopac Timberlands** means the Commercial Timberlands and the MMCA's.
- 1.88 Scopac Timber Rights** means Scopac's exclusive right to harvest approximately 10,000 acres of timberlands owned by Palco and its subsidiary, Salmon Creek.
- 1.89 Scotia Pacific Liquidating Trust Agreement** means the agreement creating the trust to be implemented on the Scotia Pacific Liquidating Trust Transfer Date upon the occurrence of certain conditions.
- 1.90 Scotia Pacific Liquidating Trust** means the trust created by the Scotia Pacific Liquidating Trust Agreement.
- 1.91 Scotia Pacific Liquidating Trust Transfer Date** means the date upon which the Scotia Pacific Liquidating Trust is created and funded, as specified in Article 18 of the Plan.
- 1.92 Secured Claim** means a claim for which a Claimant holds a valid, perfected and enforceable lien, not subject to avoidance or subordination under the Bankruptcy Code or applicable non-bankruptcy law, or a Claim for which a Claimant asserts a setoff under section 553 of the Bankruptcy Code, but only to the extent of the value, determined in accordance with section 506(a) of the Bankruptcy Code, of the Claimant's interest in the Debtor's interest in the Estate Property or to the extent of the amount subject to such setoff, as the case may be, unless a timely election has been made under section 1111(b)(2) of the Bankruptcy Code.
- 1.93 Secured Tax Claim** means a Tax Claim that is also a Secured Claim.
- 1.94 Subordinated Claim** means a Claim that is subordinated in payment to Claims in Classes 1, 2, 3, 4 and 5 by contract or by Final Order of the Bankruptcy Court declaring that such Claim is subordinated in right of payment by virtue of the applicable provisions of the Bankruptcy Code or applicable state law.
- 1.95 Tax Claim** means any Claim for any and all federal, state, county and local income, ad valorem, excise, stamp and other taxes of any type or nature whatsoever.
- 1.96 Timber Notes** means the Class A-1 Notes, the Class A-2 Notes and the Class A-3 Notes.
- 1.97 Timber Permits or Environmental Obligations** means the HCP and all related obligations, the CC&Rs, as well as any and all permits, agreements, plans, orders, or

other governmental agency authorizations or approvals issued by federal, state, and/or local government agencies with respect to timber harvesting activities or other land use activities on Scopac's Timberlands.

1.98 Treasury Regulations means the regulations promulgated under the Internal Revenue Code by the Department of the Treasury of the United States.

1.99 Unexpired Leases means "unexpired leases" as such term is used within the meaning of section 365 of the Bankruptcy Code.

1.100 Unsecured Claim means a Claim that is not a Secured Claim. The term specifically includes any tort Claims or contractual Claims or Claims arising from damage or harm to the environment and, pursuant to section 506(a) of the Bankruptcy Code, any Claim of a creditor against the Debtor to the extent that such Creditor's Claim is greater than the value of the Lien securing such Claim, any Claim for damages resulting from rejection of any Executory Contract pursuant to section 365 of the Bankruptcy Code, and any Claim not otherwise classified under the Plan.

1.101 Unsecured Claim Distribution Account means the account created pursuant to section 12.6 of the Plan funded by proceeds from the sale of Estate Property for the payment, in whole or in part, of Allowed General Unsecured Claims against Scopac.

ARTICLE 2 RULES OF INTERPRETATION AND CONSTRUCTION

For purposes of the Plan, (i) any reference in the Plan to an existing document or exhibit, filed or to be filed, means that document or exhibit, as it may have been or may be amended, modified, or supplemented; (ii) unless otherwise specified, all references in the Plan to sections, articles, and exhibits are references to sections, articles, or exhibits to the Plan; (iii) the words "herein," "hereof," "hereto," "hereunder," and other words of similar import refer to the Plan in its entirety and not to any particular portion the Plan; (iv) captions and headings contained in the Plan are inserted for convenience and reference only, and are not intended to be part of or to affect the interpretation of the Plan; (v) wherever appropriate from the context, each term stated in either the singular or the plural shall include the singular and the plural, and pronouns stated in the masculine, feminine, or neuter gender shall include the masculine, feminine, and neuter gender; and (vi) the rules of construction outlined in section 102 of the Bankruptcy Code and in the Bankruptcy Rules shall apply to the Plan.

ARTICLE 3 CLASSIFICATION OF CLAIMS AND INTERESTS; IMPAIRMENT

3.1 Classification. Pursuant to Bankruptcy Code section 1122, a Claim or Interest is placed in a particular Class for purposes of voting on the Plan and receiving Distributions under the Plan, but only to the extent the particular Claim or Interest has not been paid or released before the Effective Date. A Claim may be, and is, classified in other Classes to the extent that any portion of the Claim falls within the description of such other Classes.

3.2 Unclassified Claims. In accordance with Bankruptcy Code section 1123(a)(1), Administrative Claims, Professional Fee Claims, and Priority Unsecured Tax Claims are not classified under the Plan, and the treatment of those Claims is set forth in Article 4 of the Plan.

3.3 Identification of Classes. Classes of Claims against, and Interests in, the Debtor are classified as follows:

Class 1 – Priority Unsecured Non-Tax Claims

Class 2(a) – Secured Claims of Liquidity Providers under the Scopac Line of Credit

Class 2(a)(1) – Secured Claim of Bank of America under the Scopac Line of Credit

Class 2(a)(2) – Secured Claim of US Bank under the Scopac Line of Credit

Class 2(a)(3) – Secured Claim of Key Bank under the Scopac Line of Credit

Class 2(a)(4) – Secured Claim of Bank of Nova Scotia under the Scopac Line of Credit

Class 2(b) – Secured Claim of the Indenture Trustee on behalf of holders of Timber Notes

Class 2(b)(1) – Secured Claim of the Indenture Trustee on behalf of holders of Class A-1 Timber Notes

Class 2(b)(2) – Secured Claim of the Indenture Trustee on behalf of holders of Class A-2 Timber Notes

Class 2(b)(3) – Secured Claim of the Indenture Trustee on behalf of holders of Class A-3 Timber Notes

Class 2(c) – Secured Claim of Caterpillar arising from lease or purchase of equipment

Class 2(d) – Secured Tax Claims

Class 3 – General Unsecured Claims

Class 4 – Contingent Unsecured Claims

Class 5 – Intercompany Unsecured Claims

Class 6 – Subordinated Claims

Class 7 – Equity Interests in Debtor

- 3.4 Unimpaired Classes.** Claims in Class 1, Class 2(a) and Class 2(d) are not impaired under the Plan. Pursuant to section 1126(f) of the Bankruptcy Code, Claimholders within Classes 1, 2(a) and 2(d) are conclusively presumed to have accepted the Plan, and therefore are not entitled to vote to accept or reject the Plan.
- 3.5 Impaired Classes.** Claims in Classes 2(b)(1), 2(b)(2), 2(b)(3), 2(c), and 3 are impaired under the Plan and are entitled to vote to accept or reject the Plan. Class 4 Claimants are not entitled to vote unless their claim becomes non-contingent prior to the voting deadline. Pursuant to section 1126(g) of the Bankruptcy Code, holders of Claims and Interests in Classes 5, 6 and 7 are conclusively presumed to have rejected the Plan, and therefore are not entitled to vote to accept or reject the Plan.

ARTICLE 4

TREATMENT OF UNCLASSIFIED CLAIMS: ADMINISTRATIVE CLAIMS, PROFESSIONAL FEE CLAIMS, AND PRIORITY TAX CLAIMS

- 4.1 Administrative Claims.** Allowed Administrative Claims will be paid out of the Administrative Expense Reserve on the later of the Effective Date or within ten (10) days after the Allowance Date, except to the extent that a holder of an Allowed Administrative Claim and the Plan Agent agree to a different treatment of such Allowed Administrative Claim, provided, however, that Allowed Administrative Claims representing liabilities incurred in the ordinary course of business by the Debtor or liabilities arising under loans or advances to or other obligations incurred by the Debtor, whether or not incurred in the ordinary course of business, shall be assumed and paid by the Post-Confirmation Debtor in the ordinary course of business, consistent with past practice and in accordance with the terms and subject to the conditions of any agreements governing, instruments evidencing, or other documents relating to such transactions.
- 4.2 Priority Unsecured Tax Claims.** On the later of the Effective Date or within ten (10) days after the Allowance Date, except to the extent that a holder of an Allowed Priority Unsecured Tax Claim agrees to a different treatment of such Allowed Priority Unsecured Tax Claim, the Post-Confirmation Debtor shall, at its option, pay to each holder of an Allowed Priority Unsecured Tax Claim that is due and payable on or before the Effective Date Cash in an amount equal to such Allowed Priority Unsecured Tax Claim. Allowed Priority Unsecured Tax Claims that are not due and payable on or before the Effective Date shall be paid in the ordinary course of business in accordance with the terms thereof.
- 4.3 Professional Fee Claims.** All requests for payment of Professional Fee Claims must be filed with the Bankruptcy Court and served on the Plan Agent, the Debtor and the U.S. Trustee no more than sixty (60) days after the Effective Date. Any such Professional Fee Claims for which an application or request for payment is not filed within that time period shall be discharged and forever barred, and shall not be entitled to any Distributions under the Plan. After the Effective Date, fees for professionals may be paid by the Post-Confirmation Debtor in the ordinary course of business.

ARTICLE 5
PROVISIONS FOR TREATMENT OF CLASSIFIED
CLAIMS AND INTERESTS

5.1 Treatment of Class 1 Priority Unsecured Non-Tax Claims. On the Initial Distribution Date, except to the extent that a holder of an Allowed Priority Unsecured Non-Tax Claim and the Plan Agent agree to a different treatment of such Allowed Priority Unsecured Non-Tax Claim, or except to the extent that such Claim is not due and payable on or before the Effective Date, each Allowed Priority Unsecured Non-Tax Claim shall be paid in full, in cash from the Available Cash, and shall be considered unimpaired in accordance with section 1124 of the Bankruptcy Code. All Allowed Priority Unsecured Non-Tax Claims which are not due and payable on or before the Effective Date shall be paid in the ordinary course of business in accordance with the terms thereof.

5.2 Treatment of Class 2 Allowed Secured Claims. Allowed Secured Claims will be treated as follows:

5.2.1 Class 2(a) Scopac Line of Credit. In full satisfaction of Class 2(a) Allowed Secured Claims, on the Effective Date, the Class 2(a) Allowed Claims shall be paid in full in cash from (i) the funds on deposit in the SAR Account; and (ii) proceeds of sale of the Indenture Trustee's Collateral in payment of their Allowed Secured Claims in recognition of the payment priorities set forth in the Indenture, Deed of Trust and the Bankruptcy Code and, in the event of a successful credit bid by the Indenture Trustee, additional funds obtained by the Plan Agent pursuant to Section 7.2.4; or (iii) shall receive such other treatment as may be agreed to in writing by the Class 2(a) Claimants and the Plan Agent. Notwithstanding any language to the contrary in the Indenture Trustee Plan, Class 2(a) Claimants shall retain their liens and security interests against the Collateral subsequent to the Confirmation of the Indenture Trustee Plan and the conveyance of Estate Property to the Post-Confirmation Debtor, the Litigation Trust or the Scotia Pacific Liquidating Trust.

