

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

<p>IN RE:</p> <p>SCOTIA DEVELOPMENT LLC, THE PACIFIC LUMBER COMPANY, BRITT LUMBER CO., INC., SALMON CREEK LLC, SCOTIA INN INC., and SCOTIA PACIFIC COMPANY LLC,</p> <p style="text-align: center;">DEBTORS.</p>	<p>Chapter 11 Case Nos. 07-20027 through 07-20032 (Jointly Administered)</p>
<p>FIRST AMENDED JOINT PLAN OF REORGANIZATION FOR THE DEBTORS, AS MODIFIED, PROPOSED BY MENDOCINO REDWOOD COMPANY, LLC, MARATHON STRUCTURED FINANCE FUND L.P. <u>AND THE OFFICIAL COMMITTEE OF UNSECURED CREDITORS</u></p>	
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INTRODUCTION

Mendocino Redwood Company, LLC (and together with certain of its affiliates, "MRC"), Marathon Structured Finance Fund L.P. ("Marathon" and, together with MRC, the "MRC/ Marathon Plan Proponents") and the Official Committee of Unsecured Creditors (the "Committee", and together with the MRC/ Marathon Plan Proponents, the "Plan Proponents"), respectfully propose the following First Amended Joint Plan of Reorganization, as Modified, pursuant to section 1121(a) of title 11 of the United States Code (the "Bankruptcy Code") for the resolution of outstanding Claims against and Interests in each of the Debtors.

Reference is made to the Disclosure Statement with respect to this Plan, distributed contemporaneously herewith, for a discussion of the Debtors' history, businesses, properties, operations, risk factors, a summary and analysis of this Plan and certain related matters including the securities to be issued under this Plan. Subject to certain restrictions and requirements set forth in section 1127 of the Bankruptcy Code and Fed. R. Bankr. P. 3019, the MRC/Marathon Plan Proponents respectfully reserve the right to alter, amend, modify, revoke or withdraw this Plan prior to consummation of this Plan; *provided* that as a result of any such modification, the Committee may, in its sole discretion, withdraw as a Plan Proponent.

NO SOLICITATION MATERIALS, OTHER THAN THE DISCLOSURE STATEMENT AND RELATED MATERIALS TRANSMITTED THEREWITH THAT ARE APPROVED BY THE BANKRUPTCY COURT, HAVE BEEN AUTHORIZED BY THE BANKRUPTCY COURT FOR USE IN SOLICITING ACCEPTANCE OR REJECTION OF THIS PLAN.

I. DEFINED TERMS, RULES OF INTERPRETATION AND COMPUTATION OF TIME

1.1. Definitions. As used in this Plan, capitalized terms not otherwise defined herein shall have the meanings specified in Appendix A to MRC/Marathon First Amended Plan, as Modified, submitted contemporaneously herewith. Unless the context otherwise requires, any capitalized term used and not defined in this Plan, but that is defined in the Bankruptcy Code, shall have the meaning assigned to that term in the Bankruptcy Code.

1.2. Rules of Construction. For purposes of this Plan, unless otherwise provided herein: (a) any reference in this Plan to a contract, instrument, document, release, indenture or other agreement, whether existing or contemplated, being in a particular form or on particular terms and conditions means that such contract, instrument, document, release, indenture or other agreement shall be substantially in such form or substantially on such terms and conditions; (b) unless otherwise specified, all references in this Plan to the Introduction, Appendices, Articles, Sections, Schedules and Exhibits are references to the Introduction, Appendices, Articles, Sections, Schedules and Exhibits of or to this Plan; (c) captions and headings in this Plan are intended for convenience of reference only and are not intended to be part of or to affect interpretation of this Plan; (d) the words "herein," "hereof," "hereunder," "hereto" and other words of similar import refer to this Plan in its entirety rather than to a particular portion of this Plan; (e) whenever it appears appropriate from the context, each pronoun stated in the masculine, feminine or neuter includes the masculine, feminine and neuter; and (f) the rules of construction set forth in section 102 of the Bankruptcy Code and in the Bankruptcy Rules shall apply.

1.3. Computation of Time. In computing time prescribed or allowed by this Plan, unless otherwise expressly provided, Fed. R. Bankr. P. 9006(a) shall apply.

II.
TREATMENT OF ADMINISTRATIVE EXPENSE CLAIMS, PRIORITY
TAX CLAIMS AND PROFESSIONAL COMPENSATION
CLAIMS AGAINST THE DEBTORS

2.1. Administrative Expense Claims. On the later of (i) the Effective Date or (ii) the date on which an Administrative Expense Claim becomes Allowed, the Reorganized Entities shall either (x) pay to each Holder of an Allowed Administrative Expense Claim, in Cash, the full amount of such Allowed Administrative Expense Claim, or (y) satisfy and discharge such Administrative Expense Claim in accordance with such other terms that the MRC/Marathon Plan Proponents or the Reorganized Entities and such Holder shall have agreed upon in writing; provided, however, that such agreed-upon treatment shall not be more favorable than the treatment provided in subsection (x).

2.2. Bar Date for Filing Administrative Expense Claims. The Holder of an Administrative Expense Claim (other than an Administrative Expense Claim described in Article 2.3. or an Administrative Expense Claim arising from the Palco DIP Loan) shall file with the Bankruptcy Court and serve on the appropriate Debtor and the MRC/Marathon Plan Proponents a request for payment of such Claim no later than the Administrative Expense Claims Bar Date. Such request shall be by motion and shall include at a minimum (a) the name of the Debtor(s) purported to be liable for the Administrative Expense Claim, (b) the name of the Holder of the Administrative Expense Claim, (c) the amount of the Administrative Expense Claim and (d) the basis for the Administrative Expense Claim. **Failure to file and serve such request timely and properly shall result in the Administrative Expense Claim being forever barred and discharged.** Unless the Plan Proponents, Debtors or the Reorganized Entities object to an Administrative Expense Claim within thirty (30) days after the Administrative Expense Claims Bar Date, such Administrative Expense Claim shall be deemed to be Allowed in the amount requested. In the event that there is an objection to an Administrative Expense Claim, the Bankruptcy Court shall determine the Allowed Amount of such Administrative Expense Claim. Notwithstanding the foregoing, no request for payment of an Administrative Expense Claim need be filed with respect to an Administrative Expense Claim which is paid or payable by a Debtor in the ordinary course of its business and is not past due.

2.3. Professional Compensation Claims. Notwithstanding any other provision of this Plan dealing with Administrative Expense Claims, any Person seeking a Professional Compensation Claim shall, no later than sixty (60) days after the Effective Date, file a final application for allowance of compensation for services rendered and reimbursement of expenses incurred through the Effective Date. To the extent that such an award is granted by the Bankruptcy Court, the requesting Person shall receive, (a) payment of Cash in an amount equal to the amount Allowed by the Bankruptcy Court less all interim compensation paid to such Professional during the Reorganization Cases, such payment to be made within thirty (30) days after the Order granting such Person's final fee application becoming a Final Order, (b) payment on such other terms as may be mutually agreed upon by the Holder of the Professional Compensation Claim and the MRC/Marathon Plan Proponents or the Reorganized Entities (but in no event shall the payment exceed the amount Allowed by the Bankruptcy Court less all interim compensation paid to such Professional during the Reorganization Cases), or (c) payment in accordance with the terms of any applicable administrative procedures orders entered by the Bankruptcy Court, including the Interim Compensation Order, dated January 19, 2007.

2.4. Priority Tax Claims. Except to the extent that the MRC/Marathon Plan Proponents or the Reorganized Entities and a Holder of an Allowed Priority Tax Claim against a Debtor agree to a different treatment, each Holder of an Allowed Priority Tax Claim against a Debtor shall receive, at the sole option of the Reorganized Entities, as applicable, (a) on the Distribution Date, Cash in an amount equal to the unpaid portion of such Allowed Priority Tax Claim, or (b) commencing on the Distribution Date and continuing over a period not exceeding five (5) years from and after the Petition Date, equal semi-annual Cash payments commencing on the first Semi-Annual Payment Date following the three-month anniversary of the Effective Date in an aggregate amount equal to the unpaid portion of such Allowed Priority Tax Claim, together with interest at the applicable rate under non-bankruptcy law, subject to the sole option of the Reorganized Entities, as applicable, to prepay the entire amount of the unpaid portion of Allowed Priority Tax Claim and in a manner not less favorable than the most favored nonpriority unsecured Claim provided for by the Plan. All Allowed Priority Tax Claims that are not due and payable on or before the Distribution Date shall be paid in the ordinary course of business as such obligations become due.

2.5. Treatment of Environmental Obligations. Notwithstanding any other provision in the Disclosure Statement or this Plan, as amended from time to time, the Debtors (including the Reorganized Entities, as of the Effective Date) shall comply, complete, perform, satisfy, and/or provide for satisfaction of any pre-petition, current, ongoing, executory, and future Environmental Obligations.

Each Environmental Obligation shall be satisfied in full in the ordinary course of business of the Debtors, or, as of the Effective Date, the Reorganized Entities, at such time and in such manner as the Debtors and the Reorganized Entities are obligated to satisfy such Environmental Obligation under applicable non-bankruptcy law.

Each Environmental Obligation shall survive the Effective Date of this Plan as if the Reorganization Cases had not been commenced, shall not be discharged under section 1141(d) of the Bankruptcy Code, and shall not otherwise be adversely affected by the Reorganization Cases.

Moreover, the Agreement Relating to Enforcement of AB 1986, including all restrictions and obligations set forth in Section 3.1 therein, are and shall remain recorded as valid covenants, conditions and restrictions (the "CC&Rs") which run with the land and remain binding on successors and assigns, and shall be senior in priority to all Liens provided in the Plan as to the land on which the CC&Rs affect.

2.6. Treatment of Post-Petition Tax Claims. Any Tax Claim against any of the Debtors that first arose on or after the Petition Date, shall, prior to the Effective Date, be timely paid by the Debtors or, as of the Effective Date, the Reorganized Entities, as the case may be, in the ordinary course of their business or shall be subject to applicable state-court or federal-court, collection efforts without further recourse to the Bankruptcy Court.

III.

CLASSIFICATION OF CLAIMS AGAINST AND INTERESTS IN DEBTORS

3.1. Classification of Claims. Pursuant to section 1122 of the Bankruptcy Code, set forth below is a designation of Classes of Claims against and Interests in the Debtors. A Claim or Interest is placed in a particular Class for the purposes of voting on this Plan and of receiving Distributions pursuant to this Plan only to the extent that such Claim or Interest is an Allowed Claim or Allowed Interest in that Class and such Claim or Interest has not been paid, released, withdrawn or otherwise settled prior to the Effective Date. In accordance with section 1123(a)(1) of the Bankruptcy Code, Administrative Expense Claims and Priority Tax Claims of the kinds specified in sections 507(a)(2) and 507(a)(8), respectively, of the Bankruptcy Code have not been classified and their treatment is set forth in Article II. Additionally, claims arising under the Debtors' pre-petition pension and workers' compensation plans and programs have not been classified and their treatment has been set forth in Article IV.