5.2.2 Class 2(b) – Secured Claim of the Indenture Trustee on behalf of holders of the Timber Notes. For purpose of distributions, the Claims in Class 2(b)(1), 2(b)(2), and 2(b)(3) shall be treated as one class and the distribution shall be made to the Indenture Trustee without regard to the subclass. In satisfaction of the Indenture Trustee's Allowed Secured Claim, the Indenture Trustee shall receive: (i) the proceeds of the sales of the Collateral on or within two (2) business days after the closing of any sale of Collateral as contemplated in Article 7 of the Plan; or (ii) such other treatment as may be agreed to in writing by the Indenture Trustee and the Plan Agent. To the extent the Collateral, including the proceeds of the sales thereof, are insufficient to pay the Claims in Class 2(b) in full, the Indenture Trustee shall have a Class 3 Allowed General Unsecured Claim for the deficiency. Notwithstanding any language to the contrary in this Plan, the Indenture Trustee shall retain its liens and security interest against the Collateral, and any proceeds from the sale thereof, subsequent to the Confirmation of this Plan and the conveyance of property of the Estate to the Post-Confirmation Debtor, the Litigation Trust or the Scotia Pacific Liquidating Trust. The Indenture Trustee shall retain its right to credit bid under 11 U.S.C. § 363(k) regarding any sale of Collateral.

5.2.3 Class 2(c) – Secured Claim of Caterpillar arising from lease or purchase of equipment. In satisfaction of any Allowed Secured Claim of Caterpillar, Caterpillar shall receive on the Effective Date either: (i) the return of its collateral in full satisfaction of its claim unless Caterpillar elects to have its collateral sold pursuant to the Indenture Trustee Plan; (ii) the proceeds of the sales of any collateral that Caterpillar elects to have sold pursuant to Article 7 of the Indenture Trustee Plan; or (iii) such other treatment as may be agreed to in writing by Caterpillar and the Plan Agent. To the extent Caterpillar's collateral is sold and the proceeds of the sales thereof are insufficient to pay the Claim in Class 2(c) in full, Caterpillar shall have a Class 3 Allowed General Unsecured Claim for the deficiency. Notwithstanding any language to the contrary in the Indenture Trustee Plan, Class 2(c) Claimants shall retain their liens and security interests against their collateral subsequent to the Confirmation of the Indenture Trustee Plan and the conveyance of Estate Property to the Post-Confirmation Debtor, the Litigation Trust or the Scotia Pacific Liquidating Trust.

5.2.4 Class 2(d) Secured Tax Claims: On the Effective Date, each holder of an Allowed Secured Tax Claim shall receive payment in full in Cash or such other treatment as may be agreed to in writing by the Holder of such an Allowed Secured Tax Claim and the Plan Agent. Notwithstanding any language to the contrary in the Indenture Trustee Plan, Class 2(d) Claimants shall retain their liens against the Estate Property subsequent to the Confirmation of the Indenture Trustee Plan and the conveyance of Estate Property to the Post-Confirmation Debtor, the Litigation Trust or the Scotia Pacific Liquidating Trust.

5.3 **Treatment of Class 3 General Unsecured Claims.** Unless the Claim is a Disputed Claim, each holder of an Allowed Class 3 General Unsecured Claim shall receive the following treatment.

5.3.1 Notwithstanding any other provision of this Plan, (1) only holders of Allowed General Unsecured Claims against Scopac will be entitled to payment from the Unsecured Claim Distribution Account; and (2) such holders of Allowed Claims will receive (a) their Pro Rata share of the Unsecured Claim Distribution Account up to 100% of their Allowed Claim, (b) their Pro Rata share of the proceeds of Avoidance Actions recovered for the benefit of Claimants of the Scopac Estate, (c) their Pro Rata share of any proceeds that are placed in the Distribution Account from the sale of the Estate Property after satisfaction of any Lien secured by such proceeds (plus interest and Allowed fees and expenses), (d) distributions from the Litigation Trust pursuant to the terms of the Litigation Trust Agreement, and (e) distributions from the Scotia Pacific Liquidating Trust pursuant to the terms of the Liquidating Trust Agreement.

5.3.2 To ensure that the proposed Cash distributions to this Class can be made, the Indenture Trustee has agreed to either: (a) permit \$1.45 million of the proceeds from the sale of the Collateral to be used to fund the Unsecured Claim Distribution Account, or (b) if the Indenture Trustee acquires the Collateral through the exercise of its right to credit bid, fund the Unsecured Claim Distribution Account with contributions of \$1.45 million from the holders of the Timber Notes.

5.3.3 Holders of Secured Claims against Scopac who have an Allowed General Unsecured Claim for a deficiency after the sale of their Collateral shall not be entitled to

distributions from the Unsecured Claim Distribution Account described above nor shall their deficiency claims be included as part of the calculation of Pro Rata shares in the Unsecured Claim Distribution Account, but such deficiency claims shall otherwise be entitled to the distributions described in this Article.

5.3.4 The holder of a Class 3 General Unsecured Claim that is a Disputed Claim that later becomes an Allowed Claim will receive from the Disputed Claim Reserve, on the next Distribution Date after it is allowed, the Pro Rata share of Available Cash that it would have received prior to the Claim's allowance had the Claim been an Allowed Claim on the Effective Date. Thereafter, any such Disputed Claim that becomes an Allowed Claim shall share in Distributions with the other Allowed Class 3 General Unsecured Claims.

5.3.5 A substantial percentage of claims in Class 3 relate to litigation brought against certain Palco Debtors and Scopac by certain property owners alleging, *inter alia*, that Palco's timber harvesting operations caused real and personal property damage to their properties. Insurance proceeds may be available to satisfy a portion, if not all, of these Class 3 claims, and nothing contained herein shall affect any rights these Class 3 Claimants may have to seek satisfaction of their claims under such insurance policies.

5.4 Treatment of Class 4 Contingent Unsecured Claims. If, on or before the Confirmation Date, a Class 4 Contingent Unsecured Claim is determined by the Bankruptcy Court to be no longer contingent, then the claim will be treated as Class 3 Allowed General Unsecured Claims. Unless the Claim is a Disputed Claim, each holder of an Allowed Class 4 Contingent Unsecured Claim that is, prior to the Effective Date, determined to be no longer contingent shall receive (a) their Pro Rata share of the proceeds of Avoidance Actions recovered for the benefit of Claimants of the Scopac Estate, (b) their Pro Rata share of any proceeds that are placed in the Distribution Account from the sale of the Estate Property after satisfaction of any Lien secured by such proceeds (plus interest and Allowed fees and expenses), (c) distributions from the Litigation Trust pursuant to the terms of the Litigation Trust Agreement, and (d) distributions from the Scotia Pacific Liquidating Trust pursuant to the terms of the Liquidating Trust Agreement.

5.5 Treatment of Class 5 Intercompany Unsecured Claims. Holders of Allowed Class 5 Intercompany Unsecured Claims are not anticipated to receive any Distributions under the Plan. However, in the event that proceeds from the sale of Estate Property in accordance with this Plan are sufficient to pay all Allowed Claims of holders of Class 1 through Class 4 Claims in full, with interest, then holders of Allowed Class 5 Claims shall receive Pro Rata Distributions of all remaining Available Cash until such Allowed Claims are paid in full.

5.6 Treatment of Class 6 Subordinated Claims. Holders of Allowed Class 6 Subordinated Claims are not anticipated to receive any Distributions under the Plan. However, in the event that proceeds from the sale of Estate Property in accordance with this Plan are sufficient to pay all Allowed Claims of holders of Class 1 through Class 5 Claims in full, with interest, then holders of Allowed Class 6 Claims shall receive Pro Rata Distributions of all remaining Available Cash until such Allowed Claims are paid in full.

- 5.7 Treatment of Class 7 Equity Interests.** In the event that the proceeds from the sale of Estate Property in accordance with this Plan are not sufficient to pay all Allowed Claims of creditors in full, with interest, then in such event, all Class 7 Interests shall be cancelled in accordance with Section 17.6 of the Plan, and holders of Class 7 Interests shall not be entitled to receive any Distributions under the Plan. However, in the event that proceeds from the sale of Estate Property in accordance with this Plan are sufficient to pay all Allowed Claims of creditors in full, with interest, then holders of Class 7 Interests shall receive Pro Rata Distributions of all remaining Available Cash.

ARTICLE 6 EXECUTORY CONTRACTS AND UNEXPIRED LEASES

- 6.1 Rejection.** All Executory Contracts and Unexpired Leases not otherwise assumed or rejected pursuant to a Final Order, entered within thirty (30) days after the Effective Date, shall be deemed rejected as of the Confirmation Date. Pursuant to Bankruptcy Code section 365(a), the Plan constitutes a motion to reject all executory contracts and unexpired leases not listed on **Exhibit A** to the Plan or not otherwise assumed or rejected pursuant to a Final Order entered within thirty (30) days after the Effective Date.
- 6.2 Approval of Rejection.** Entry of the Confirmation Order shall constitute the approval, pursuant to Bankruptcy Code section 365(a), of the rejection of the Executory Contracts and Unexpired Leases not assumed pursuant to Section 6.1 of the Plan.
- 6.3 Rejection Claims.** Unless the Bankruptcy Court, the Bankruptcy Code, or the Bankruptcy Rules establish an earlier deadline concerning the rejection of particular Executory Contracts or Unexpired Leases, any Claim arising out of the rejection of Executory Contracts and Unexpired Leases under Section 6.1 of the Plan, or arising out of the rejection of Executory Contracts or Unexpired Leases after the Bar Date and before the Effective Date, must be filed with the Bankruptcy Court and served on the Debtor and Plan Agent within thirty (30) days after the Effective Date, or if an earlier date has been set by the Court, on the earlier date. Any Claims not filed within that time period will be extinguished and forever barred, and therefore will not receive any Distributions under the Plan. Any Claims arising out of the rejection of an Executory Contract or Unexpired Leases pursuant to a Final Order entered before the Bar Date must have been filed before the Bar Date; otherwise those Claims are extinguished and forever barred, and therefore will not receive Distributions under the Plan. All Claims arising from the rejection of an Executory Contract shall be treated as a Class 3 General Unsecured Claim.
- 6.4 Employee Claims (Compensation and Benefit Programs).** Unless the acquirer of all or substantially all of the Commercial Timberlands otherwise elects, to the extent not already rejected pursuant to a Final Order, all employment and retirement practices and policies and all compensation, retirement and employee benefit plans (except as provided below), policies and programs of the Debtor applicable to its current or former directors, officers, or employees (including all savings plans, retirement plans, health care plans, accrued unpaid vacation, sick leave, medical benefits, incentive plans, workers' compensation programs, and life, disability and other insurance plans), all agreements

between Scopac and the Palco Debtors related to pension liability, to the extent arising from Executory Contracts, shall be rejected as of the Effective Date, and shall not be binding on the Post-Confirmation Debtor or Plan Agent to any extent.

6.5 Indemnification Obligations. Subject to the occurrence of the Effective Date, the obligations of the Debtor and the Post-Confirmation Debtor to indemnify, defend, reimburse or limit the liability of directors or officers who were or are directors or officers of the Debtor at any time, against any claims or causes of action as provided in the Debtor's certificate of incorporation, by-laws, applicable state law, contract, or otherwise shall not survive confirmation of the Plan and shall be discharged.

6.6 Timber Permits and Environmental Obligations. Regardless of any of provision of the Plan, the Confirmation Order shall not serve as a rejection of the Timber Permits or Environmental Obligations, and any acquirer of the Scopac Timberlands must agree to be bound by the Timber Permits and Environmental Obligations as if no chapter 11 bankruptcy case had been filed.

ARTICLE 7 MEANS FOR IMPLEMENTING PLAN

7.1 Sale of Debtor's Assets. The Plan will be implemented through the sale of all of the Estate Property. After confirmation, but before the sale, the Post-Confirmation Debtor, under the management of the Plan Agent will continue to engage in timber operations. The Plan Agent will engage Houlihan Lokey to act as sales agent for the Post-Confirmation Debtor. The Estate Property to be sold includes, but is not limited to: (1) Scopac's Commercial Timberlands; (2) Scopac's interests in the Timber Permits; (3) Scopac's related personal property, including records, computers, vehicles, etc.; (4) Scopac's interest in executory contracts relating to the Scopac Timberlands (to the extent bidders wish to have such contracts assumed by Scopac and assigned to them); and (5) Scopac's interest in non-producing timberlands, including the MMCA lands. If either Marathon or Caterpillar so elect, and subject to appropriate Bankruptcy Court approval, they may choose to have their collateral sold with the Estate Property as part of the same sales process and subject to the same conditions as set forth herein.

7.2 Sale Procedures and Conditions. The Estate Property will be sold at an auction implemented through bidding and sale procedures approved by the Court in a form substantially similar to those attached as **Exhibit B** hereto. Sales will be free and clear of Liens, claims, and encumbrances with any such Liens, claims, and encumbrances to attach to the proceeds of sale. The proceeds of the sales will be distributed pursuant to this Plan.

7.2.1 At the auction, bidders may bid on all or part of Scopac's assets (including the Palco assets if Marathon so elects or Caterpillar's collateral if Caterpillar so elects), provided, however, that:

7.2.1.1 Any bidder making an offer for all or substantially all of the Commercial Timberlands must agree that:

- (i) (a) All current employees of Scopac, except the Chief Executive Officer, Chief Financial Officer and General Counsel shall continue to be employed in their current capacity by the successful bidder for a period of one year after closing (excepting discharge for cause); and
 - (b) In the event that a Palco plan of reorganization is consummated or the Palco mill is not sold to the buyer of all or substantially all the Commercial Timberlands, the New Master Purchase Agreement between Scopac and Palco dated July 20, 1998 (as modified) that sets forth the terms of the sale of timber from Scopac to Palco, and all existing Log Purchase Agreements entered into in the ordinary course of business in connection therewith, shall be assumed as part of the sale to the extent such contracts have not already been rejected. If none of the preceding conditions are met or the acquirer of the Palco mill does not wish to assume those agreements, then the New Master Purchase Agreement shall be rejected.

(ii) Any such bid must include sufficient cash, when combined with reasonably projected cash on hand at Scopac and the SAR Account (after the payment of Class 2(a) Claimants), as well as any unencumbered proceeds from the sale of Estate Property, to pay the reasonably projected Administrative Claims and Priority Claims in the Scopac Estate (the “Scopac Administrative Claim Fund”). These funds will be used to pay Administrative Claims and Priority Claims of the Scopac Estate on the Effective Date of the Plan.

(iii) Any such bid must include sufficient cash to fund the Unsecured Claim Distribution Account described in Section 5.3 of this Plan, in the amount of \$1.45 million.

7.2.1.2 A bidder for the Commercial Timberlands may submit offers for part of the Commercial Timberlands by specifying the property it wishes to acquire for what consideration. The requirements of 7.2.1.1 (i-iii) above shall apply if the offer is for all or substantially all of the Commercial Timberlands.

7.2.1.3 Bidders making offers solely for assets other than the Commercial Timberlands, such as the MMCA lands, are not subject to the requirements of 7.2.1.1.

7.2.1.4 Bidders who submit offers for both the Commercial Timberlands and the non-Commercial Timberland assets of Scopac must allocate the values they ascribe in their bids between the Commercial Timberlands and the non-Commercial Timberland assets. In the event that either Marathon or Caterpillar elect to have their collateral sold with the Estate Property as part of the same sales process and subject to the same conditions as set forth herein, bidders who submit offers on any of the Palco assets or on Caterpillar’s collateral must also allocate values they ascribe in their bids between the Palco assets, Caterpillar’s collateral and the assets of Scopac.

7.2.2 Any cash proceeds from the sale of the Scopac assets shall be distributed in accordance with the terms of the Plan.

7.2.3 Any sale of Scopac's assets will be subject to approval by the Court post-confirmation.

7.2.4 It is anticipated that Class 2(a) Claimants will be paid in full out of the existing cash in the SAR Account and the proceeds of the sale of Estate Property. In the event of a successful credit bid by the Indenture Trustee, if there are not sufficient funds in the SAR Account to pay the Class 2(a) Claims in full, the Plan Agent is authorized to acquire the necessary funds by obtaining a first priority, senior secured loan pursuant to Section 8.5.2.4;

7.2.5 In the event that the Indenture Trustee acquires the Estate Property through a successful credit bid, title to Estate Property shall pass to the Indenture Trustee or its designee.

7.3 Assumption of Environmental Obligations. Implementation of the Indenture Trustee Plan will comply with all nonbankruptcy law approvals and permits for the transfers contemplated by the Indenture Trustee Plan as if no bankruptcy case had been filed. Moreover, the Plan Agent and the winning bidder at the sale contemplated by the Indenture Trustee Plan will satisfy, complete, perform, comply with and be subject to all Environmental Obligations as if no chapter 11 bankruptcy cases had been filed. For the avoidance of doubt, nothing in the Plan shall be interpreted as having any effect on the existing environmental and regulatory authority and scheme.

Notwithstanding any other provision of this Plan, all Environmental Obligations associated with the Commercial Timberlands and the MMCAs, including the HCP and all related obligations, the CC&Rs, as well as any and all permits, agreements, plans, orders, or other governmental agency authorizations or approvals issued by federal, state, and/or local government agencies with respect to timber harvesting activities or other land use activities on Scopac's timberlands will be assumed by the acquirer of the Commercial Timberlands and the MMCAs, including the Indenture Trustee if it acquires the property through a successful credit bid, and the property so transferred will continue to be subject to those Environmental Obligations.

ARTICLE 8 THE PLAN AGENT

8.1 The Plan Agent. There will be one Plan Agent under the Plan who will answer to and be directed by the Post-Confirmation Board and who will be vested with all the powers of a debtor-in-possession and trustee appointed under chapter 7. The Proponent shall, prior to the Confirmation Hearing, nominate the Plan Agent, and will also negotiate a fee agreement with the Plan Agent to compensate him or her for services rendered as the Plan Agent. The Plan Agent candidate shall be approved at the Confirmation Hearing, and shall thereafter immediately undertake the required duties under the Plan.

8.2 The Post-Confirmation Board. The Post-Confirmation Board will consist of at least the top three (3) Timber Noteholders and such additional noteholders as are necessary to ensure that there is an odd number of members on the Post-Confirmation Board and that

the members together hold at least 51% or more of the total of the outstanding balance on the Timber Notes until such time as the Timber Notes are paid in full. If the Timber Notes are paid in full, the U.S. Trustee shall propose members of the Post-Confirmation Board (the “Replacement Post-Confirmation Board Members”). The U.S. Trustee must give five (5) days notice of any proposed Replacement Post-Confirmation Board Members. If no objection is filed within the notice period, the proposed successor Replacement Post-Confirmation Board Members shall automatically succeed to the rights and duties of the Post-Confirmation Board Members. If an interested party objects to the proposed Replacement Post-Confirmation Board Members within the notice period, a hearing will be held and the Court may appoint the Replacement Post-Confirmation Board Members. The Post-Confirmation Board shall:

8.2.1 Oversee the actions of the Plan Agent;

8.2.2 Approve by majority vote all major decisions of the Plan Agent regarding the sale of the Debtor’s assets and distributions of the proceeds therefrom; and

8.2.3 If necessary, select any Successor Plan Agents.

8.3 Selection of Successor Plan Agent.

8.3.1 Resignation of Plan Agent. The Plan Agent may resign such position by giving written notice to the Post-Confirmation Board at least thirty (30) days before the proposed effective date of resignation. The Plan Agent shall continue to serve as the Plan Agent after the filing of the resignation until the proposed effective date, which shall be the effective date of appointment of a successor Plan Agent.

8.3.2 Removal for Cause. The Post-Confirmation Board may remove the Plan Agent for cause. In such a case, the removal of the Plan Agent will be effective immediately and the Post-Confirmation Board shall appoint an interim Plan Agent pending the selection of a Successor Plan Agent.

8.3.3 Appointment of Successor Plan Agent. In the event of the death (in the case of a trustee that is a natural person), dissolution (in the case of a trustee that is a corporation or other entity), resignation, incompetency, or removal of a Plan Agent, replacements shall be appointed by the Post-Confirmation Board. The Court must be notified of the vacancy or prospective vacancy, and twenty (20) days notice of the selection of a successor Plan Agent must be given. If no objection is filed within the notice period, the successor Plan Agent shall automatically succeed to the rights and duties of the Plan Agent. If an interested party objects to the proposed successor Plan Agent within the notice period, a hearing will be held and the Court may appoint a successor Plan Agent. A successor Plan Agent must be appointed as soon as practicable, but in any event within sixty (60) days after the occurrence of the vacancy or, in the case of resignation, at least fifteen (15) days before the effective date of such resignation. If the Post-Confirmation Board fails to appoint a successor Plan Agent within the applicable period, the appointed Assistant United States Trustee from the Southern District of Texas Corpus Christi Office (the “U.S. Trustee”) in the above referenced Bankruptcy Case shall propose a successor

Plan Agent. The U.S. Trustee must give five (5) days notice of any proposed successor Plan Agent. If no objection is filed within the notice period, the proposed successor Plan Agent shall automatically succeed to the rights and duties of the Plan Agent. If an interested party objects to the proposed successor Plan Agent within the notice period, a hearing will be held and the Court may appoint a successor Plan Agent.

8.3.4 Vesting of Rights in Successor Plan Agent. Every successor Plan Agent appointed pursuant to the Plan shall execute, acknowledge, and deliver to the retiring Plan Agent, if any, an instrument accepting the appointment subject to the terms and provisions of the Plan. The successor Plan Agent shall become vested with all the rights, powers, trusts, and duties of the retiring Plan Agent under the Plan, except that the successor Plan Agent shall not be liable for the acts or omissions of the retiring Plan Agent.

8.4 Compensation. As compensation for services as Plan Agent and under any other agreements to which the Plan Agent is a party as contemplated by the Plan, the Plan Agent shall receive the compensation provided for in a separate compensation arrangement approved by the Bankruptcy Court. Compensation of any successor Plan Agent shall be determined before the time of the Plan Agent's appointment.

8.5 Rights and Obligations of the Plan Agent. On the Confirmation Date, the Plan Agent shall be vested with control and authority over the Estate Property, over the acquisition, management, and disposition thereof, and over the management and conduct of the business of the Debtor to the same extent as if the Plan Agent were the sole owner thereof in his or her own right.

8.5.1 Sale of the Assets of the Post-Confirmation Debtor. On the Confirmation Date, the Plan Agent shall begin conducting an orderly sale of the Estate Property consistent with the terms and provisions of the Plan.