3.2. Classes. The Claims against and Interests in the Debtors are classified as follows:

- 3.2.1. Class 1:** Other Priority Claims.
- 3.2.2. Class 2:** Secured Tax Claims and Other Secured Claims.
- 3.2.3. Class 3:** Palco DIP Loan Claim.
- 3.2.4. Class 4:** Palco Term Loan Claim.
- 3.2.5. Class 5:** Scopac Loan Claims.
- 3.2.6. Class 6:** Scopac Timber Note Secured Claims.
- 3.2.7. Class 7:** Palco Trade Claims and Palco General Unsecured Claims.
- 3.2.8. Class 8:** Scopac Trade Claims.
- 3.2.9. Class 9:** Scopac General Unsecured Claims.

- 3.2.10. *Class 10:* Inter-Debtor Claims.
- 3.2.11. *Class 11:* Non-Debtor Affiliate Claims.
- 3.2.12. *Class 12:* Interests in the Debtors.

3.3. Sub-classification of Certain Claims. If the Bankruptcy Court authorizes the Debtors to consolidate for voting and distribution purposes fewer than all of the Classes of Claims sought to be consolidated for these purposes, pursuant to section 1122 of the Bankruptcy Code, the MRC/Marathon Plan Proponents may proceed with separate classifications for any such non-consolidated Classes. If the MRC/Marathon Plan Proponents elect to proceed with separate classifications for any such non-consolidated Classes of Claims and Interests, such Classes of Claims and Interests will be treated as against each individual non-consolidated Debtor for voting and distribution purposes. In such event, each Class of Claims and Interests shall be divided into subclasses; one for each of the Debtors, as set forth below.

PL - The Pacific Lumber Company
 BL - Britt Lumber Co., Inc.
 SC - Salmon Creek LLC
 SD - Scotia Development LLC
 SI - Scotia Inn Inc.
 SP - Scotia Pacific Company LLC

For example, Class 1 - "Other Priority Claims -- can be divided into six sub-classes for voting purposes: Class 1-PL, Class 1-BL ... through Class 1-SP. Class 1-PL relates to Other Priority Claims asserted against Palco, Class 1-BL relates to Other Priority Claims asserted against Britt, and so on. In some situations a particular Debtor may not have any claims asserted against it in a particular Class.

IV. TREATMENT OF CLAIMS AND INTERESTS AND DESIGNATION WITH RESPECT TO IMPAIRMENT

4.1. Treatment of Class 1 - Other Priority Claims.

4.1.1. *Impairment and Voting.* Class 1 is unimpaired by this Plan. Each Holder of an Allowed Other Priority Claim is conclusively presumed to have accepted this Plan and is not entitled to vote to accept or reject this Plan.

4.1.2. *Treatment.* On the Distribution Date, each Holder of an Allowed Other Priority Claim shall receive from the Reorganized Entities, in full satisfaction, release and discharge of and in exchange for such Claim, (i) payment of Cash in an amount equal to the unpaid portion of such Allowed Other Priority Claim, plus Post-petition Interest, or (ii) such other treatment that the MRC/Marathon Plan Proponents or the Reorganized Entities and such Holder shall have agreed upon in writing; *provided, however,* that such agreed-upon treatment shall not be more favorable than the treatment provided in subsection (i).

4.2. Treatment of Class 2 – Secured Tax Claims and Other Secured Claims.

4.2.1. *Impairment and Voting.* Class 2 is unimpaired by this Plan. Each Holder of an Allowed Secured Tax Claim and Allowed Other Secured Claim is conclusively presumed to have accepted this Plan and is not entitled to vote to accept or reject this Plan.

4.2.2. *Treatment.* On the Distribution Date, except to the extent that the MRC/Marathon Plan Proponents or the Reorganized Entities and a Holder of an Allowed Secured Tax Claim and Allowed Other Secured Claim, as applicable, agree to a different treatment,

4.2.2.1. each Holder of an Allowed Secured Tax Claim shall receive from the Reorganized Entities, as applicable, in full satisfaction, release and discharge of and in exchange for such Claim, at the sole option of the Reorganized Entities, as applicable, (i) payment of Cash in an amount equal to the unpaid portion of such Allowed Secured Tax Claim plus Post-petition Interest (at a rate to be determined under applicable non-bankruptcy law), or (ii) commencing on the Distribution Date and continuing over a period not exceeding five (5) years from and after the Petition Date, equal semi-annual Cash payments commencing on the first Semi-Annual Payment Date following the three-month anniversary of the Effective Date in an aggregate amount equal to the unpaid portion of such Allowed Secured Tax Claim, together with interest at the applicable rate under non-bankruptcy law, subject to the sole option of the Reorganized Entities, as applicable, to prepay the entire amount of the unpaid portion of the Allowed Priority Tax Claim and in a manner not less favorable than the most favored nonpriority unsecured Claim provided for by the Plan; and

4.2.2.2. in full satisfaction, release and discharge of and in exchange for such Allowed Other Secured Claim, at the sole option of the Reorganized Entities, as applicable, (i) each Allowed Other Secured Claim shall be reinstated and rendered unimpaired in accordance with section 1124(2) of the Bankruptcy Code, notwithstanding any contractual provision or applicable non-bankruptcy law that entitles the Holder of an Allowed Other Secured Claim to demand or receive payment of such Allowed Other Secured Claim prior to the stated maturity of such Allowed Other Secured Claim from and after the occurrence of a default, (ii) each Holder of an Allowed Other Secured Claim shall receive Cash in an amount equal to such Allowed Other Secured Claim, including any interest on such Allowed Other Secured Claim required to be paid pursuant to section 506(b) of the Bankruptcy Code, or (iii) each Holder of an Allowed Other Secured Claim shall receive the Collateral securing its Allowed Other Secured Claim and any interest on such Allowed Other Secured Claim required to be paid pursuant to section 506(b) of the Bankruptcy Code, in full and complete satisfaction of such Allowed Other Secured Claim.

4.3. Treatment of Class 3 – Palco DIP Loan Claim.

4.3.1. Allowance of Claim, Impairment and Voting. The Palco DIP Loan Claim is Allowed in full in the approximate principal amount of \$75 million, plus interest, fees and other expenses, without offset, defense or counterclaim, and shall not be subject to objection, subordination, recharacterization, or any claim under chapter 5 of the Bankruptcy Code. Class 3 is impaired by this Plan. The Holder of the Allowed Palco DIP Loan Claim is entitled to vote to accept or reject this Plan.

4.3.2. Treatment. On the Effective Date, the Allowed Class 3 Palco DIP Loan Claim and the Allowed Class 4 Palco Term Loan Claim shall be assigned to Newco, and in full satisfaction, release and discharge of and in exchange for both the Allowed Class 3 Palco DIP Loan Claim and the Allowed Class 4 Palco Term Loan Claim and the contribution by Marathon described in Section 7.1 below, Marathon (1) shall receive 100% equity ownership interest of Townco, (2) shall receive a 15% equity ownership interest in Newco (subject to adjustment), and (3) shall receive a promissory note from Newco in the aggregate principal amount equal to the amount of the Mill Working Capital and secured solely by Liens on the Mill Working Capital.

4.4. Treatment of Class 4 – Palco Term Loan Claim.

4.4.1. Allowance of Claim, Impairment and Voting. The Palco Term Loan Claim is Allowed in full in the approximate principal amount of \$85 million, plus interest, fees and other expenses, without offset, defense or counterclaim, and shall not be subject to objection, subordination, recharacterization, or any claim under chapter 5 of the Bankruptcy Code. Class 4 is impaired by this Plan. Marathon, the Holder of the Allowed Palco Term Loan Claim is entitled to vote to accept or reject this Plan.

4.4.2. Treatment. On the Effective Date, the Allowed Class 3 Palco DIP Loan Claim and the Allowed Class 4 Palco Term Loan Claim shall be assigned to Newco, and in full satisfaction, release and discharge of and in exchange for both the Allowed Class 3 Palco DIP Loan Claim and the Allowed Class 4 Palco Term Loan Claim and the contribution by Marathon described in Section 7.1 below, Marathon (1) shall receive 100% equity

ownership interest of Townco, (2) shall receive a 15% equity ownership interest in Newco (subject to adjustment), and (3) shall receive a promissory note from Newco in the aggregate principal amount equal to the amount of the Mill Working Capital and secured solely by Liens on the Mill Working Capital.

4.5. Treatment of Class 5 – Scopac Loan Claim.

4.5.1. Impairment and Voting. The Scopac Loan Claim is Allowed in full in the approximate principal amount of \$37.6 million, plus interest, fees and other expenses, without offset, defense or counterclaim and shall not be subject to objection, subordination, recharacterization, or any claim under chapter 5 of the Bankruptcy Code. Class 5 is impaired by this Plan. Bank of America, the Holder of the Allowed Scopac Loan Claim is entitled to vote to accept or reject this Plan.

4.5.2. Treatment. On the Distribution Date, Bank of America, as Holder of the Allowed Scopac Loan Claim, shall receive from the Debtors in full satisfaction, release and discharge of and in exchange for such Claim, payment (i) as set forth in Section 7.6.2.(d) below, of Cash in an amount equal to the unpaid principal amount of such Scopac Loan Claim plus accrued but unpaid interest, fees and other expenses, at the applicable non-default rate of interest under the Scopac Loan, from the SAR Account, with the balance, if any, of the Allowed Scopac Loan Claim after such payment being paid by Newco, plus additional unpaid default rate interest under the Scopac Loan to be paid in twelve monthly installments with the first such payment being made on the Distribution Date, or (ii) such other treatment that the MRC/Marathon Plan Proponents or the Reorganized Entities and such Holder shall have agreed upon in writing; *provided, however,* that such agreed-upon treatment shall not be more favorable than the treatment provided in subsection (i).

4.6. Treatment of Class 6 - Scopac Timber Note Secured Claims.

4.6.1. Impairment and Voting. Class 6 is impaired by this Plan. Each Holder of an Allowed Scopac Timber Note Secured Claim as of the Record Date is entitled to vote to accept or reject this Plan.

4.6.2. Treatment.

4.6.2.1. To the extent that Class 6 does not make the election pursuant to section 1111(b)(1)(A)(i) of the Bankruptcy Code, on the Distribution Date, in full satisfaction, release and discharge of and in exchange for such Claims, the MRC/Marathon Plan Proponents shall contribute \$580 million in Cash to Newco in the form of debt and equity. Newco shall pay or cause to be paid to the Pre-petition Indenture Trustee, for Pro Rata Distribution to Holders of Scopac Timber Note Secured Claims as of the Record Date, Cash in the amount of \$530 million, as may be reduced by the Class 6 Distribution Adjustment. On or before the thirtieth (30th) day after all Administrative Expense Claims are allowed or otherwise determined by final order of the Bankruptcy Court pursuant to section 2.2 of this Plan (or such later date as the Bankruptcy Court may order), Newco shall pay or cause to be paid to the Pre-petition Indenture Trustee, for Pro Rata Distribution to Holders of Scopac Timber Note Secured Claims as of the Record Date, the excess amount, if any, of Cash reserved on account of the estimated accrued and unpaid Administrative Expense Claims as of the Effective Date pursuant to the Class 6 Distribution Adjustment in excess of the aggregate amount of all Allowed Administrative Expense Claims; and

4.6.2.2. To the extent that Class 6 makes the election pursuant to section 1111(b)(1)(A)(i) of the Bankruptcy Code, on the Distribution Date, in full satisfaction, release and discharge of and in exchange for such Claims:

(a) (i) The MRC/Marathon Plan Proponents shall contribute \$75 million in Cash to Newco to fund various Claims associated with the Reorganization Cases, ordinary working capital, capital investment in Mill and an interest reserve; and

(ii) Newco shall issue or cause to be issued to the Pre-petition Indenture Trustee, for Pro Rata Distribution to Holders of Scopac Timber Note Secured Claims as of the Record Date, the Series A New Timber Notes in the principal amount of \$790 million pursuant to

the Series A New Timber Notes Indenture and any related agreements as shall be set forth in the Plan Supplement.

(b) **Principal Terms of the Series A New Timber Notes and Series B New Timber Notes.** The terms and conditions for the Series A New Timber Notes, the Series A New Timber Notes Indenture and the Series B New Timber Notes and the Series B New Timber Notes Indenture shall be included in the Plan Supplement and shall include the following principal terms and conditions:

(i) **Transferability.** The Series A New Timber Notes and Series B New Timber Notes shall be tradable as set forth in the Series A New Timber Notes Indenture and Series B New Timber Notes Indenture, respectively.

(ii) **Principal Amount.** The Series A New Timber Notes shall be in the aggregate original principal amount of \$790 million.

(iii) **Maturity.** The Series A New Timber Notes and Series B New Timber Notes shall be due and payable in full on the first Business Day following the twenty-fifth anniversary of the Effective Date, unless Newco voluntarily elects to prepay them sooner.

(iv) **Interest.** The Series A New Timber Notes shall accrue interest on the principal balance (including any interest capitalized to the principal balance as provided herein), less any principal payments, at 2.75% per annum from the Effective Date through the final maturity date. Series B New Timber Notes shall accrue interest on the principal balance (including any interest capitalized to the principal balance as provided herein), less any principal payments, at 7% per annum from the date of issuance until the twenty-fifth anniversary following the Effective Date. The interest rate for each of the Series A New Timber Notes and the Series B New Timber Notes shall be adjusted such that the net present value of such notes is reduced to reflect the lower net present value required to satisfy the Class 6 Distribution Adjustment.

(v) **Interest Payments.** Commencing on the first Semi-Annual Payment Date following the three-month anniversary of the Effective Date:

(1) 1.75% of accrued interest on the Series A New Timber Notes shall be paid in Cash semi-annually in arrears; *provided, however*, that during the first ten (10) years following the Effective Date, Newco shall have the option of deferring the Cash payment of the 1.75% annual interest rate on no more than ten (10) of the twenty (20) semi-annual interest payment dates in exchange for issuing additional Series B New Timber Notes in a like amount of the interest deferred pursuant to the Series B New Timber Notes Indenture and any related agreements as shall be set forth in the Plan Supplement; and

(2) 1% of accrued interest on the Series A New Timber Notes shall be deferred in exchange for issuing additional Series A New Timber Notes semi-annually in arrears in a like amount of the interest deferred.

(vi) **Amortization Payments.** No principal payments shall be due prior to the final maturity dates of the Series A New Timber Notes and Series B New Timber Notes.

(vii) **Asset Sales.** Proceeds of asset sales by Newco (i) of up to \$50 million on a cumulative basis shall be retained in their entirety by Newco, and (ii) equal to and in excess of \$50 million on a cumulative basis shall be split 50% to pay down the Series A New Timber Notes and Series B New Timber Notes and 50% to Newco.

(viii) **Call Rights.** At any time while any of the Series A New Timber Notes and Series B New Timber Notes remain outstanding, Newco shall have the right, in its sole and absolute discretion, to prepay or repay in whole or in part the obligations under the Series A New Timber Notes and Series B New Timber Notes by paying the sum of the outstanding principal amount being prepaid or repaid, plus accrued but unpaid interest as of the date of such payment.

(ix) **Distributions:** Newco shall have the right to pay tax distributions to its members. Newco shall also have the right to pay other distributions to its members so long as (a) it has paid Cash interest on the Series A New Timber Notes for the immediately preceding three (3) consecutive semi-annual payment dates, and (b) it has a fully funded Cash interest reserve of \$15 million.

(x) **Security.** The Series A New Timber Notes and Series B New Timber Notes shall be secured in the same collateral as the Scopac Timber Notes.

(xi) **Governing Law.** The Series A New Timber Notes and Series B New Timber Notes shall be governed by the laws of the State of New York.

4.6.3. Full and Complete Satisfaction. The Distributions to the Pre-petition Indenture Trustee for the benefit of Holders of the Timber Notes under this Article IV shall be in full and complete satisfaction, release and discharge of and in exchange for all Allowed Scopac Timber Note Secured Claims. Except for the express obligations created by virtue of this Plan, none of the Debtors, the Plan Proponents and the Reorganized Entities shall have any obligation in respect of the Scopac Timber Note Secured Claims or the Scopac Timber Notes. Without limiting the foregoing, in each case without any further action on the part of the Bankruptcy Court or any Person, including but not limited to the Pre-petition Indenture Trustee, the Holders of Scopac Timber Notes and any governmental agency (x) any and all further Claims for any amounts allegedly owing under the Scopac Timber Notes and the Pre-petition Indenture shall be discharged to the fullest extent permitted under section 1141 of the Bankruptcy Code, (y) the Scopac Timber Notes and Pre-petition Indenture shall be deemed cancelled and of no further force or effect and all obligations thereunder shall be deemed likewise discharged, and (z) the Pre-petition Indenture Trustee shall be discharged of all duties under the Pre-petition Indenture. On the Effective Date, the Holders of Scopac Timber Note Secured Claims shall be deemed to have forever released and discharged the Pre-petition Indenture Trustee under the Pre-petition Indenture.

4.7. Treatment of Class 7 – Palco Trade Claims and Palco General Unsecured Claims.

4.7.1. Impairment and Voting. Class 7 is impaired by this Plan. Each Holder of an Allowed Palco Trade Claim and Allowed Palco General Unsecured Claim is entitled to vote to accept or reject this Plan.

4.7.2. Treatment. On the Distribution Date, each Holder of an Allowed Palco Trade Claim and Allowed Palco General Unsecured Claim shall receive, in full satisfaction, release and discharge of and in exchange for such Claim (excluding any post-petition interest), its Pro Rata share of \$10.1 million plus, together with Holders of Allowed Scopac Trade Claims and Allowed Scopac General Unsecured Claims, its applicable Litigation Trust Participation for any remaining amount owed.

4.8. Treatment of Class 8 – Scopac Trade Claims.

4.8.1. Impairment and Voting. Class 8 is impaired by this Plan. Each Holder of an Allowed Scopac Trade Claim is entitled to vote to accept or reject this Plan.

4.8.2. Treatment. On the Distribution Date, each Holder of an Allowed Scopac Trade Claim shall receive, in full satisfaction, release and discharge of and in exchange for such Claim (excluding any post-petition interest), its Pro Rata share of \$500,000 plus, together with Holders of Allowed Palco Trade Claims and Allowed Palco General Unsecured Claim and Allowed Scopac General Unsecured Claims, its applicable Litigation Trust Participation for any remaining amount owed.

4.9. Treatment of Class 9 - Scopac General Unsecured Claims.

4.9.1. Impairment and Voting. Class 9 is impaired by this Plan. Each Holder of an Allowed Scopac General Unsecured Claim as of the Record Date is entitled to vote to accept or reject this Plan.

4.9.2. Treatment. On the Distribution Date, each Holder of an Allowed Scopac General Unsecured Claim shall receive, in full satisfaction, release and discharge of and in exchange for such Claim (excluding any post-petition interest), together with Holders of Allowed Palco Trade Claims and Allowed Palco General Unsecured Claims and Allowed Scopac Trade Claims, its applicable Litigation Trust Participation.

4.10. Treatment of Class 10 - Inter-Debtor Claims.

4.10.1. Impairment and Voting. Class 10 is impaired by this Plan. Class 10 is deemed to have rejected this Plan, and therefore, shall not be entitled to vote to accept or reject this Plan.

4.10.2. Treatment. Inter-Debtor Claims shall be discharged and the Holders of Class 11 Inter-Debtor Claims are entitled to no Distributions under this Plan.

4.11. Treatment of Class 11 - Non-Debtor Affiliate Claims.

4.11.1. Impairment and Voting. Class 11 is impaired by this Plan. Class 11 is deemed to have rejected this Plan, and therefore, shall not be entitled to vote to accept or reject this Plan.

4.11.2. Treatment. Non-Debtor Affiliate Claims shall be discharged and the Holders of Non-Debtor Affiliate Claims are entitled to no Distributions under this Plan. Pursuant to section 510(a) of the Bankruptcy Code and various loan documents entered into with Marathon, including, without limitation, the Subordinated Intercompany Note dated July 18, 2006, any Claims of Maxxam Group Inc. and its affiliates, Maxxam Inc. and Maxxam Group Holdings Inc., shall be subordinated and shall not be entitled to any Distributions under this Plan.

4.12. Treatment of Class 12 – Interests in the Debtors.

4.12.1. Impairment and Voting. Class 12 is impaired under this Plan. The Holders of Class 12 Interests are entitled to no Distributions under this Plan, and all Equity Interests shall be deemed canceled as of the Effective Date. Class 12 is deemed to have rejected this Plan, and therefore, shall not be entitled to vote to accept or reject this Plan.

4.12.2. Treatment. On the Effective Date, all Equity Interests shall be canceled, annulled and extinguished and all other agreements, instruments and documents evidencing the Equity Interests and the rights of the Holders thereof, shall be automatically cancelled and deemed null and void and of no further force and effect (all without further act or action by any Person) and Holders of Equity Interests shall not be entitled to receive or retain any property or interest in property under this Plan on account of such Equity Interests.

V.

PROVISIONS REGARDING VOTING, EFFECT OF REJECTION BY IMPAIRED CLASSES, AND CONSEQUENCES OF NONCONFIRMABILITY

5.1. Voting Rights. Each Holder of an Allowed Claim or Allowed Interest as of the Voting Deadline in an impaired Class of Claims or Interests that is not deemed to have rejected this Plan shall be entitled to vote separately to accept or reject this Plan as provided in the order entered by the Bankruptcy Court establishing certain procedures with respect to the solicitation and tabulation of votes to accept or reject this Plan.