8.5.2 Management of the Post-Confirmation Debtor. Except as otherwise expressly limited in the Plan, the Plan Agent shall have control and authority over the Post-Confirmation Debtor and Estate Property, including the Recovery Rights and other causes of action that are owned by the Post-Confirmation Debtor, and over the management and disposition of the Estate Property (including any transfer of Estate Property that does not constitute a disposition). Except as provided in the Plan, the Plan Agent need not obtain any court order or approval in the exercise of any power or discretion conferred under the Plan. Specifically, by way of illustration and without limitation, the Plan Agent need not seek Court approval to compromise any claim, cause of action, or right of recovery of the estate post-confirmation. The Plan Agent shall exercise its business judgment as a fiduciary for the benefit of the holders of Claims and Interests, in order to maximize the value of Estate Property, giving due regard to the cost, risk, and delay of any course of action. In connection with the management of the Post-Confirmation Debtor and use of the Estate Property, the Plan Agent's power to manage the Post-Confirmation Debtor (except as otherwise expressly limited in the Plan) shall include, without limitation, taking the following actions on behalf of the Debtor:

8.5.2.1 With Houlihan Lokey as sales agent, pursue the marshaling and sale of the Estate Property, and preserve and protect the Estate Property;

8.5.2.2 Appoint, engage, employ, supervise, and compensate officers, employees, and other Persons as may be necessary or desirable, including managers, consultants, accountants, technical, financial, real estate, or investment advisors or managers, attorneys, agents or brokers, corporate fiduciaries, or depositories;

8.5.2.3 Distribute proceeds of the sale of Estate Property (1) to secured creditors with liens on the assets, and (2) if any proceeds remain, to junior classes of creditors;

8.5.2.4 With the approval of the Post-Confirmation Board, obtain loans or financing in such amounts and on such terms as reasonably necessary in the exercise of the Plan Agent's discretion to carry out the purposes of the Plan;

8.5.2.5 Collect accounts receivable and enforce the payment of notes or other obligations owed to the Debtor by any Person;

8.5.2.6 Abandon any unsold collateral to secured creditors other than Class 2(a) or Class 2(b) Claimants;

8.5.2.7 Make or cause to be made Distributions of Available Cash in accordance with the terms of the Plan;

8.5.2.8 Serve as the Liquidating Trustee of the Scotia Pacific Liquidating Trust to be formed on the Scotia Pacific Liquidating Trust Transfer Date;

8.5.2.9 Serve as the Litigation Trustee of the Litigation Trust to be formed on the Litigation Trust Transfer Date;

8.5.2.10 Negotiate with administrative and priority tax claimants regarding treatment of or objections to Claims, make any necessary state and federal governmental filings, and deal with necessary regulatory and environmental issues;

8.5.2.11 Purchase insurance with coverage and limits as the Plan Agent deems desirable, including insurance covering liabilities of the Plan Agent and its employees and agents, or employees or agents of the Post-Confirmation Debtor, incurred in connection with their services to the Post-Confirmation Debtor;

8.5.2.12 Subject to the limitations in Article 11 of the Plan, to the extent reasonably required, litigate or compromise claims and contingent liabilities (including Disputed Claims) and maintain the value of Estate Property during the orderly sale, invest and reinvest Available Cash, pending distribution, and liquidate such investments; provided, however, the Plan Agent shall not receive or retain cash or cash equivalents in excess of a reasonable amount necessary to litigate or compromise claims and contingent liabilities (including Disputed Claims) or to maintain the value of the Estate Property during sale;

8.5.2.13 Establish the manner of ascertaining income and principal, and the apportionment of income and principal, and the apportionment between income and principal of all receipts and disbursements, and to select an annual accounting period;

8.5.2.14 Establish funds, reserves and accounts (including the Reserve Accounts), as deemed by the Plan Agent in its discretion to be useful in carrying out the purposes of the Plan;

8.5.2.15 Sue and be sued and participate, as a party or otherwise, in any judicial, administrative, arbitrate or other proceeding;

8.5.2.16 Delegate any or all of the discretionary power and authority conferred with respect to all or any portion of the Estate Property to any one or more reputable individuals or recognized institutional advisers or investment managers without liability for any action taken or omission made because of any such delegation except for such liability as is provided in the Plan;

8.5.2.17 Undertake any duties or obligations and exercise any rights concerning the treatment of Secured Claims under the Plan;

8.5.2.18 Execute, deliver, and perform such other agreements and documents and to take or cause to be taken any and all such other actions as may be necessary or desirable to effectuate and carry out the purposes of the Plan;

8.5.2.19 Undertake any action necessary to maintain the corporate existence of and/or dissolve the Post-Confirmation Debtor;

8.5.2.20 Undertake any action necessary to ensure that the Post-Confirmation Debtor is and remains in good standing and in compliance with applicable federal, state, and local laws;

8.5.2.21 File any federal, state, or local tax returns and provide for the payment of any related taxes;

8.5.2.22 Undertake any action or perform any obligation provided for or required under the Plan; and

8.5.2.23 File a final report with the Court and close the bankruptcy case.

8.5.3 Employment and Compensation of Professionals. After the Confirmation Date, the Plan Agent shall have the authority to retain and compensate on behalf of the Post-Confirmation Debtor, attorneys, accountants, investment advisors, and other professionals, including professionals already or formerly retained by the Debtor or the Indenture Trustee, as the Plan Agent may determine to be necessary or appropriate in carrying out the provisions of the Plan. The Plan Agent may pay the reasonable fees and expenses of such professionals as a Plan Administration Cost without application to or further order of the Bankruptcy Court.

8.5.4 Records. The Plan Agent, on behalf of the Post-Confirmation Debtor, shall maintain records and account books relating to the Estate Property, the management of the Estate Property, and all transactions undertaken by the Plan Agent. The Plan Agent shall also maintain, on behalf of the Post-Confirmation Debtor, records and account books relating to all Distributions contemplated and made under the Plan.

8.5.5 Investment Guidelines. Available Cash and other Cash held pending distribution, including Cash held in Reserves, shall (to the extent permitted by applicable law) be invested by the Plan Agent, on behalf of the Post-Confirmation Debtor, in (i)

direct obligations of, or obligations guaranteed or secured by, the United States of America (including United States Treasury Bills); (ii) obligations of any agency or corporation that is or may subsequently be created by or pursuant to an Act of the United States Congress or its agencies or instrumentality's, or (iii) demand deposits or short-term certificates of deposit at any bank or trust company that has, at the time of the acquisition by the Plan Agent of such investments, capital stock and surplus aggregating at least \$100 million and whose short-term debt obligations are rated by at least two nationally recognized statistical rating organizations in one of the two highest categories. Such investments shall mature in the amounts and at the times as, in the judgment of the Plan Agent, are necessary, or are desirable with a view to providing funds when needed to make payments from the Estate Property. Any investment purchased with the Estate Property shall be deemed a part of the Estate Property. All interest, distributions, dividends and proceeds received by the Plan Agent in connection with such investments shall be a part of the Estate Property.

8.5.6 Exculpation. The Plan Agent, and its members, partners, officers, directors, employees and agents (including any attorneys, accountants, financial advisors, and other professionals or agents retained by the Plan Agent) shall not be liable for any act they may do, or omit to do in connection with or arising out of the Plan, the administration of the Plan, or the property to be distributed under the Plan. However, this paragraph shall not apply to any act of gross negligence or willful misconduct as determined by a Final Order of the Bankruptcy Court.

8.5.7 Reliance by Plan Agent. The Plan Agent may rely, and shall be fully, protected in acting or refraining from acting on any resolution, statement, certificate, instrument, opinion, report, notice, request, consent, order, or other instrument or document that the Plan Agent has no reason to believe is not genuine and to be signed or presented by the proper party or parties or, in the case of facsimiles, to have been sent by the proper party or parties, and the Plan Agent may conclusively rely as to the truth of the statements and correctness of the opinions expressed in such documents; provided, however, the Plan Agent shall be under a duty to examine, or cause to be examined, the above-referenced documents to determine whether such documents conform to the requirements of the Plan. The Plan Agent may consult with counsel, and any opinion of counsel shall be full and complete authorization and protection regarding any action taken or suffered by the Plan Agent in accordance with such opinion. The Plan Agent shall have the right at any time to seek instructions from the Bankruptcy Court (or any other court of competent jurisdiction after the chapter 11 case is finally closed) concerning the Estate Property, the Plan, or any other document executed in connection therewith, and those instructions shall be full and complete authorization regarding any action taken or suffered by the Plan Agent in accordance with those instructions.

8.6 Execution of Documents and Corporate Action. The Post-Confirmation Debtor shall deliver all documents and perform all actions reasonably contemplated with respect to implementation of the Plan. The Plan Agent is designated as the authorized representative to execute on behalf of the Post-Confirmation Debtor, in a representative capacity and not individually, any documents or instruments to be executed by the Post-Confirmation Debtor, after the Confirmation Date, in order to consummate the Plan.

8.7 No Surrender of Instruments. Unless otherwise provided for in the Plan, each Claimholder or Interestholder holding a certificate or instrument evidencing a Claim against, or Interest in, the Debtor or Estate Property, and whose Claims are treated under the Plan, need not surrender such certificate or instrument to the Plan Agent as a prerequisite to receiving a Distribution under the Plan.

8.8 Final Report.

8.8.1 Final Report. On the complete sale of all Estate Property and distribution of all Available Cash and any Reserve, the Plan Agent shall file with the Bankruptcy Court and serve on the U.S. Trustee a final report containing the following information: (i) a list of all Estate Property and funds of the Debtor originally charged under the Plan Agent's control; (ii) a summarized accounting, in sufficient detail, of all purchases, sales, gains, losses, and income in connection with the sale and distribution of the Estate Property during the Plan Agent's term of service; and (iii) any ending balance of all assets and funds of the Post-Confirmation Debtor as of the date of the final report.

8.8.2 Discharge of Plan Agent. On the dissolution of the Debtor under Section 17.6, the Plan Agent shall be discharged from all liability to the Post-Confirmation Debtor, holders of Claims and Interests, or any Person who has had or may have an interest in the Post-Confirmation Debtor for acts or omissions in the Plan Agent's capacity as Plan Agent or in any other capacity contemplated by the Plan.

8.8.3 Costs Relating to Final Report. The expenses of any accounting (including, any final report or discharge) shall be paid by the Post-Confirmation Debtor as a Plan Administration Cost.

8.9 Bankruptcy Code Section 1145 Determination. Confirmation of the Plan shall constitute a determination in accordance with Bankruptcy Code section 1145, that (except with respect to an entity that is an underwriter as defined in Bankruptcy Code section 1145(b)) section 5 of the Securities Act of 1933 and any state or local law requiring registration for offer or sale of a security or registration or licensing of an issuer of, underwriter of, broker or dealer in, a security do not apply to the offer or sale under the Plan of the Estate Property in exchange for Claims against the Debtor. Notwithstanding, if the Plan Agent determines that registration and reporting under the Securities Exchange Act of 1934 is required, the Plan Agent will take steps to comply with those requirements.

**ARTICLE 9
GENERAL PROVISIONS GOVERNING DISTRIBUTIONS**

9.1 Distributions on Allowed Claims Only. Distributions under the Plan shall be made only to the holders of Allowed Claims. Until a Disputed Claim becomes an Allowed Claim, the holder of that Disputed Claim shall not receive the consideration otherwise provided to such Claimholder under the Plan.

9.2 Distributions of Available Cash. The Plan Agent, on behalf of the Post-Confirmation Debtor, shall make Distributions only from Available Cash, except as otherwise provided

in the Plan. Subject to establishing the Reserves required under the Plan, the Plan Agent shall have authority to make Distributions of Available Cash at such time or times as the Plan Agent believes there is sufficient Available Cash to warrant a Distribution.