5.2. Acceptance Requirements. An impaired Class of Claims shall have accepted this Plan if votes in favor of this Plan have been cast by at least two-thirds in amount and more than one-half in number of the Allowed Claims in such Class that have voted on this Plan. An impaired Class of Interests shall have accepted this

Plan if votes in favor of this Plan have been cast by at least two-thirds in amount of the Interests in such Class that have voted on this Plan.

5.3. Cramdown. If all applicable requirements for Confirmation of this Plan are met as set forth in section 1129(a)(1) through (13) of the Bankruptcy Code, except subsection (8) thereof, this Plan shall be treated as a request that the Bankruptcy Court confirm this Plan in accordance with section 1129(b) of the Bankruptcy Code, notwithstanding the failure to satisfy the requirements of section 1129(a)(8), on the basis that this Plan is fair and equitable and does not discriminate unfairly with respect to each Class of Claims that is impaired under, and has not accepted, this Plan.

5.4. Tabulation of the Votes. The MRC/Marathon Plan Proponents shall cause the tabulation of all votes on this Plan for the purpose of determining whether this Plan satisfies sections 1129(a)(8) and/or (10) of the Bankruptcy Code.

VI.

EXECUTORY CONTRACTS AND UNEXPIRED LEASES

6.1. Rejection of Contracts and Leases. Except as otherwise provided herein or pursuant to the Confirmation Order, as of the Effective Date, all executory contracts and unexpired leases between the Debtors and any Person, including, but not limited to, all Intercompany Contracts, shall be rejected pursuant to section 365(a) of the Bankruptcy Code except for (a) any such contract or lease that has been assumed or rejected or renegotiated and either assumed or rejected on renegotiated terms, pursuant to an order of the Bankruptcy Court entered prior to the Effective Date, or (b) any such contract or lease that is specifically treated otherwise in this Plan. Entry of the Confirmation Order shall constitute approval, pursuant to section 365(a) of the Bankruptcy Code, of the rejection and assumption of executory contracts and unexpired leases provided for herein; *provided, however*, that any Environmental Obligation shall be treated as indicated in Section 2.5 of this Plan and any order entered in connection with Confirmation of this Plan shall not constitute a finding that any Environmental Obligation is an executory contract.

6.2. Assumption of Certain Specified Contracts and Lease. Notwithstanding anything to the contrary contained in this Plan, including the immediately preceding Section 6.1, a list of Assumed Contracts which shall be deemed assumed pursuant to section 365(a) of the Bankruptcy Code as of the Effective Date shall be provided in the Plan Supplement, together with the MRC/Marathon Plan Proponents' estimate of the cure costs that would result from such assumption; *provided, however*, that any Environmental Obligation shall be treated as indicated in Section 2.5 of this Plan and any order entered in connection with Confirmation of this Plan shall not constitute a finding that any Environmental Obligation is an executory contract; *provided, further, however*, the MRC/Marathon Plan Proponents and the Reorganized Entities reserve the right, at any time prior to the Effective Date, to amend the Plan Supplement to: (a) delete any Assumed Contract listed therein, thus providing for its rejection pursuant to this Plan; or (b) add any executory contract or unexpired lease thereto, thus providing for its treatment as an Assumed Contract pursuant to this Plan. The MRC/Marathon Plan Proponents or the Reorganized Entities, as the case may be, shall provide notice of any such amendment to the Plan Supplement to the parties to the Assumed Contract affected thereby and to the parties on the then applicable service list in the Reorganization Cases. Each Assumed Contract listed in the Plan Supplement shall be assumed only to the extent that any such contract or lease constitutes an executory contract or unexpired lease that is subject to assumption or rejection under section 365 of the Bankruptcy Code. Listing a contract or lease in the Plan Supplement shall not constitute an admission by the MRC/Marathon Plan Proponents or the Reorganized Entities that such contract or lease constitutes an executory contract or unexpired lease that is subject to assumption or rejection under section 365 of the Bankruptcy Code or that the MRC/Marathon Plan Proponents or the Reorganized Entities have any liability thereunder.

6.3. Assumptions and Assignments of Real Property Assumed Contracts. Each Real Property Assumed Contract listed in the Plan Supplement shall include a description of any modifications, supplements, restatements or other agreements made directly or indirectly by any agreement, instrument or other document that in any manner affects such contract or lease, irrespective of whether such agreement, instrument or other document is listed in the Plan Supplement, unless such modification, amendment, supplement, restatement or other agreement is rejected pursuant to this Plan.

6.4. Assignments Related to the Restructuring Transactions. As of the effective time of an applicable Restructuring Transaction, any Assumed Contract (including any related agreement) to be held by any surviving, resulting or acquiring corporation in an applicable Restructuring Transaction, shall be deemed assumed by the Debtors and assigned to the applicable Reorganized Entity pursuant to section 365 of the Bankruptcy Code.

6.5. Assumption of Pension Plan. As of the Effective Date, the Reorganized Entities shall be deemed to have assumed the Debtors' Pension Plan pursuant to section 365(a) of the Bankruptcy Code. Upon the Effective Date, the Reorganized Entities shall continue to pay the obligations under the Debtors' Pension Plan in accordance with applicable law with respect to continued funding of such plans. Nothing in this Plan shall be deemed to discharge, release or relieve any Person or Entity from any current or future liability under applicable law with respect to the Debtors' Pension Plan. Any and all obligations to participants under the Debtors' Pension Plan shall be paid in accordance with applicable law.

6.6. Worker's Compensation Programs. Upon Confirmation and consummation of this Plan, the Reorganized Entities shall continue any pre-petition workers' compensation programs in accordance with applicable law, and the obligations of the Reorganized Entities under applicable law with respect to continued funding of such programs shall remain unaltered. Nothing in this Plan shall be deemed to discharge, release or relieve the Debtors or the Reorganized Entities, of or from any current or future liability for their workers' compensation programs under applicable law. Any and all obligations under the pre-petition workers' compensation programs shall be paid in accordance with applicable law. The Debtors (and the Reorganized Entities, as applicable, upon the Effective Date of this Plan) shall be responsible for all valid claims for benefits and liabilities under the workers' compensation programs regardless of when the actual injuries occurred.

6.7. Compensation and Benefit Programs. Except as otherwise set forth in Sections 6.5 and 6.6, to the extent provided herein or in the Plan Supplement, all employment and severance agreements and policies, and all compensation and benefit plans, policies, and programs of the Debtors applicable to their employees, officers and directors including, without limitation, all savings plans, retirement plans, health care plans, disability plans, severance benefit agreements and plans, incentive plans, deferred compensation plans and life, accidental death and dismemberment insurance plans, shall be treated as executory contracts under the Plan, and on the Effective Date shall be deemed rejected pursuant to the provisions of sections 365 and 1123 of the Bankruptcy Code, except for executory contracts or employee benefit plans specifically assumed pursuant to this Plan or the Plan Supplement.

6.8. Cure of Defaults. On the Effective Date, the Reorganized Entities, as the case may be, (a) shall cure or provide adequate assurance that it shall cure any and all undisputed defaults under any Assumed Contract, and (b) compensate or provide adequate assurance that it shall promptly compensate the other parties to such executory contract or unexpired lease for the agreed amount of any actual pecuniary loss to such party resulting from such undisputed default in accordance with section 365(b)(1) of the Bankruptcy Code. In the event that the Reorganized Entities dispute the existence of a default, or the nature, extent or amount of any required cure, adequate assurance or compensation, the obligations of the Reorganized Entities under section 365(b) of the Bankruptcy Code shall be determined at the Confirmation Hearing or at any other hearing ordered by the Bankruptcy Court, and any such obligations shall be performed by the Reorganized Entities within thirty days after the Effective Date unless otherwise provided in the Confirmation Order or by other order of the Bankruptcy Court.

6.9. Rejection Claims. If the rejection of an executory contract by the Debtors (pursuant to this Plan or otherwise) results in a Claim, then such Claim shall be forever barred and shall not be enforceable against the Debtors and the Reorganized Entities unless a Proof of Claim is filed with the Balloting and Claims Agent and served upon counsel for the Debtors, counsel for the MRC/Marathon Plan Proponents, counsel for the Reorganized Entities and counsel for the Litigation Trustee no later than thirty (30) days after the earlier of (i) entry of the Confirmation Order, or (ii) entry of an order approving such rejection. Unless otherwise ordered by the Bankruptcy Court, all Claims arising from the rejection of executory contracts and unexpired leases shall be treated, to the extent they are Allowed Claims, as Allowed Class 7, 8 or 9 Claims, as appropriate, and shall be forever barred and shall not be enforceable against the Reorganized Entities.

VII.
MEANS OF IMPLEMENTATION OF THE PLAN

7.1. Summary of Reorganization of the Debtors. On or prior to the Effective Date, (a) as set forth in Section 4.6.2.1(a)(i) above, to the extent that Class 6 does not make the election pursuant to section 1111(b)(1)(A)(i) of the Bankruptcy Code, the MRC/Marathon Plan Proponents shall contribute \$225 million in Cash to Newco, or (b) as set forth in Section 4.6.2.2(a)(i) above, to the extent that Class 6 makes the election pursuant to section 1111(b)(1)(A)(i) of the Bankruptcy Code, on the Distribution Date, in full satisfaction, release and discharge of and in exchange for such Claims, the MRC/Marathon Plan Proponents shall contribute \$75 million in Cash to Newco. Also on the Effective Date, the Debtors shall be reorganized into two newly formed Reorganized Entities, Newco and Townco, and, except as otherwise set forth herein, all of the Debtors' Assets shall be transferred to these Reorganized Entities free and clear of all Claims, Liens, charges, other encumbrances and Interests. On and after the Effective Date, the Reorganized Entities may operate their businesses, may use, acquire and dispose of property, may retain, compensate and pay any professionals or advisors, and compromise or settle any causes of action, claims or interests without supervision of or approval by the Bankruptcy Court and free and clear of any restrictions of the Bankruptcy Code or the Bankruptcy Rules other than restrictions expressly imposed by the Plan and the Confirmation Order.

7.2. Litigation Trust Assets. On the Effective Date, as set forth below, (i) all Litigation Trust Assets of the Debtors shall be transferred by the Debtors to the Litigation Trust free and clear of all Claims, Liens, charges, other encumbrances and Interests and (ii) Newco shall transfer to the Litigation Trust that certain \$10.6 million, which amount shall be used by the Litigation Trustee first for payment to Holders of Allowed claims classified in Classes 7 and 8, second to repay the Funding Amount and finally, any remaining amounts returned to the Reorganized Entities.

7.3. Voting by and Distributions to Holders of Claims against the Palco Debtors. The Palco Debtors shall be pooled for the purposes of voting, Confirmation and Distribution. A Claim against any one of the Palco Debtors shall be deemed as a Claim against all of the Palco Debtors. No distributions shall be made under the Plan on account of Inter-Debtor Claims among the Debtors and such Claims shall be discharged on the Effective Date in accordance with Section 4.10 of this Plan. With respect to the Palco Debtors, Holders of Allowed Claims in each Class established pursuant to this Plan shall be entitled to their Pro Rata Share of assets available for Distribution to such Class without regard to which Palco Debtor was originally liable for such Claim.

7.4. No distributions for Holders of Certain Claims and Interests. No distributions shall be made under the Plan on account of Non-Debtor Affiliate Claims and such claims shall be discharged on the Effective Date in accordance with Section 4.11 of this Plan. No distributions shall be made under the Plan on account of Equity Interests in the Debtors, including, without limitations, those Equity Interests held by other Debtor and Non-Debtor affiliates, in accordance with Section 4.12 of this Plan. All guarantees of the Debtors of the obligations of any other Debtor shall be deemed eliminated so that any claim against any Debtor and any guarantee thereof executed by any other Debtor and any joint or several liability of any of the Debtors shall be deemed to be one obligation of the Debtors.

7.5. Operations of the Reorganized Entities. On and after the Effective Date, the Reorganized Entities may operate their businesses, may use, acquire and dispose of property, may retain, compensate and pay any professionals or advisors, and compromise or settle any causes of action, claims or interests without supervision of or approval by the Bankruptcy Court and free and clear of any restrictions of the Bankruptcy Code and the Bankruptcy Rules other than restrictions expressly imposed by the Plan or the Confirmation Order.

7.6. Restructuring Transactions.

7.6.1. Authorized Share Capital and Corporate Structure. On or as soon as reasonably practicable after the Effective Date, as set forth in Article IX of this Plan, (i) 100% of the Newco equity interests shall, without the need for any further corporate act or other action under any applicable law, regulation, order or rule, be issued and distributed by Newco to the MRC/Marathon Plan Proponents, 85% to MRC, and 15% to Marathon (each subject to adjustment); and (ii) 100% of the Townco equity interests shall, without the need for any

further corporate act or other action under any applicable law, regulation, order or rule, be issued and distributed by Townco to Marathon.

7.6.2. *Transfer of Assets.* Except as otherwise set forth in this Plan, on the Effective Date, the Debtors shall transfer all Assets of the Estates and Interests in the Estates, to the fullest extent of sections 541 and 1123(a)(5)(B) of the Bankruptcy Code (including any stock of subsidiaries), and any and all other rights and Assets of the Debtors of every kind and nature to the Reorganized Entities and the Litigation Trust, as applicable, free and clear of all Liens, Claims and Interests other than (i) those Liens, Claims and Interests retained or created pursuant to this Plan or any document entered into in connection with the transactions described in this Plan, and (ii) Liens that have arisen subsequent to the Petition Date on account of taxes that arose subsequent to the Petition Date. The transfer and assignment of any Assets of the Debtors shall be, to the fullest extent permitted by law, exempt from all stamp taxes and similar taxes within the meaning of section 1146(c) of the Bankruptcy Code. Specifically,

(a) any and all of the Assets of the Mill and Scopac, and any and all Assets of the Debtors currently associated with or anticipated to be associated with the Mill and Scopac, and any other Assets of the Debtors, other than those being transferred to Townco or transferred to the Litigation Trust, shall be transferred by the Debtors to Newco;

(b) any and all of the Assets of the Debtors currently associated with or anticipated to be associated with Scotia, including, without limitation, the power plant and the Britt mill in Arcata, California, shall be transferred by the Debtors to Townco;

(c) any Litigation Trust Assets of the Debtors shall be transferred by the Debtors to the Litigation Trust; and

(d) Cash in an amount equal to the unpaid principal amount of the Allowed Class 5 Scopac Loan Claim plus accrued but unpaid interest, fees and other expenses, at the applicable non-default rate of interest under the Scopac Loan, shall be transferred from the SAR Account by the Debtors to the Holder of the Allowed Class 5 Scopac Loan Claim. Any remaining amount held in the SAR Account shall be transferred by the Debtors to Newco. Any remaining amount owed in respect of the Allowed Class 5 Scopac Loan Claim shall be paid by Newco.

7.6.3. *Cancellation of Notes, Instruments, and Interests.* On the Effective Date, and after giving effect to the Distributions to be made on the Effective Date hereunder, (i) all existing securities, equity interests, notes, bonds, indentures, and other instruments or documents evidencing or creating any indebtedness, equity interest or obligation, and all Liens, charges, encumbrances and rights related to the foregoing (except as same relates to the Palco DIP Loan), including but not limited to the Palco Term Loan Agreement, the Scopac Timber Notes, the Pre-petition Indenture, the Scopac Loan Agreement and all Equity Interests, shall, if not terminated, canceled, annulled or extinguished by another provision of this Plan, be fully and finally terminated, cancelled, annulled and extinguished and deemed null and void and of no further force and effect and all obligations thereunder shall be deemed likewise discharged (all without further act or action by any Person) and none of the Debtors, the MRC/Marathon Plan Proponents and the Reorganized Entities shall have any obligation in respect of same, and (ii) the Pre-petition Indenture Trustee shall be discharged of all duties under the Pre-petition Indenture. Notwithstanding the foregoing and anything in this Plan to the contrary, the Pre-petition Indenture shall continue in effect solely for the purposes of allowing the Pre-petition Indenture Trustee to make Distributions to Holders of Allowed Scopac Timber Note Claims pursuant to this Plan.

7.6.4. *Certificates of Formation and Organizational Documents of Reorganized Entities.* As of the Effective Date, the certificates of formation and limited liability company operating agreements of each of the Reorganized Entities (or comparable organizational documents) shall be substantially in the form set forth in the Plan Supplement and shall, among other things, (i) prohibit the issuance of non-voting equity securities to the extent required by section 1123(a) of the Bankruptcy Code and (ii) authorize the issuance of equity interests in amounts not less than the amounts necessary to permit the distributions thereof required or contemplated by the Plan. After the Effective Date, the Reorganized Entities may amend and restate their certificates of formation and limited liability company operating agreements as permitted by applicable law or pursuant to such certificates of formation and limited liability company operating agreements.

7.6.5. Additional Transactions. The MRC/Marathon Plan Proponents and the Reorganized Entities reserve the right to undertake transactions as may be necessary or appropriate under the circumstances. Such transactions may include one or more mergers, sales, consolidations, restructurings, acquisitions, dispositions, liquidations or dissolutions, as may be determined by the MRC/Marathon Plan Proponents or the Reorganized Entities. The actions to effect these Restructuring Transactions may include: (a) the execution and delivery of appropriate agreements or other documents of merger, sale, consolidation, restructuring, disposition, liquidation or dissolution containing terms that are consistent with the terms of this Plan and that satisfy the applicable requirements of applicable state law and such other terms to which the applicable entities may agree; (b) the execution and delivery of appropriate instruments of transfer, assignment, assumption or delegation of any asset, property, right, liability, duty or obligation on terms consistent with the terms of this Plan and having such other terms to which the applicable entities may agree; (c) the filing of appropriate certificates or articles of merger, consolidation, incorporation, formation or dissolution pursuant to applicable state law; and (d) all other actions that the applicable entities determine to be necessary or appropriate, including making filings or recordings that may be required by applicable state law.

7.7. Post-Effective Date Management of the Reorganized Entities. Except as expressly provided in this Plan and the certificates of formation and limited liability company operating agreements of the Reorganized Entities, which certificates may be amended from time to time, the operation, management and control of the Reorganized Entities shall be the general responsibility of their boards of directors or managers and senior officers, which shall thereafter have the responsibility for the management, control and operation of the Reorganized Entities, respectively.

7.7.1. Directors and Officers of the Reorganized Entities. On and after the Effective Date, the business and affairs of the Reorganized Entities shall be managed by the officers and directors or managers, as the case may be, identified in the Disclosure Statement, as supplemented or otherwise modified by the Plan Supplement. Biographical information regarding these proposed officers, directors, and managers shall be set forth in the Disclosure Statement, as supplemented or otherwise modified by the Plan Supplement. A schedule of the annual compensation to be paid to persons serving as executives, officers and directors or managers as of the Effective Date shall be set forth in the Plan Supplement.

7.7.2. New Employment, Retirement, Indemnification and Other Related Agreements. As of the Effective Date, the Reorganized Entities, as the case may be, shall have the authority, without the need for any approval by the Bankruptcy Court, as determined by their respective governing Persons or Entities, (i) to maintain, amend or revise existing employment, retirement, welfare, incentive, severance, indemnification and other agreements with its active and retired directors or managers, officers and employees, subject to the terms and conditions of any such agreement, and (ii) to enter into new employment, retirement, welfare, incentive, severance, indemnification and other agreements for active and retired employees.

7.8. Exit Financing. On the Effective Date, without the requirement of further action, the Reorganized Entities shall be authorized to execute and deliver those documents necessary or appropriate to obtain the Exit Financing, including without limitation, any documents required in connection with the creation or perfection of the Liens on the collateral for the Exit Financing, if any. Confirmation of this Plan shall constitute an approval of the transactions contemplated hereby and all the actions to be taken, undertakings to be made and obligation to be incurred by the Reorganized Entities, as the case may be, in connection therewith, including the issuance by Newco to Marathon (and the retention by Marathon) of a promissory note in the aggregate principal amount equal to the amount of the Mill Working Capital and secured solely by Liens on the Mill Working Capital. The Exit Financing and or the Reorganized Entities' Cash balances and operations, may be used for any purpose permitted by the Exit Financing, including the funding of obligations under this Plan, such as the payment of Administrative Expense Claims and the satisfaction of ongoing working capital requirements. Cash payments to be made pursuant to this Plan shall be made by the Reorganized Entities or the Litigation Trust, as applicable, and the Reorganized Entities shall be entitled to transfer funds between and among themselves as they deem to be necessary or appropriate to enable the Reorganized Entities to satisfy their obligations under this Plan. Any intercompany claims resulting from such transfers shall be accounted for and settled in accordance with the methodology determined by the Reorganized Entities in their sole discretion.

7.9. Dissolution of Corporate Entities. As soon as practicable after the Effective Date, the Reorganized Entities may take all actions necessary or appropriate to effect the dissolution of each of the Debtors under the appropriate state laws or take such other actions as the Reorganized Entities deem appropriate to provide for the revocation of the corporate charter for each of the Debtors.

7.10. Corporate and LLC Action. Upon entry of the Confirmation Order, the transfers and dissolutions contemplated by this Plan shall be deemed authorized and approved in all respects. On the Effective Date, the matters provided under the Plan involving the corporate structures of the Debtors and the Reorganized Entities shall be deemed to have occurred and shall be in effect from and after the Effective Date pursuant to applicable state laws without any requirement of further action by the stockholders or directors of the Debtors or the Reorganized Entities. On the Effective Date, the Litigation Trustee shall be authorized and directed to take all necessary and appropriate actions to effectuate the transactions contemplated by the Litigation Trust Agreement, Plan and other Plan Documents.