- 9.3 Initial Distribution Date.** As soon as practicable after the Effective Date (the “Initial Distribution Date”), as determined by the Plan Agent, the Plan Agent on behalf of the Post-Confirmation Debtor, shall make Distributions to the holders of Allowed Claims from Available Cash in accordance with the terms of the Plan.
- 9.4 Place and Manner of Payments or Distributions.** The Plan Agent shall make Distributions to the holders of Allowed Claims by mailing such Distribution to the Claimholders at their address as listed in the Debtor’s Schedules of Assets and Liabilities, or any proof of claim filed by the Claimholders, or at such other address as such Claimholders shall have specified for payment purposes in a written notice to the Plan Agent at least twenty (20) days before a Distribution Date. The Plan Agent, on behalf of the Post-Confirmation Debtor, may make any distributions by wire, check, or such other method as the Plan Agent deems appropriate under the circumstances.
- 9.5 Minimum Distributions.** To the extent a Distribution to a particular Claimant is less than \$100.00, the Plan Agent, on behalf of the Post-Confirmation Debtor, may hold such Distribution until the final Distribution or until the aggregate of Distributions to such Claimant exceeds \$100.00.
- 9.6 Undeliverable Distributions.** If a Distribution to any Claimholder is returned as undeliverable, the Plan Agent, on behalf of the Post-Confirmation Debtor, shall use reasonable efforts to determine such Claimholder’s then current address, and no further Distributions shall be made to such Claimholder unless and until the Plan Agent is notified of such Claimholder’s then current address.
- 9.7 Treatment of Unclaimed or Undeliverable Distributions.** If any Person entitled to Distributions of Available Cash or Estate Property under the Plan cannot be located on the Effective Date or any time thereafter, then such Available Cash or Estate Property shall be set aside, and, in the case of Available Cash, held in an interest-bearing account or fund maintained by the Plan Agent on behalf of such Person. If such Person is located within ninety (90) days of the Initial Distribution Date, such Available Cash shall be paid or distributed to such Person without interest. If such Person cannot be located within ninety (90) days of the Initial Distribution Date, then (i) such Person shall no longer be deemed to be a Claimant, and (ii) any Available Cash and Estate Property and interest and proceeds thereon allocable to such Person, net of the allocable portion of taxes paid by the Debtor, shall be part of the Available Cash or Estate Property free and clear of and from any claim to such property by or on behalf of such Person (who shall be deemed to have released such claim) and shall be otherwise distributed as provided in the Plan, with such adjustments as are required to take into account that such Person is no longer deemed a Claimholder.
- 9.8 Uncashed Checks.** All checks constituting a Distribution by the Plan Agent, on behalf of the Post-Confirmation Debtor, shall have a voiding provision causing such check to

become void if not cashed within ninety (90) days. To the extent that a check becomes void, the Distribution represented by the check shall revert to the Post-Confirmation Debtor, to be administered in accordance with section 9.7 of the Plan.

9.9 Withholding. The Plan Agent, on behalf of the Post-Confirmation Debtor, may withhold from the amount distributable from the Debtor at any time to any Person (except with respect to the Internal Revenue Service) such sum or sums as may be sufficient to pay any tax or taxes or other charge or charges that have been or may be imposed on such Person or upon the Debtor with respect to the amount distributable or to be distributed under the income tax laws of the United States or of any state or political subdivision or entity by reason of any Distribution provided for in this Article 9, whenever such withholding is determined by the Plan Agent in its discretion to be required by any law, regulation, rule, ruling, directive or other governmental requirement, and the Plan Agent, in the exercise of its discretion and judgment, may enter into agreements, on behalf of the Post-Confirmation Debtor, with taxing or other authorities for the payment of such amounts as may be withheld in accordance with the provisions of this section 9.9. Notwithstanding the foregoing but without prejudice to the Plan Agent's rights hereunder, such Person shall have the right with respect to the United States, or any state, or any political subdivision of either, to contest the imposition of any tax or other charge by reason of any Distribution hereunder.

9.10 Claims of Less than \$25.00. No claim in the amount of less than \$25.00 shall receive Distributions under the Plan unless the Claimholder makes a request in writing to the Plan Agent within sixty (60) days of the Effective Date. Until and unless a request is made as provided in the preceding sentence, the claim of less than \$25.00 shall be deemed a Disputed Claim.

ARTICLE 10

EFFECT OF CONFIRMING PLAN – INJUNCTION AGAINST ENFORCEMENT OF PRE-CONFIRMATION DEBT AND DISCHARGE

10.1 Injunction Enjoining Holders of Claims Against Debtor and Post-Confirmation Debtor. As of the Confirmation Date, except as provided in the Confirmation Order, all entities shall be precluded from asserting against the Post-Confirmation Debtor, its Estate, or the Plan Agent or its employees or agents, and the Plan Agent in its role as officer and director or in any other capacity of the Post-Confirmation Debtor, any claims, debts, rights, causes of action, liabilities, or equity interests relating to the Debtor or Post-Confirmation Debtor based upon any act, omission, transaction, or other activity of any nature that occurred prior to the Effective Date.

10.2 Injunction Enjoining Interest Holders and Ensuring Their Cooperation. As of the Confirmation Date, the Plan Agent shall assume control over the Post-Confirmation Debtor, and, unless and until all Allowed Claims of classes senior in priority to Class 7 have been paid in full, any affiliate of the Debtor and any holder of Interests in the Debtor (i) shall be enjoined from exercising any control over or interest in the Post-Confirmation Debtor or its assets, and (ii) shall cooperate with, take no action that would be adverse to,

and take such as actions as are directed by the Plan Agent to transfer Timber Permits to buyers of the Estate Property.

10.3 Exculpation of Professionals and Others. The Post-Confirmation Debtor will not be liable to any Claimholder or Interestholder, or other party with respect to any action, forbearance from action, decision, or exercise of discretion taken prior to the Effective Date in connection with the operation of the Post-Confirmation Debtor. On the Confirmation Date, all existing contractual obligations of the Debtor to indemnify the directors, officers and employees shall cease and no longer be an obligation of the Post-Confirmation Debtor. Notwithstanding any other provision of this Plan, no Claimholder or Interestholder, or other party-in-interest, nor their respective agents, employees, representatives, financial advisors, attorneys or affiliates, and no successors or assigns of the foregoing, shall have any claim, cause of action, or other legal or equitable right against the Debtor or the Post-Confirmation Debtor or their employees or agents, the Plan Agent, the Plan Proponent, the professionals retained in the Debtor's chapter 11 case, advisors, attorneys, business consultants, representatives, financial advisors, or agents and any of such parties' successors and assigns, for any good faith solicitation of the Plan in accordance with section 1125(e) of the Bankruptcy Code or for good faith participation in the offer, issuance, sale or purchase of a security, offered or sold under the Plan in accordance with section 1125(e) of the Bankruptcy Code in connection with, relating to, or arising out of the Debtor's chapter 11 case, the pursuit of confirmation of the Plan, the consummation of the Plan, the administration of the Plan or the property to be distributed under the Plan, except for their willful misconduct. In all instances, the above-referenced parties shall be and have been entitled to reasonably rely on the advice of counsel with respect to their duties and responsibilities in connection with the Debtor's chapter 11 case and under the Plan.

10.4 Release/Exculpation. As of the Confirmation Date, but subject to the occurrence of the Effective Date, and in consideration of the Distributions to be received under this Plan, except as otherwise specifically provided by this Plan or the Confirmation Order, (i) each holder of a Claim shall be deemed to have unconditionally released the Indenture Trustee from any and all claims, obligations, suits, judgments, damages, rights, Causes of Action and liabilities whatsoever which any such holder may be entitled to assert, whether known or unknown, foreseen or unforeseen, existing or hereafter arising, in law, equity or otherwise, based in whole or in part upon any act or omission, transaction, event or other occurrence taking place from the beginning of time up to and including the Effective Date in any way relating to the Chapter 11 Cases, this Plan or the Disclosure Statement, excepting, however, from such release any obligation owing to a holder of an Allowed Claim arising under this Plan, and further excepting any act of gross negligence or willful misconduct; and (ii) each holder of a Claim shall be deemed to have unconditionally released the Indenture Trustee from any and all Claims, obligations, suits, judgments, damages, rights, Causes of Action and liabilities whatsoever which any such holder may be entitled to assert, whether known or unknown, foreseen or unforeseen, existing or hereafter arising, in law, equity or otherwise, based in whole or in part upon any act or omission, transaction, event or other occurrence taking place up to and including the Effective Date for which released rights the holder has a Claim that is entitled to receive

or retains value as provided in this Plan, excepting any act of gross negligence or willful misconduct, provided however that nothing in this Plan shall limit any right to object to any Professional Fee Claim.

ARTICLE 11
PROVISIONS FOR THE RESOLUTION OF OBJECTIONS
TO PROOFS OF CLAIM

- 11.1 Right to Object to Claims.** The Plan Agent will have sole authority to administer, reconcile, pursue objections to, and settle the Claims against the Debtor's Estate (except for Class 2(a) and Class 2(b) secured claims which shall be deemed allowed in full for all purposes) and the Post-Confirmation Debtor's Estate.
- 11.2 Deadline for Objecting to Claims.** Except as otherwise provided herein, the Plan Agent must file any objections to Claims with the Bankruptcy Court and serve a copy of the objection on the subject Claimant before the expiration of one-hundred and eighty (180) days after the Effective Date (unless such time period is further extended by subsequent orders of the Bankruptcy Court); otherwise such Claim shall be deemed Allowed in accordance with Bankruptcy Code section 502.

ARTICLE 12
GENERAL PROVISIONS RELATING TO RESERVES AND ACCOUNTS

- 12.1 Disputed Claim Reserve Account.** As soon as practicable after the Confirmation Date, the Plan Agent shall establish, on behalf of the Post-Confirmation Debtor, a Disputed Claim Reserve funded with Available Cash in an amount equal to the Distributions reserved for the holders of Disputed Claims. The Plan Agent shall create a separate account for the Disputed Claim Reserve. The Disputed Claim Reserve shall be held in trust for the benefit of holders of Allowed Claims whose Distributions are unclaimed and the holders of Disputed Claims pending determination of their entitlement to Distributions under the Plan. When a Disputed Claim becomes an Allowed Claim, the Plan Agent, on behalf of the Post-Confirmation Debtor, shall release and deliver the Distribution reserved for the particular Disputed Claim (net of distribution cost) from the Disputed Claim Reserve on the next Distribution Date. If the Court disallows the Disputed Claim, the proceeds therefrom shall be transferred to the Distribution Account for distribution pursuant to the Plan. To the extent any funds held in the Disputed Claim Reserve relate to (i) Administrative Claims; (ii) Class 1 Priority Unsecured Non-Tax Claims; or (iii) Priority Unsecured Tax Claims, that have either been disallowed by the Bankruptcy Court or are no longer claimed as evidenced by (1) a written release of such Claim or (2) the Claimant's failure to seek allowance of such Claim within six (6) months from the Confirmation Date, then such funds shall become Available Cash for use pursuant to the Plan. The Disputed Claim Reserve shall be closed once all required payments have been made.
- 12.2 Administrative Expense Reserve Account.** As soon as practicable after the Confirmation Date, the Plan Agent shall establish the Administrative Expense Reserve Account in an amount equal to the estimated Administrative Expense Claims. The

Administrative Expense Reserve Account shall be funded through Available Cash. The funds in the Administrative Expense Reserve Account shall be used solely for the payment of Allowed Administrative Expense Claims. To the extent funds held in the Administrative Expense Reserve Account that relate to claims that (i) have either been disallowed by the Bankruptcy Court or (ii) are no longer claimed as evidenced by a written release of such Claim, then such funds become Available Cash for use pursuant to the Plan. The Administrative Expense Reserve Account shall be closed once all required payments have been made. Any funds remaining after all required payments have been made shall become Available Cash for distribution pursuant to the Plan.

- 12.3 Professional Fee Reserve Account.** As soon as practicable after the Confirmation Date, the Plan Agent shall establish the Professional Fee Reserve Account in an amount equal to the estimated Professional Fee Claims. The Professional Fee Reserve Account shall be funded through Available Cash. The funds in the Professional Fee Reserve Account shall be used solely for the payment of Allowed Professional Fee Claims. To the extent funds held in the Professional Fee Reserve Account that relate to claims that (i) have either been disallowed by the Bankruptcy Court; (ii) are no longer claimed as evidenced by a written release of such Claim; or (iii) are disallowable due to the Claimant's failure to seek allowance of such Claim within sixty (60) days of the Effective Date, then such funds shall become Available Cash for use pursuant to the Plan. The Professional Fee Reserve Account shall be closed once all required payments have been made.
- 12.4 Operating Account and Payroll Account.** As soon as practicable after the Confirmation Date, the Plan Agent, on behalf of the Post-Confirmation Debtor, shall establish the Operating Account and the Payroll Account funded initially with the existing cash in the Debtor's operating and payroll accounts and periodically thereafter with Available Cash in an amount determined by the Plan Agent, to be reasonably necessary to pay anticipated Plan Administration Costs, fund litigation by the Post-Confirmation Debtor or the Litigation Trust, fund contingent liabilities, pay the employees of the Post-Confirmation Debtor during the course of the orderly sale, otherwise conduct the affairs of the Post-Confirmation Debtor, and fund the expenses of the Scotia Pacific Liquidating Trust. The Plan Agent, at his or her option, may use the existing operating and payroll accounts of the Debtor and is empowered to become the sole signatory on the accounts.
- 12.5 Distribution Account.** As soon as practicable after the Confirmation Date, the Plan Agent shall establish the Distribution Account to hold funds for distribution to holders of Allowed Claims in accordance with the Plan. The account will be funded periodically with Available Cash in an amount determined by the Plan Agent.
- 12.6 Unsecured Claim Distribution Account.** As soon as practicable after the Effective Date, the Plan Agent shall establish the Unsecured Claim Distribution Account to hold funds for distribution to holders of Allowed General Unsecured Claims in accordance with Article 5 of the Plan. The Unsecured Claim Distribution Account shall be funded as provided in Section 5.3.2 of the Plan. Any Cash remaining in the Unsecured Claim

Distribution Account after payment of Allowed Unsecured Claims as provided in the Plan shall become Available Cash for use pursuant to the Plan.