7.11. Authorization to Implement this Plan. The entry of the Confirmation Order shall constitute authorization for the Debtors, the MRC/Marathon Plan Proponents, the Reorganized Entities and the Litigation Trustee to take or cause to be taken all corporate and limited liability company actions necessary or appropriate to implement all provisions of, and to consummate this Plan and the Plan Documents prior to, on and after the Effective Date and all such actions taken or caused to be taken for which Bankruptcy Court authorization is required shall be deemed to have been authorized by the Bankruptcy Court without further act or action under any applicable law, order, rule or regulation, except as otherwise expressly set forth in this Plan.

7.12. Effectuating Documents and Further Transactions. Each of the Debtors, the Plan Proponents, the Reorganized Entities and the Litigation Trustee, as the case may be, is authorized and directed to execute, deliver, file or record such contracts, instruments, releases and other agreements or documents and take such actions as may be necessary or appropriate to effectuate, implement and further evidence the terms and conditions of the Plan Documents.

7.13. Compliance With Environmental Laws. Under the Plan, the Debtors, the MRC/Marathon Plan Proponents and the Reorganized Entities, as the case may be, shall comply, complete, perform, satisfy and/or provide for satisfaction or completion of any current, ongoing, executory, and future regulatory or statutory obligations which arise or result from, or may arise or result from, the Environmental Obligations.

The Plan is specifically conceived and shall be implemented in a manner which complies with the California state and federal ITPs and consistency determinations under CESA, including the associated HCP and IA, as well as AB 1986, including the Agreement Relating to Enforcement of AB 1986 and the associated, recorded CC&Rs.

VIII. ESTABLISHMENT OF LITIGATION TRUST AND DESIGNATION OF LITIGATION TRUSTEE

8.1. Establishment of Litigation Trust. On the Effective Date, the Reorganized Entities shall take any and all such actions as may be necessary or appropriate to establish the Litigation Trust, including the execution and delivery of the Litigation Trust Agreement, in substantially the form provided in the Plan Supplement; *provided, however*, for avoidance of doubt, Litigation Trust Assets shall not include rights to setoff under section 553 of the Bankruptcy Code; *provided, further, however*, Litigation Trust Assets shall not include the following: (i) Causes of Action against any Debtor, MRC/Marathon Plan Proponent (in any capacity, including without limitation, Marathon, as lender to the Palco Debtors), any member (solely in that capacity) or professional of the Committee, the Committee, any Reorganized Entity and the Holder of the Class 5 Scopac Loan Claim; (ii) Avoidance Actions under section 547(b)(4)(A) of the Bankruptcy Code (i.e., ninety (90) day preference actions), with respect to trade creditors that (x) supply the Reorganized Entities in the ordinary course of their business with goods and services, and (y) are identified in writing by the Reorganized Entities to the Litigation Trustee within ten (10) Business Days after the Litigation Trustee submits a written list of potential defendants to the Reorganized Entities; (iii) Causes of Action with respect to accounts receivables, tax refunds, tax rebates and any other amounts owed to the Debtors or

Reorganized Entities by account debtors; (iv) the Headwaters Litigation; and (v) Causes of Action with respect to Environmental Obligations.

The Litigation Trust may also be known as the "PLC Litigation Trust" but shall not be referred to as any of the following: "Scotia Development"; "Pacific Lumber"; "Britt Lumber"; "Salmon Creek"; "Scotia Inn"; "Scotia Pacific"; "Palco"; or "Scopac."

8.2. Federal Income Tax Treatment. For federal income tax purposes, the beneficiaries of the Litigation Trust shall be treated as the grantors of the Litigation Trust and deemed to be the owners of the assets of the Litigation Trust, and the Reorganized Entities shall treat the transfer of the assets of the Debtors to the Litigation Trust as a deemed transfer to such beneficiaries followed by a deemed transfer by such beneficiaries back to the Litigation Trust.

8.3. Purpose of Litigation Trust. The Litigation Trust shall be established for the purposes liquidating and Distributing the Litigation Trust Assets of the Litigation Trust to the Holders of Allowed Classes 7, 8 and 9, as applicable, and paying Statutory Fees as set forth in this Plan. The Funding Amount shall not be considered an asset of the Litigation Trust for Distribution to Holders of Allowed Claims for Classes 7, 8 and 9. The Litigation Trustee shall be responsible for prosecuting, settling, resolving or abandoning all Litigation Trust Assets. Other rights and duties of the Litigation Trustee and the beneficiaries shall be as set forth in the Litigation Trust Agreement. The Reorganized Entities shall provide the Litigation Trustee with reasonable access to their books, records, documents and personnel for investigation and prosecution of the Litigation Trust Assets and for the making of Distributions, at the expense of the Litigation Trust.

8.4. Powers and Obligations of Litigation Trust. In addition to all powers enumerated in this Plan, in the Litigation Trust Agreement and in the Confirmation Order, from and after the Effective Date, the Litigation Trust shall succeed to all of the rights of the Debtors necessary for prosecuting, settling, resolving or abandoning all Litigation Trust Assets. As of the Effective Date, the Litigation Trust shall be responsible for performing the obligations, enforcing the rights and exercising the remedies of the Debtors with respect to any claim or interest of the Debtors or the Estates in accordance with section 1123(b)(3)(B) of the Bankruptcy Code, for making distributions to Holders of Allowed Claims for Classes 7, 8 and 9, and for settling, resolving and objecting to Claims for Classes 7, 8 and 9 against the Debtors and for the investigation, prosecution and/or settlement of Litigation Trust Assets.

8.5. Litigation Trust Distributions. On the Effective Date, each Holder of an Allowed Claim in Classes 7, 8 and 9, shall, by operation of the Plan, (i) become a beneficiary of the Litigation Trust, (ii) be bound by the Litigation Trust Agreement, and (iii) receive its Litigation Trust Participation. The Litigation Trustee shall make distributions to the Holders of Allowed Claims in Classes 7, 8 and 9 as set forth in the Litigation Trust Agreement and this Plan.

8.6. Appointment of the Litigation Trustee. Subject to Bankruptcy Court approval, the Committee and the MRC/Marathon Plan Proponents shall nominate one person to serve as the Litigation Trustee. The identity and resume of the Litigation Trustee shall be filed with the Bankruptcy Court and served on those requesting notice pursuant to Bankruptcy Rule 2002 at least fifteen (15) days before the Confirmation Date or such other date fixed by the Bankruptcy Court. The Litigation Trustee shall be the exclusive trustee of the assets of the Litigation Trust for purposes of 31 U.S.C. § 3713(b) and 26 U.S.C. § 6012(b)(3), as well as the appointed representative of the Debtors with respect to the Avoidance Actions and all other Litigation Trust Assets, and net proceeds thereof, pursuant to section 1123(b)(3)(B) of the Bankruptcy Code. The only assets of the Litigation Trust shall be the Litigation Trust Assets and the net proceeds thereof.

8.7. Litigation Trust Board. The Committee shall choose three persons to serve, without compensation, as members of the Litigation Trust Board, which shall have the responsibility to review and advise the Litigation Trustee with respect to the liquidation and Distribution of the Litigation Trust Assets in accordance with the Litigation Trust Agreement and the Confirmation Order.

8.8. Litigation Trusts Costs and Expenses. The costs and expenses incurred by the Litigation Trust on and after the Effective Date shall be paid in the ordinary course of business from the Litigation Trust.

8.9. Litigation Trust Funding. On the Effective Date, Newco shall fund or cause to be funded the Funding Amount to the Litigation Trust. The Litigation Trustee shall satisfy any fees and expenses of the Litigation Trust with either the Funding Amount and/or Cash proceeds of the Litigation Trust Assets when and to the extent they are realized; *provided, however*, in no event shall any portion of that certain \$10.6 million to be provided by Newco to the Litigation Trust on the Effective Date be utilized to satisfy any fees and expenses of the Litigation Trust; *provided, further, however*, notwithstanding anything herein to the contrary, after payment of all amounts owing under the Plan to Holders of Allowed Claims classified in Classes 7 and 8 from the 10.6 million provided by Newco to the Litigation Trust on the Effective Date, up to \$500,000 of any such remaining funds may be utilized by the Litigation Trustee to repay the Funding Amount and the balance, if any, of such funds, shall not be utilized to satisfy any fees and expenses of the Litigation Trust but shall be returned to those entities that provided such amounts. The Litigation Trustee, in its discretion, shall hire counsel and such other professionals. Except as set forth in Section 7.2(ii) above and this Section 8.9, the Debtors, the MRC/Marathon Plan Proponents, and the Reorganized Entities shall have no obligation to provide any funds or other property or assets to the Litigation Trust and pay or reimburse any of its expenses.

8.10. Distributions. Any recovery by the Litigation Trust on account of the Litigation Trust Assets (which, other than as set forth in Section 8.9 above, for purposes of this Section 8.10(i) and (ii) shall not include the funds to be paid to Holders of Allowed claims classified in Classes 7 and 8) shall be applied in the following order: (i) first, to pay any unpaid costs and expenses of the Litigation Trust, including without limitation reasonable attorneys' fees and expenses and court costs; (ii) second, to repay the Funding Amount to Newco, together with interest thereon, until the Funding Amount (together with all accrued interest) has been repaid in full; *provided, however*, notwithstanding anything herein to the contrary, the Funding Amount shall be reimbursed by the Litigation Trust only to the extent that Cash proceeds of the Litigation Trust Assets sufficient to do so have been realized, and in the event that insufficient funds have been realized to pay off the Funding Amount, this shall not be a basis to prevent the Trust from termination in accordance with the terms of this Plan; and (iii) third, distributed to Holders of Allowed Claims for Classes 7, 8 and 9 in accordance with this Plan and the Litigation Trust Agreement.

8.11. Resignation, Death or Removal of the Litigation Trustee. The Litigation Trustee may be removed by the Litigation Trust Board with the approval of the Bankruptcy Court upon application for good cause shown. In the event of the resignation, removal, death or incapacity of the Litigation Trustee, the Litigation Trust Board shall designate another Person to become Litigation Trustee and thereupon the successor to the Litigation Trustee, without any further action, shall become fully vested with all of the rights, powers, duties and obligations of his or her predecessor.

8.12. Termination of the Litigation Trust. The duties, responsibilities and powers of the Litigation Trustee, and the Litigation Trust, shall terminate on the earlier of (i) full resolution of all Litigation Trust Assets transferred to the Litigation Trust, Distribution of the Litigation Trust Assets and the net proceeds thereof in accordance with this Plan and the Litigation Trust Agreement, and conclusion of all matters relative to the administration of the Litigation Trust, except for the filing of all final tax returns, (ii) payment in full in Cash of the Allowed Claims of Holders of Allowed Claims for Classes 7, 8 and 9, or (iii) three (3) years from the Effective Date; *provided, however*, subject to approval of the Bankruptcy Court upon a finding for cause shown that an extension is necessary for the purpose of the Litigation Trust, the term of the Litigation Trust may be extended for a finite period based upon the particular circumstances at issue. Each such extension must be approved by the Bankruptcy Court within six (6) months of the beginning of the extended term with written notice thereof to include the MRC/Marathon Plan Proponents and the Reorganized Entities.

IX.

METHOD OF DISTRIBUTIONS UNDER THE PLAN AND CLAIMS RECONCILIATION

9.1. Method of Distributions Under the Plan. Distributions under this Plan shall be made in accordance with the following:

9.1.1. Distributions for Claims Allowed as of the Effective Date. Other than as set forth herein, all Distributions under this Plan to be made on the Effective Date to Holders of Claims that are Allowed as of the Effective Date shall be deemed made on the Effective Date if made on the Effective Date or as promptly

thereafter as practicable, but in any event no later than: (a) 60 days after the Effective Date, or (b) such later date when the applicable conditions of Section 6.8 (Cure of Defaults) and Section 9.1.6 (Unclaimed/Undeliverable Distributions) are satisfied; *provided, however*, that (i) transfers of the Debtors' assets to the Reorganized Entities and Distributions of equity interests by the Reorganized Entities shall be made on the Effective Date; (ii) Distributions to the Holders of Allowed Class 6 Claims shall be made in accordance with the provisions of the Timber Notes Indenture; and (iii) Distributions to the Holders of Allowed Claims for Classes 7, 8 and 9 shall be governed by the Litigation Trust Agreement and this Plan.

9.1.2. *Distributions for Claims Allowed after the Effective Date.* On each Quarterly Payment Date, the Litigation Trustee or the Reorganized Entities, as the case may be, shall make all distributions that become deliverable to Holders of Allowed Claims during the preceding calendar quarter.

9.1.3. *Delivery of Distributions.* All Distributions to be made under this Plan shall be made to Holders of Allowed Claims (a) if any such Holder has filed a Proof of Claim, at the address of such Holder as set forth in the Proof of Claim, or at the addresses set forth in any written certification of address change delivered to the Disbursing Agent after the date of filing of such Proof of Claim, or (b) if any such Holder has not filed a Proof of Claim, at the last known address of such Holder as set forth in the Debtors' Schedules or Debtors' books and records.

9.1.4. *Timing of Distributions.* Any payment or other Distribution required to be made under this Plan on a day other than a Business Day shall be due on the next succeeding Business Day. All payments or Distributions due on the Effective Date shall be made thereon or as soon as practicable thereafter but in no event later than ten calendar days after the Effective Date. Any payment of Cash made pursuant to this Plan shall be deemed made when such payment by check or wire transfer is transmitted.

9.1.5. *Minimum Cash Distributions.* No Cash payment less than fifty dollars shall be made to any Holder of a Claim unless a request therefor is made in writing to the Reorganized Entities and the Litigation Trustee, as the case may be.

9.1.6. *Unclaimed/Undeliverable Distributions.* If any Cash or other Distribution pursuant to this Plan to any Holder of an Allowed Claim is returned as undeliverable, no further Distributions to such Holder shall be made until such time as the Reorganized Entities or the Litigation Trustee, as the case may be, is notified by written certification of such Holder's then-current address, at which time Distributions to such Holder shall be made without interest.

9.1.7. *Failure to Claim Undeliverable Distributions.* Any Holder of an Allowed Claim that does not assert a claim pursuant to this Plan for an undeliverable Distribution within one year after the Distribution was initially attempted shall have its claim for such undeliverable Distribution discharged and such Distributions shall be deemed to be unclaimed property under section 347(b) of the Bankruptcy Code. After such date, all Cash or other Distribution shall be forfeited and transferred to or retained by the Reorganized Entities or the Litigation Trustee, as the case may be, that attempted such payment free from any restrictions thereon, and the claim of any Holder to such Cash or other Distribution pursuant to this Plan shall be discharged and forever barred. Any Holder shall be forever barred from asserting any such claim against the Reorganized Entities. Nothing contained in this Plan shall require the Reorganized Entities or the Litigation Trustee to attempt to locate any Holder of an Allowed Claim. Unclaimed and undeliverable Distributions from the Litigation Trust to the Holders of Litigation Trust participations shall be governed by the Litigation Trust Agreement.

9.1.8. *Withholding and Reporting Requirements.* In connection with this Plan, the Debtors and the Reorganized Entities, as applicable, shall comply with all withholding and reporting requirements imposed by federal, state, local, and foreign taxing authorities and all Distributions hereunder shall be subject to such withholding and reporting requirements. Notwithstanding the above, each Holder of an Allowed Claim that is to receive a Distribution shall have the sole and exclusive responsibility for the satisfaction and payment of any tax obligations imposed by any government unit, including income, withholding and other tax obligations, on account of such Distribution. The Reorganized Entities have the right, but not the obligation, to not make a Distribution until such Holder has made arrangements satisfactory to the Reorganized Entities for payment of any such tax obligations.

9.1.9. Setoff Rights. The Reorganized Entities and the Litigation Trustee, as applicable, may, but shall not be required to, setoff against or recoup from the Holder of any Allowed Claim on which payments or other Distributions are to be made hereunder, claims of any nature that the Debtors, the Reorganized Entities or the Litigation Trust, as the case may be, may have against the Holder of such Allowed Claim. However, neither the failure to do so, nor the allowance of any Claim under this Plan, shall constitute a waiver or release of any such claim, right of setoff or right of recoupment against the Holder of such Allowed Claim.

9.2. Claims Administration Responsibility.

9.2.1. Right to Object to Claims. The Debtors and the Reorganized Entities, as the case may be, have the responsibility and authority for administering, disputing, objecting to, compromising and settling or otherwise resolving and finalizing Distributions (if any) with respect to all Claims; *provided, however*, with respect to Class 7, 8 and 9 Claims, the Litigation Trustee as set forth in the Litigation Trust Agreement shall have the responsibility and authority for administering, disputing, objecting to, compromising and settling or otherwise resolving and finalizing Distributions (if any) with respect to such Claims. The Reorganized Entities, as the case may be, also shall have the right to litigate any Claims in any other court of competent jurisdiction, subject to any applicable state or federal statute of limitations. In addition, the MRC/Marathon Plan Proponents, the Reorganized Entities and the Litigation Trustee, as applicable, may, at any time, request that the Bankruptcy Court estimate any contingent or unliquidated Claim pursuant to section 502(c) of the Bankruptcy Code regardless of whether the Debtors have previously objected to such Claim.

9.2.2. Claims Objection Deadline. The Debtors, the Reorganized Entities and the Litigation Trustee, as the case may be, shall have until the date that is 180 days after the Effective Date to bring any objections to Claims; *provided, however*, that such deadline may be extended by the Bankruptcy Court upon motion of the Debtors, the Reorganized Entities or the Litigation Trustee, as the case may be, without notice or a hearing.

9.2.3. Compromise and Settlements. From and after the Effective Date, and without any further approval by the Bankruptcy Court, the Reorganized Entities and the Litigation Trustee, as applicable, may compromise and settle any Claims and Causes of Action against the Debtors or their respective Estates.

9.3. Process for Disputing Claims.

9.3.1. Disallowance of Improperly Filed Claims. Any Administrative Expense Claim or other Claim for which the filing of a motion for allowance is required shall be disallowed if such filing is not timely and properly made, subject to the right of the Claimant to seek permission under applicable law to file a late Claim.

9.3.2. No Distributions Pending Allowance. If a Claim or any portion of a Claim is disputed, no payment or Distribution shall be made on account of the disputed portion of such Claim (or the entire Claim, if the entire Claim is disputed), unless such Disputed Claim or portion thereof becomes an Allowed Claim.

9.3.3. Distributions After Allowance. On each Quarterly Distribution Date after a Disputed Claim becomes an Allowed Claim, the Reorganized Entities, as applicable, shall distribute on the next succeeding Distribution Date to the Holder of such Allowed Claim any Cash other property that would have been distributed to the Holder of such Allowed Claim on the dates Distributions were previously made to Holders of other Allowed Claims had such Claim been an Allowed Claim on such dates; *provided, however*, Distributions from the Litigation Trust on account of any Disputed Claim that has become an Allowed Claim shall be governed by the Litigation Trust Agreement.

X.

EFFECT OF CONFIRMATION OF PLAN

10.1. Discharge.

10.1.1. Discharge of Claims Against the Debtors and the Reorganized Entities. *Except as otherwise expressly provided in this Plan (i.e. Section 2.5) or the Confirmation Order, the Confirmation of this Plan*

shall as of the Effective Date: (i) discharge the Debtors, the Reorganized Entities and any of their Assets from all Claims demands, liabilities, other debts and Interests that arose on or before the Effective Date, including, without limitation, all debts of the kind specified in sections 502(g), 502(h), or 502(i) of the Bankruptcy Code, whether or not (A) a Proof of Claim based on such debt is filed or deemed filed pursuant to section 501 of the Bankruptcy Code, (B) a Claim based on such debt is Allowed pursuant to section 502 of the Bankruptcy Code, or (C) the Holder of a Claim based on such debt has accepted this Plan; and (ii) preclude all Persons from asserting against the Debtors, the Reorganized Entities or any of their Assets any other or further Claims or Interests based upon any act or omission, transaction or other activity of any kind or nature that occurred prior to the Effective Date, all pursuant to sections 524 and 1141 of the Bankruptcy Code. The discharge provided in this provision shall void any judgment obtained against any of the Debtors at any time, to the extent that such judgment relates to a discharged Claim or cancelled Interest.

10.1.2. Injunction Related to the Discharge. Except as otherwise provided in this Plan (i.e. Section 2.5) or the Confirmation Order, all entities that have held, currently hold or may hold Claims or other debts or liabilities against the Debtors or an Interest or other right of an equity security Holder in any or all of the Debtors that are discharged pursuant to the terms of this Plan are permanently enjoined, on and after the Effective Date, from taking any of the following actions on account of any such Claims, debts, liabilities or Interests or rights: (i) commencing or continuing in any manner any action or other proceeding of any kind with respect to any such Claim debt, liability, Interest or right other than to enforce any right to a Distribution pursuant to this Plan; (ii) enforcing, attaching, collecting or recovering in any manner any judgment, award decree or order against the Debtors, the Reorganized Entities or any of their Assets on account of any such Claim debt, liability, Interest or right; (iii) creating, perfecting or enforcing any Lien or encumbrance against the Debtors, the Reorganized Entities or any of their Assets on account of any such Claim debt liability, Interest or right; (iv) asserting any right of setoff subrogation or recoupment of any kind against any debt, liability or obligation due to the Debtors, the Reorganized Entities or any of their Assets on account of any such Claim debt, liability, Interest or right; and (v) commencing or continuing any action in any manner, in any place that does not comply with or is inconsistent with the provisions of this Plan or the Confirmation Order. Such injunction shall extend to any successor of the Debtors, the Reorganized Entities and any of their Assets. Any entity injured by a willful violation of such injunction shall recover actual damages, including costs and attorneys' and experts' fees and disbursements, and, in appropriate circumstances, may recover punitive damages from the willful violator.