- 12.7 Litigation Expense Account.** As soon as practicable after the Confirmation Date, the Plan Agent shall set aside Available Cash in a Litigation Expense Account in an amount sufficient to pay the professional fees and expenses for objecting to claims or prosecuting Avoidance Actions and Recovery Rights in accordance with the Plan. Any unused funds in the Litigation Expense Account shall become Available Cash for use pursuant to the Plan.
- 12.8 SAR Account.** The existing SAR Account will be maintained with sufficient funds to pay the expected or agreed amount of the Class 2(a) Secured Claims. Any unused funds in the SAR Account shall become Available Cash for use pursuant to the Plan.

ARTICLE 13

PROVISIONS FOR THE RETENTION, ENFORCEMENT, COMPROMISE OR ADJUSTMENT OF CLAIMS BELONGING TO THE BANKRUPTCY ESTATE

- 13.1 Right to Enforce, Compromise, or Adjust Avoidance Actions.** The Plan Agent shall have, for the benefit of the Post-Confirmation Debtor's Estate, the sole and full power, authority, and standing to prosecute, compromise, or otherwise resolve any Avoidance Actions. All proceeds derived from the Avoidance Actions shall become Estate Property and distributed as Available Cash in accordance with the Plan. The Post-Confirmation Debtor shall not be subject to any counterclaims with respect to the Avoidance Actions Estate Property provided, however, that the Avoidance Actions will be subject to any applicable setoff rights that have been perfected and preserved by the holder of such rights.
- 13.2 Recovery Rights Other than Avoidance Actions.** The Plan Agent or the trustee of the Litigation Trust created pursuant to the Plan shall have full power, authority, and standing to prosecute, compromise, or otherwise resolve the Recovery Rights. The Post-Confirmation Debtor shall not be subject to any counterclaims with respect to the Recovery Rights and any other claims and causes of actions constituting Estate Property provided, however, that the claims and causes of action constituting Estate Property will be subject to any applicable setoff rights that have been perfected and preserved by the holder of such rights.

ARTICLE 14

EFFECT OF REJECTION BY ONE OR MORE CLASSES OF CLAIMS

- 14.1 Impaired Classes to Vote.** Each impaired class of Claims shall be entitled to vote separately to accept or reject the Plan. A holder of a Disputed Claim which has not been temporarily allowed for purposes of voting on the Plan may vote only such Disputed Claim in an amount equal to the portion, if any, of such Claim shown as fixed, liquidated and undisputed in the Debtor's Schedules of Assets and Liabilities and is not the subject of a subsequently filed objection as to such fixed, liquidated, undisputed amount. Holders of Contingent Claims are not entitled to vote on the Plan

- 14.2 Acceptance by Class of Creditors.** A class shall have accepted the Plan if the Plan is accepted by at least two-thirds (2/3) in amount and more than one-half (1/2) in number of the Allowed Claims of such class that have voted to accept or reject the Plan.
- 14.3 Reservation of Cramdown Rights.** In the event that any impaired class shall fail to accept this Plan in accordance with section 1129(a) of the Bankruptcy Code, the Proponent reserves the right to request the Bankruptcy Court to confirm the Plan in accordance with the provisions of the section 1129(b) of the Bankruptcy Code.

ARTICLE 15 EFFECT OF CONFIRMATION

- 15.1 Legally-Binding-Effect.** The provisions of this Plan shall bind all Creditors and Interestholders, whether or not they accept this Plan. On and after the Confirmation Date, all holders of Claims shall be precluded and enjoined from asserting any Claim against the Debtor or its assets or properties based on any transaction or other activity of any kind that occurred prior to the Effective Date except as permitted under the Plan.
- 15.2 Revesting of Property in the Debtor.** Subject to the terms of this Plan and the Confirmation Order, on the Confirmation Date, all Estate Property shall vest in and become the property of the Post-Confirmation Debtor, including without limitation all Claims, causes of action, alter-ego rights, derivative claims, breach of fiduciary duty claims, veil piercing rights and all other property of the estate as such property is defined by section 541 of the Bankruptcy Code and applicable Bankruptcy law.
- 15.3 Liens, Claims and Encumbrances.** Except as otherwise specifically provided in this Plan or in the Confirmation Order and, specifically subject to the Lien rights of the Class 2 creditors and the Environmental Obligations, on the Confirmation Date all property vesting in and becoming property of the Post-Confirmation Debtor shall be free of all liens, claims and encumbrances.
- 15.4 Causes of Action.** In keeping with section 1123(b)(3) of the Bankruptcy Code, the Post-Confirmation Debtor will retain all claims it owned before the Confirmation Date, including all claims recoverable under Chapter 5 of the Bankruptcy Code, including all claims assertable under sections 544, 546, 547, 548 and 550 of the Bankruptcy Code, and all claims owned by the Debtor pursuant to section 541 of the Bankruptcy Code or similar state law, including all claims against third parties on account of any indebtedness, and all other claims owed to or in favor of the Debtor to the extent not specifically compromised and released pursuant to the Plan or an agreement referred to or incorporated herein; all claims the Post-Confirmation Debtor owned before the Confirmation Date will be preserved and retained for enforcement by the Plan Agent or the trustee of any trust created pursuant to the Plan, on behalf of the Post-Confirmation Debtor, after the Confirmation Date; no other party will have the right to assert these claims.
- 15.5 Preservation of Rights of Action.** Except as otherwise provided in this Plan or the Confirmation Order, or in any contract, instrument, release, indenture, or other agreement

entered into in connection with this Plan, in accordance with section 1123(b) of the Bankruptcy Code, the Plan Agent or the trustee of any trust created pursuant to the Plan, on behalf of the Post-Confirmation Debtor, will retain and may enforce, sue on, settle, or compromise (or decline to do any of the foregoing) all claims, rights or causes of action, suits, and proceedings, whether in law or in equity, whether known or unknown, that the Debtor or the Estate may hold against any Person. The Plan Agent or the trustee of any trust created pursuant to the Plan or their successor(s), on behalf of the Post-Confirmation Debtor, may pursue the retained claims, rights or causes of action, suits, or proceedings as appropriate, in accordance with the best interests of the Post-Confirmation Debtor or its successor(s) who hold the rights.

- 15.6 Setoffs.** The Plan Agent or the trustee of any Trust created pursuant to the Plan may, but will not be required to, set off against any Claim, and the payments or other Distributions to be made pursuant to this Plan in respect of the Claim, claims of any nature whatsoever that the Debtor or Post-Confirmation Debtor may have against the holder of the Claim, provided, however, that neither the failure to do so nor the allowance of any Claim hereunder will constitute a waiver or release by the Post-Confirmation Debtor of any claim that the Debtor or Post-Confirmation Debtor may have against the holder. The holder of a Disputed Claim who asserts a right of setoff will retain the right, subject to any defenses of the Debtor or Post-Confirmation Debtor, until the earlier of the time when (a) the Disputed Claim becomes Allowed, in whole or in part, or (b) the claim is expunged by entry of an order of the Bankruptcy Court.

ARTICLE 16 CREATION OF THE LITIGATION TRUST

- 16.1 The Litigation Trust Transfer Date.** On the Effective Date, the Recovery Rights of Scopac (including the Debtors' Lawsuit Against Regulators), other than Avoidance Actions, shall be transferred to the Litigation Trust, for further disposition as provided in this Plan and the Litigation Trust Agreement.

16.2 The Litigation Trust.

16.2.1 Establishment of the Litigation Trust. On the Litigation Trust Transfer Date, the Post-Confirmation Debtor shall execute the Litigation Trust Agreement creating the Litigation Trust. A copy of the Litigation Trust Agreement is attached hereto as **Exhibit C**. The Litigation Trust shall be established for the sole purpose of prosecuting the Recovery Rights, other than Avoidance Actions, and distribution of the proceeds thereof in accordance with the Plan, with no objective to continue or engage in the conduct of a trade or business. For all federal income tax purposes, all parties shall treat the Litigation Trust as a liquidating trust pursuant to Treasury Regulations § 301.7701-4(d), and as a grantor trust subject to the provisions of Subchapter J, Part I, Subpart E of the Internal Revenue Code of 1986, as amended, owned by the Beneficiaries of the Litigation Trust (defined below) as grantors. The affairs and administration of the Litigation Trust shall be governed by this Plan, the Confirmation Order, the Litigation Trust Agreement, any other Final Orders, and applicable bankruptcy and non-bankruptcy law. The Litigation

Trust and the Litigation Trustee shall be vested with all the power and authority granted to a trustee pursuant to section 1106(a) of the Bankruptcy Code.

16.2.2 Transfer of Property to the Litigation Trust. Except as otherwise provided in the Plan, on the Litigation Trust Transfer Date and after the execution of the Litigation Trust Agreement, the Recovery Rights of Scopac, other than Avoidance Actions, shall be transferred to the Litigation Trust. The Litigation Trust shall hold the property in its exclusive possession, custody and control for the benefit of holders of Claims entitled to payment under this Plan. For all federal income tax purposes, the Estates shall treat the transfer of all property to the Litigation Trust as a transfer to holders of Claims to the extent such holders are Beneficiaries of the Litigation Trust. The Litigation Trustee shall ensure that, for all federal income tax purposes, consistent valuations are used by the Litigation Trustee and the holders of Claims for all property transferred to the Litigation Trust.

16.2.3 Transfer Free and Clear of Claims; Stay of Actions Against Litigation Trust or Trust Res. Except for the Liens of the Class 2(a) and Class 2(b) Claimants, and the rights of Beneficiaries of the Litigation Trust, all property transferred to the Litigation Trust from any of the Estates shall be free and clear of all Claims, interests, liens and encumbrances, and such property shall remain as property of the Litigation Trust until distributed pursuant to this Plan.

16.3 Beneficiaries of the Litigation Trust. Upon creation of the Litigation Trust, holders of secured claims in Class 2(b) and holders of Claims in Class 3, 4, 5, and 6 shall be the Beneficiaries of the Litigation Trust as their respective interests may appear.

16.4 The Litigation Trustee. The Confirmation Order will provide that, upon the creation of the Litigation Trust, the Plan Agent shall become the Litigation Trustee. The selection of any successor Litigation Trustee shall be governed by the terms of the Litigation Trust. The Litigation Trustee shall be empowered to act on behalf of the Litigation Trust and to prosecute and collect or settle the claims owned by the Litigation Trust. The Litigation Trustee shall not have an interest that is materially adverse to the Debtor, the Estate, or the Litigation Trust. The Litigation Trustee shall be paid a reasonable hourly rate from the trust assets for his or her services as Litigation Trustee and shall be entitled to reimbursement of reasonable expenses incurred in fulfilling his or her duties under the Litigation Trust Agreement or this Plan without the need for filing fee applications under the Bankruptcy Code or for prior Bankruptcy Court approval.

16.5 Distributions from the Litigation Trust. The Litigation Trustee may make interim Distributions to Beneficiaries of the Litigation Trust in the exercise of reasonable business judgment. Upon the settlement or conclusion of litigation and the collection of all of the claims in the Litigation Trust, and after the payment of all costs and expenses of collection, the Litigation Trustee must distribute the corpus of the Litigation Trust to the Beneficiaries in accordance with their priority and percentage interests in the Litigation Trust. In the event that all Allowed Claims of the Beneficiaries of the Litigation Trust are paid in full, with interest, then any remaining Cash shall become Available Cash under the Plan.

- 16.6 Dissolution of the Litigation Trust.** Except as otherwise provided in the Litigation Trust Agreement, upon the distribution to the Beneficiaries of the Litigation Trust of all of the res of the Litigation Trust, the Litigation Trustee shall file a notice of final distribution with the Court. Upon the expiration of thirty (30) days after the filing of such notice, if no objection has been received then the Litigation Trust shall terminate and the Litigation Trustee shall be discharged.

ARTICLE 17 THE EFFECTIVE DATE OF PLAN

- 17.1 Effective Date on Sale of Estate Property.** Subject to the conditions set forth in this Article, the Effective Date shall occur after the closing of the sale of substantially all of the Collateral securing the Claim of the Indenture Trustee at the auction(s) conducted by the Plan Agent pursuant to the Plan.
- 17.2 Distributions and Transfers on the Effective Date.** On or before the Effective Date, the Plan Agent will:
- 17.2.1** Transfer title to all Estate Property sold pursuant to the Plan to the acquirer(s);
 - 17.2.2** Transfer the Recovery Rights to the Litigation Trust;
 - 17.2.3** Assume and assign all executory contracts that the buyer has indicated it wishes to acquire;
 - 17.2.4** Pay the Class 2(a) Allowed Secured Claims;
 - 17.2.5** Abandon the collateral securing the Class 2(c) Secured Claims if Caterpillar elected to include the collateral in the auction of Estate Property and no buyer agreed to purchase it.
- 17.3 Cancellation of Existing Securities and Agreements.** As of the Effective Date, the Timber Notes shall evidence solely the right to receive the Distributions of Available Cash and other consideration to the Holders of the Timber Notes under the provisions hereof. On the Effective Date, except as otherwise provided for herein, (i) the Timber Notes, to the extent not already cancelled, shall be deemed cancelled and of no further force or effect without any further action on the part of the Bankruptcy Court or any other Person and (ii) the obligations of the Debtor under the cancelled Timber Notes and under the Indenture, or other constituent documents, or any agreements, or certificates of designation, governing the cancelled Timber Notes shall be terminated and discharged; provided, however, that each indenture or other agreement that governs the rights of the holder of a Claim based on the cancelled Timber Notes and that is administered by the Indenture Trustee, Collateral Agent or servicer shall continue in effect solely for the purposes of (a) allowing such Indenture Trustee, Collateral Agent, or servicer to make the Distributions to be made on account of such Claims hereunder and (b) permitting such Indenture Trustee, Collateral Agent, or servicer to maintain any rights it may have for fees, costs, and expenses under such indenture or other agreement. Additionally, the cancellation of any indenture shall not impair the rights and duties under such indenture as between the indenture trustee thereunder and the beneficiaries of the trust created

thereby. Any actions taken by an Indenture Trustee, Collateral Agent or servicer that are not for the purposes authorized hereunder shall not be binding upon the Post-Confirmation Debtor.

As of the Effective Date, all Liens, charges, encumbrances and rights related to any Claim or Interest, including, without limitation, those existing under the Indenture, the Timber Notes and any other documents, except to the extent specifically permitted under this Plan shall be terminated, null and void and of no effect; provided, however, that the Indenture and other agreements that govern the rights of the Holders of Class 2(a) and Class 2(b) Secured Claims shall continue in effect for the purpose of allowing the Indenture Trustee to make the Distributions hereunder on account of such Claims and enforce the Indenture Trustee's charging Lien, at which point the Indenture shall be cancelled and discharged pursuant to section 1141 of the Bankruptcy Code.

17.4 Sale of Estate Property to a Cash Buyer. If the winning bidder at the auction of Estate Property conducted by the Plan Agent pursuant the Plan is a cash buyer who has outbid any credit bid of the Indenture Trustee, then the Plan Agent will pay the Class 2(b) Secured Claims out of the proceeds of the sale of the Collateral. If any proceeds remain after such payment, the Plan Agent shall distribute them in accordance with the provisions of the Plan.

17.5 Conditions Precedent to Effective Date. The following are conditions precedent to the occurrence of the Effective Date, each of which must be satisfied or waived in accordance with Section 17.5 below:

17.5.1 The Confirmation Order shall have been entered by the clerk of the Bankruptcy Court and shall have become final;

17.5.2 All authorizations, consents, and regulatory approvals required, if any, in connection with the consummation of the Plan shall have been obtained;

17.5.3 Post-Confirmation Debtor shall have in place as of the Effective Date liability insurance in form, substance, and amount reasonably acceptable to the Plan Agent;

17.5.4 There shall be no stay of the Confirmation Order in effect;

17.5.5 The sale of substantially all of the Collateral has been completed;

17.5.6 The Plan Agent has filed a Notice of Effective Date; and

17.5.7 All other actions, documents and agreements necessary to implement the Plan shall have been effected or executed.

17.6 Waiver of Conditions. Each of the conditions set forth in Section 17.4 above, other than those set forth in Section 17.4.1, may be waived, in whole or in part, by the Plan Agent with the written consent of the Post-Confirmation Board without any notice to parties in interest or the Bankruptcy Court and without a hearing.

17.7 Dissolution of the Debtor. The Plan Agent or the Liquidating Trustee (as the case may be), as soon as practical after the orderly sale of all Estate Property and distributions to

creditors of the proceeds, shall within the exercise of reasonable business judgment make all necessary governmental and operational filings, including, but not limited to, terminating unnecessary insurance, terminating employee benefits plans, resolving regulatory issues, and dissolving Scopac's corporate existence.

ARTICLE 18 CREATION OF SCOTIA PACIFIC LIQUIDATING TRUST

18.1 The Scotia Pacific Liquidating Trust Transfer Date. Ninety (90) days following the Effective Date, any unadministered Estate Property of the Post-Confirmation Debtor of any kind and nature whatsoever, real, personal, intellectual or otherwise, may, in the reasonable business judgment of the Plan Agent, be transferred to the Scotia Pacific Liquidating Trust, as provided in section 18.2.2 below, which shall be deemed to be the Scotia Pacific Liquidating Trust Transfer Date, for further disposition as provided in this Plan and the Scotia Pacific Liquidating Trust Agreement.

18.2 The Scotia Pacific Liquidating Trust.

18.2.1 Establishment of the Scotia Pacific Liquidating Trust. On the Scotia Pacific Liquidating Trust Transfer Date, the Post-Confirmation Debtor shall execute the Scotia Pacific Liquidating Trust Agreement creating the Scotia Pacific Liquidating Trust. A copy of the Scotia Pacific Liquidating Trust Agreement is attached hereto as **Exhibit D**. The Scotia Pacific Liquidating Trust shall be established for the sole purpose of receiving the benefit of the ongoing obligations of third parties and liquidating and distributing the remaining assets of the Estate in accordance with this Plan with no objective to continue or engage in the conduct of a trade or business. For all federal income tax purposes, all parties shall treat the Scotia Pacific Liquidating Trust as a liquidating trust pursuant to Treasury Regulations § 301.7701-4(d), and as a grantor trust subject to the provisions of Subchapter J, Part I, Subpart E of the Internal Revenue Code of 1986, as amended, owned by the Beneficiaries (defined below) of the Scotia Pacific Liquidating Trust as grantors. The affairs and administration of the Scotia Pacific Liquidating Trust shall be governed by this Plan, the Confirmation Order, the Scotia Pacific Liquidating Trust Agreement, any other Final Orders, and applicable bankruptcy and non-bankruptcy law. The Scotia Pacific Liquidating Trust and the Liquidating Trustee shall be vested with all the power and authority granted to a trustee pursuant to section 1106(a) of the Bankruptcy Code.

18.2.2 Transfer of Estate Property to the Scotia Pacific Liquidating Trust. On the Scotia Pacific Liquidating Trust Transfer Date and after the execution of the Scotia Pacific Liquidating Trust Agreement, all Estate Property remaining after the distributions contemplated in Section 17.2 above, with the exception of funds in the Distribution Account and the Reserves, shall be transferred to the Scotia Pacific Liquidating Trust, including all tangible and intangible property, all personal and real property, all contract rights, all causes of action except as otherwise provided in the Plan, and all other assets and rights of every kind whatsoever owned or possessed by the Debtor. The Scotia Pacific Liquidating Trust shall hold the property in its exclusive possession, custody and control for the benefit of holders of Claims entitled to payment under this Plan. For all

federal income tax purposes, the Estates shall treat the transfer of all property to the Scotia Pacific Liquidating Trust as a transfer to holders of Claims to the extent such holders are Beneficiaries of the Scotia Pacific Liquidating Trust. The Liquidating Trustee shall ensure that, for all federal income tax purposes, consistent valuations are used by the Liquidating Trustee and the holders of Claims for all property transferred to the Scotia Pacific Liquidating Trust.

18.2.3 Transfer Free and Clear of Claims; Stay of Actions Against Scotia Pacific Liquidating Trust or Trust Res. Except for the Liens of Class 2 Claimants and the rights of Beneficiaries of the Scotia Pacific Liquidating Trust, all property transferred to the Scotia Pacific Liquidating Trust from any of the Estates shall be free and clear of all Claims, interests, Liens and encumbrances, and such property shall remain as property of the Scotia Pacific Liquidating Trust until distributed pursuant to this Plan. On the Scotia Pacific Liquidating Trust Transfer Date, a stay of all actions to the same extent as set forth in section 362(a) of the Bankruptcy Code with respect to the Estate Property, the Scotia Pacific Liquidating Trust, and the Liquidating Trustee shall be and remain in effect pending consummation of this Plan. The transfer of assets to the Scotia Pacific Liquidating Trust pursuant to this section shall not constitute a default or breach under or result in any forfeiture whatsoever with respect to any asset or property interest transferred to the Scotia Pacific Liquidating Trust.

18.3 Beneficiaries of the Scotia Pacific Liquidating Trust. Upon creation of the Scotia Pacific Liquidating Trust, holders of Class 2(b) secured Claims and holders of Claims in Class 3, 4, 5, and 6 shall be Beneficiaries of the Scotia Pacific Liquidating Trust.

18.4 The Liquidating Trustee. Upon the creation of the Scotia Pacific Liquidating Trust, the Plan Agent shall become the Liquidating Trustee. The selection of any successor Liquidating Trustee shall be governed by the terms of the Scotia Pacific Liquidating Trust. The Liquidating Trustee shall be empowered to act on behalf of the Scotia Pacific Liquidating Trust and to carry out the provisions of this Plan. The Liquidating Trustee shall not have an interest that is materially adverse to the Debtor, the Estate, or the Scotia Pacific Liquidating Trust. The Liquidating Trustee shall be paid a reasonable hourly rate from the trust assets for his or her services as Liquidating Trustee and shall be entitled to reimbursement of reasonable expenses incurred in fulfilling his or her duties under the Scotia Pacific Liquidating Trust Agreement or this Plan without the need for filing fee applications under the Bankruptcy Code or for prior Bankruptcy Court approval. The Liquidating Trustee shall notify the U.S. Trustee at least five (5) business days prior to receiving any compensation from the Scotia Pacific Liquidating Trust; provided, however, that no additional notice shall be required.

18.5 Distributions from the Scotia Pacific Liquidating Trust. The Liquidating Trustee may make interim Distributions to Beneficiaries of the Liquidating Trust in the exercise of reasonable business judgment. Upon the liquidation of any remaining assets of the estate, and after the payment of all costs and expenses of collection, the Scotia Pacific Liquidating Trust Trustee must distribute the corpus of the Scotia Pacific Liquidating Trust to the Beneficiaries of the Scotia Pacific Liquidating Trust in accordance with their priority and percentage interests in the Scotia Pacific Liquidating Trust. In the event that

all Allowed Claims of the Beneficiaries of the Scotia Pacific Liquidating Trust are paid in full, with interest, then any remaining Cash shall become Available Cash under the Plan.

- 18.6 Dissolution of the Scotia Pacific Liquidating Trust.** Except as otherwise provided in the Scotia Pacific Liquidating Trust Agreement, upon the distribution to the Beneficiaries of the Scotia Pacific Liquidating Trust of all of the res of the Scotia Pacific Liquidating Trust, the Liquidating Trustee shall file a notice of final distribution with the Court. Upon the expiration of thirty (30) days after the filing of such notice, if no objection has been received then the Scotia Pacific Liquidating Trust shall terminate and the Liquidating Trustee shall be discharged.

ARTICLE 19 RETENTION OF JURISDICTION

- 19.1 Retention of Jurisdiction.** The Bankruptcy Court, even after the case has been closed, shall have and hereby retains jurisdiction over all matters arising under, arising in, or relating to the Debtor's chapter 11 case, including proceedings to:

19.1.1 Ensure that the Plan is carried out, including the entry of orders relating to the sale of Debtor's assets;

19.1.2 Enter such orders as may be necessary or appropriate to implement, consummate, or enforce the provisions of the Plan and all contracts, instruments, releases, indentures and other agreements or documents created in connection with the Plan or the Disclosure Statement;

19.1.3 Consider any modification of the Plan under Bankruptcy Code section 1127;

19.1.4 Hear and determine all Claims, controversies, suits and disputes against the Debtor to the full extent permitted under 28 U.S.C. §§ 157 and 1334;

19.1.5 Allow, disallow, determine, liquidate, classify, estimate, or establish the priority or secured or unsecured status of any Claim, including the resolution of any and all objections to the allowance or priority of Claims;

19.1.6 Hear, determine, and adjudicate any litigation involving the Avoidance Actions, Recovery Rights, or other claims or causes of action constituting Estate Property;

19.1.7 Decide or resolve any motions, adversary proceedings, contested or litigated matters and any other matters and grant or deny any applications involving the Post-Confirmation Debtor that may be pending on or commenced after the Effective Date;

19.1.8 Resolve any cases, controversies, suits, or disputes that may arise in connection with the consummation, interpretation, or enforcement of the Plan, or any entity's obligations incurred in connection with the Plan, the Liquidating Trust or Litigation Trust created under this Plan, or any other agreements governing, instruments evidencing, or documents relating to any of the foregoing, including the interpretation or enforcement of any rights, remedies, or obligations under any of the foregoing;

19.1.9 Hear and determine all controversies, suits, and disputes that may arise out of or in connection with the enforcement of any and all subordination and similar agreements among various creditors pursuant to 11 U.S.C. § 510;

19.1.10 Hear and determine all requests for compensation and/or reimbursement of expenses that may be made for fees and expenses incurred before the Effective Date;

19.1.11 Enforce any Final Order, the Confirmation Order, the final decree, and all injunctions contained in those orders;

19.1.12 Enter an order concluding and terminating these cases; correct any defect, cure any omission, or reconcile any inconsistency in the Plan or the Confirmation Order;

19.1.13 Determine all questions and disputes regarding title to the Estate Property and any other assets of the Post-Confirmation Debtor;

19.1.14 Classify the Claims of any Claimholders and the treatment of these Claims under the Plan, to re-examine Claims that may have been allowed for purposes of voting, and to determine objections that may be filed to any Claims;

19.1.15 Take any action described in the Plan involving the Post-Confirmation Debtor;

19.1.16 Enforce, by injunction or otherwise, the provisions set forth in the Plan, the Confirmation Order, any final decree, and any Final Order that provides for the adjudication of any issue by the Bankruptcy Court; and

19.1.17 Enter and implement such orders as are necessary or appropriate if the Confirmation Order is for any reason modified, stayed, reversed, revoked, or vacated; and enter a Final Decree as contemplated by Bankruptcy Rule 3022.

19.2 Limitation on Jurisdiction. In no event shall the provisions of this Plan be deemed to confer, in the Bankruptcy Court, jurisdiction greater than that established by the provisions of 28 U.S.C. §§ 157 and 1334.

ARTICLE 20 GENERAL PROVISIONS

20.1 Payment of Statutory Fees. All fees payable under section 28 U.S.C. § 1930(a)(6), as determined by the Bankruptcy Court at the Confirmation Hearing, shall be paid on the Effective Date. Any such fees accrued after the Effective Date will be paid by the Post-Confirmation Debtor in the ordinary course of business.

20.2 Compliance with Tax Requirements. In connection with the Plan, the Debtor, the Plan Agent shall comply with all withholding and reporting requirements imposed by federal, state, and local taxing authorities, and Distributions hereunder shall be subject to such withholding and reporting requirements.

20.3 Withdrawal of Plan. The Proponent reserves the right to withdraw this Plan at any time prior to the Confirmation Date. If the Proponent withdraws this Plan prior to the Confirmation Date, or if the Confirmation Date or the Effective Date does not occur, then this Plan shall be deemed null and void. In such event, nothing contained herein shall be

deemed to constitute an admission, waiver or release of any Claims by or against the Debtor or any other person, or to prejudice in any manner the rights of the Debtor, the Debtor's estate or any person in any further proceedings involving the Debtor.

- 20.4 Due Authorization by Creditors.** Each and every Creditor who elects to participate in the Distributions provided for herein warrants that he or she is authorized to accept in consideration of his Claim against the Debtor the Distributions provided for in this Plan and that there are no outstanding commitments, agreements, or understandings, express or implied, that may or can in any way defeat or modify the rights conveyed or obligations undertaken by him under this Plan.
- 20.5 Filing of Additional Documentation.** On or before the Confirmation Date, the Proponent may file with the Bankruptcy Court such agreements and other documents as may be necessary or appropriate to effectuate and further evidence the terms and conditions of this Plan.
- 20.6 Plan Amendments.** The Proponent may propose amendments or modifications to the Plan in accordance with section 1127 of the Bankruptcy Code at any time before the Confirmation Date. After the Confirmation Date, the Proponent may, subject to Bankruptcy Court approval and so long as it does not materially or adversely affect the rights of Creditors set forth in the Plan and other parties-in-interest, amend or modify the Plan to remedy any defect or omission or reconcile any inconsistencies in the Plan or in the Confirmation Order, in such manner that may be necessary to carry out the purposes and intent of the Plan. At the Confirmation Hearing, the Proponent may, either in writing or on oral motion, request a modification of any provision of the Plan to address any objection to confirmation of the Plan and may seek confirmation of the Plan, as modified.
- 20.7 Administrative Claims Bar Date.** The Confirmation Order will establish an Administrative Claims Bar Date for the filing of all Administrative Claims (but not including Professional Fee Claims or United States Trustee fees), which date shall be sixty (60) days after the Effective Date. Holders of Administrative Claims, other than Professional Fee Claims or U.S. Trustee fees, not paid prior to the Administrative Claims Bar Date must submit proofs of claim for such Administrative Claim on or before the Administrative Claims Bar Date or forever be barred from doing so. The Plan Agent shall have 120 days after the Administrative Claims Bar Date or such later date as may be approved by the Bankruptcy Court, to review and object to such Administrative Claims.
- 20.8 Confirmation Order.** The Confirmation Order shall contain such injunctions and other orders that may be necessary to implement the Plan. To the extent necessary, the Confirmation Order shall contain any provisions necessary to provide for the substantial consummation of the Plan on the Effective Date.
- 20.9 Notices.** Whenever the Plan requires notice be given, such notice shall be given to the following parties at their respective addresses unless a prior notice of change of address has been served indicating a new address:

Plan Agent for
Scotia Pacific Company LLC
[address]

Zack A. Clement
R. Andrew Black
Fulbright & Jaworski L.L.P.
1301 McKinney, Suite 5100
Houston, TX 77010
Telephone: (713) 651-5151
Facsimile: (713) 651-5246

Toby L. Gerber
Louis R. Strubeck, Jr.
Fulbright & Jaworski L.L.P.
2200 Ross Avenue, Suite 2800
Dallas, Texas 75201-2784
Telephone: (214) 855-8000
Facsimile: (214) 855-8200

- 20.10 Dates.** The provisions of Bankruptcy Rule 9006 shall govern the calculation of any dates or deadlines referenced in the Plan.
- 20.11 Implementation and Further Action.** The Plan Agent, on behalf of the Post-Confirmation Debtor shall be authorized to perform all reasonable, necessary and authorized acts to consummate the terms and conditions of the Plan. Nothing contained in the Plan shall prevent the Post-Confirmation Debtor from taking such actions as may be necessary to consummate the Plan, even though such actions may not specifically be provided for within the Plan.
- 20.12 Exhibits.** All Exhibits attached to the Plan are incorporated herein by reference and are intended to be an integral part of this document as though fully set forth in the Plan.
- 20.13 Exemption from Transfer Taxes, Issuance of New Securities;** In accordance with section 1146(c) of the Bankruptcy Code, the issuance, transfer or exchange of a security, or the making or delivery of an instrument of transfer, under this Plan, including the granting or recording of any Lien (including a mortgage) on any property or otherwise pursuant to this Plan, may not be taxed under any law imposing a stamp tax or similar tax, including a mortgage recording tax. The issuance and distribution of any document evidencing ownership of assets transferred pursuant to the terms hereof shall be authorized upon Confirmation without the need for any further corporate action, under applicable law, regulation, order, rule or otherwise.

- 20.14 Binding Effect.** The Plan shall be binding on, and inure to the benefit of the Debtor, the Post-Confirmation Debtor, the Committee, the Claimholders, the Interestholders and their respective successors and assigns, regardless of whether those parties voted to accept the Plan.
- 20.15 Ratification.** The Confirmation Order shall ratify all transactions effectuated by Post-Confirmation Debtor during the pendency of the chapter 11 case.
- 20.16 Governing Law.** Except to the extent that the Bankruptcy Code or Bankruptcy Rules are applicable, the rights and obligations arising under the Plan shall be governed by, and construed and enforced in accordance with, the laws of the State of Texas, without giving effect to any conflicts of law principles.
- 20.17 Termination of the Committee.** On the Confirmation Date, the Committee in the Debtor's chapter 11 case shall be terminated.

DATED: March 3, 2008.

**THE BANK OF NEW YORK TRUST COMPANY, N.A.,
INDENTURE TRUSTEE FOR THE TIMBER NOTES**

/s/ J. Chris Matthews

By: J. Chris Matthews, Vice President

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**COUNSEL TO THE BANK OF NEW YORK
TRUST COMPANY, N.A., INDENTURE TRUSTEE
FOR THE TIMBER NOTES**

EXHIBIT A

LIST OF EXECUTORY CONTRACTS TO BE ASSUMED

[to be provided in the Indenture Trustee Plan Supplement]

EXHIBIT B

BIDDING AND SALES PROCEDURES

[to be provided in the Indenture Trustee Plan Supplement]

EXHIBIT C

LITIGATION TRUST AGREEMENT

[to be provided in the Indenture Trustee Plan Supplement]

EXHIBIT D

SCOTIA PACIFIC LIQUIDATING TRUST AGREEMENT

[to be provided in the Indenture Trustee Plan Supplement]