10.2. Releases.

10.2.1. Releases by the Debtors. As of the Effective Date, for good and valuable consideration the adequacy of which is hereby confirmed, the Debtors in their individual capacity and as debtors-in-possession shall be deemed to release and forever waive and discharge all Claims obligations, suits, judgments, damage demands, debts, rights, Causes of Action and liabilities whether liquidated or unliquidated, fixed or contingent, matured or unmatured, known or unknown foreseen or unforeseen, then existing or thereafter arising, in law, equity or otherwise that are based in whole or part on any act, omission, transaction, event or other occurrence taking place on or prior to the Effective Date (including prior to the Petition Date) in any way relating to the Debtors, the Reorganization Cases, this Plan or the Disclosure Statement and that could have been asserted by or on behalf of the Debtors or their Estates at any time up to immediately prior to the Effective Date against the Released Parties.

10.2.2. Certain Waivers. Although the Debtors and the MRC/Marathon Plan Proponents do not believe that California law is applicable to the Plan, nevertheless, in an abundance of caution, each Debtor hereby understands and waives the effect of Section 1542 of the California Civil Code to the extent that such section is applicable to the Debtors. Section 1542 of the California Civil Code provides:

"§1542. A GENERAL RELEASE DOES NOT EXTEND TO CLAIMS WHICH THE CREDITOR DOES NOT KNOW OR SUSPECT TO EXIST IN HIS FAVOR AT THE TIME OF EXECUTING THE RELEASE, WHICH IF KNOWN BY HIM MUST HAVE MATERIALLY AFFECTED HIS SETTLEMENT WITH THE DEBTOR."

EACH DEBTOR AGREES TO ASSUME THE RISK OF ANY AND ALL UNKNOWN, UNANTICIPATED OR MISUNDERSTOOD DEFENSES, CLAIMS, CAUSES OF ACTION, CONTRACTS, LIABILITIES, INDEBTEDNESS

AND OBLIGATIONS WHICH ARE RELEASED BY THIS PLAN AND EACH DEBTOR HEREBY WAIVES AND RELEASES ALL RIGHTS AND BENEFITS WHICH IT MIGHT OTHERWISE HAVE UNDER THE AFOREMENTIONED SECTION 1542 OF THE CALIFORNIA CIVIL CODE WITH REGARD TO THE RELEASE OF SUCH UNKNOWN UNANTICIPATED OR MISUNDERSTOOD DEFENSES, CLAIMS, CAUSES OF ACTION, CONTRACTS, LIABILITIES, INDEBTEDNESS AND OBLIGATIONS. TO THE EXTENT (IF ANY) ANY OTHER LAWS SIMILAR TO SECTION 1542 OF THE CALIFORNIA CIVIL CODE MAY BE APPLICABLE, EACH DEBTOR WAIVES AND RELEASES ANY BENEFIT RIGHT OR DEFENSE WHICH IT MIGHT OTHERWISE HAVE UNDER ANY SUCH LAW WITH REGARD TO THE RELEASE OF UNKNOWN UNANTICIPATED OR MISUNDERSTOOD DEFENSES CLAIMS CAUSES OF ACTION CONTRACTS LIABILITIES INDEBTEDNESS AND OBLIGATIONS.

10.2.3. Preservation of Rights of Action by the Debtors and the Reorganized Entities.

Except as provided in this Plan or in any contract, instrument, release or other agreement entered into or delivered in connection with this Plan, in accordance with section 1123(b) of the Bankruptcy Code and to the fullest extent possible under applicable law, the Reorganized Entities and the Litigation Trustee, as the case may be, shall retain and may enforce, and shall have the sole right to enforce, any claims, demands, rights and Causes of Action that any Debtor or Estate may hold against any Entity. The Reorganized Entities, the Litigation Trustee or their successors, as the case may be, and may pursue such retained claims, demands, rights or Causes of Action, as appropriate, in accordance with the best interests of the Reorganized Entities, the Litigation Trust, or their successors, as the case may be, holding such claims, demands, rights or Causes of Action. Further, the Reorganized Entities, as the case may be, retain their rights to file and pursue, and shall have the sole right to file and pursue any adversary proceedings against any account debtor related to debit balances or deposits owed to any Debtor.

10.2.4. Injunction Related to Releases.

To the fullest extent allowed by law, and except as otherwise provided in this Plan (i.e. Section 2.5) or the Confirmation Order, all Entities that have held currently hold or may hold claims, obligations, suits, judgments, damages, demands, debts, rights, Causes of Action and liabilities that are released pursuant to Section 10.2.1 of this Plan are permanently enjoined, on and after the Effective Date from taking any of the following actions on account of any such claims, obligations, suits, judgments, damages, demands, debts, rights, Causes of Action, and liabilities: (i) commencing or continuing in any manner any action or other proceeding of any kind against a Released Party with respect to any such claims, obligations, suits, judgments, damages, demands, debts, rights, Causes of Action, and liabilities; (ii) enforcing, attaching, collecting or recovering in any manner any judgment, award, decree or order against any Released Party or any of its or their Assets on account of any such claims, obligations, suits, judgments, damages, demands, debts, rights, Causes of Action, and liabilities; (iii) creating, perfecting or enforcing any Lien or encumbrance against any Released Party or any of its or their Assets on account of any such claims, obligations, suits, judgments, damages, demands, debts, rights, Causes of Action, and liabilities; (iv) asserting any right of setoff, subrogation or recoupment of any kind against any debt liability or obligation due to any Released Party or any of its or their Assets on account of any such claims, obligations, suits, judgments, damages, demands, debts, rights, Causes of Action, and liabilities; and (v) commencing or continuing any action, in any manner, in any place that does not comply with or is inconsistent with the provisions of this Plan or the Confirmation Order. Such injunction shall extend to any successor of any Released Party or any of its or their Assets. Any Entity injured by any willful violation of such injunction shall recover actual damages, including costs and attorneys' and experts' fees and disbursements, and, in appropriate circumstances, may recover punitive damages from the willful violator.

10.3. Exculpation. *The Exculpated Parties shall not be liable, other than for gross negligence or willful misconduct, to any Holder of a Claim or Interest or any other Entity with respect to any action omission, forbearance from action, decision, or exercise of discretion taken at any time prior to the Effective Date in connection with:*

- *the management or operation of the Debtors or the discharge of their duties under the Bankruptcy Code;*
- *the implementation of any of the transactions provided for, or contemplated in, this Plan or the other Plan Documents;*

- *any action taken in connection with either the enforcement of the rights of any Debtor against any Entities or the defense of Claims asserted against any such Debtor with regard to the Reorganization Cases;*
- *any action taken in the negotiation, formulation, development, proposal, solicitation, disclosure, Confirmation, or implementation of this Plan or the other Plan Documents; or*
- *the administration of this Plan or the assets and property to be distributed pursuant to this Plan.*

In connection with this provision, the Exculpated Parties are entitled to reasonably rely upon the opinions of their respective counsel, accountants, and other experts or professionals and such reliance, if reasonable, shall conclusively establish the absence of gross negligence or willful misconduct; provided, however, that a determination that such reliance is unreasonable shall not, by itself, constitute a determination regarding the existence of willful misconduct or gross negligence.

If the Holder of a Claim or Interest or other Entity brings an action, suit or proceeding covered by this Article and does not prevail, such Holder or other Entity must pay the reasonable attorneys' fees and costs to the Exculpated Party. Moreover, as a condition to going forward with such action, suit, or proceeding, the Holder of a Claim or Interest or other Entity must, at the outset, provide appropriate proof and assurances of its capacity to pay the Exculpated Party's reasonable attorneys' fees and costs in the event the Holder or other Entity fails to prevail. The Exculpated Party shall have no obligation to pay, or provide appropriate proof and financial assurance of its capacity to pay, reasonable attorneys' fees and costs in the event that the Holder of a Claim or Interest or other Entity prevails in an such action suit or proceeding against such Exculpated Party.

The Plan does not protect the Exculpated Parties from liability for any conduct in violation of the Environmental Obligations. Any such liability shall be determined under non-bankruptcy law in an appropriate forum.

10.4. No Liability for Solicitation or Participation. None of the MRC/Marathon Plan Proponents, the Reorganized Entities, the Administrative Agent and the lenders under the Term Loan Agreement, dated as of July 18, 2006, the Administrative Agent and the lenders under the Revolving Credit Agreement, dated as of July 18, 2006, and the Administrative Agent and lenders under the Debtor-In-Possession Revolving Credit Agreement dated as of August 6, 2007, nor any of their respective current members, partners, officers, directors, employees, affiliates, agents and advisors (including any attorneys, financial advisors, investment bankers, accountants and other professionals retained by such Persons) shall have or incur any liability to any Holder of any Claim or Interest for any act or omission in connection with, or arising out of the Plan, the Reorganization Cases, the Disclosure Statement, the Palco DIP Loan, the Exit Financing, any agreements relating to the foregoing or with respect to the transactions contemplated hereunder or thereunder, the solicitation of votes for and the pursuit of the Plan, the consummation of the Plan or the administration of the Plan or the property to be distributed under the Plan, including, without limitation, all documents ancillary thereto, all decisions, actions, inactions and alleged negligence or misconduct relating thereto and all pre-petition activities leading to the promulgation and Confirmation of the Plan, except willful misconduct or gross negligence as determined by a Final Order of the Bankruptcy Court. The foregoing parties shall be entitled to rely upon the advice of counsel with respect to their duties and responsibilities under the Plan.

10.5. No Successor Liability. Except as otherwise expressly provided herein, none of the Released Parties shall be determined to be successors to any of the Debtors or to any Entity for which the Debtors or the Reorganized Entities may be held legally responsible, by reason of any theory of law or equity, and none can be responsible for any successor or transferee liability of any kind or character. The Released Parties do not agree to perform, pay, or indemnify creditors or otherwise have any responsibilities for any liabilities or obligations of the Debtors or the Reorganized Entities, whether arising before, on, or after the Confirmation Date, except as otherwise expressly provided in this Plan.

10.6. Release of Liens. Except as otherwise expressly provided in this Plan or in any contract, instrument, indenture or other agreement or document expressly incorporated by reference in this Plan, the

Confirmation Order shall release any and all Liens; *provided, however*, that this provision shall not prevent Liens from attaching to the Reorganized Entities' Assets as provided for by this Plan, the Exit Financing or otherwise.

10.7. Term of Injunctions. All injunctions or stays provided in, or in connection with, the Reorganization Cases, whether pursuant to section 105 of the Bankruptcy Code, section 362 of the Bankruptcy Code, or any other provision of the Bankruptcy Code, other applicable law or court order, in effect immediately prior to Confirmation shall remain in full force and effect until such injunctions become effective and shall remain in full force and effect thereafter if so provided in this Plan, the Confirmation Order or by their own terms. In addition, on and after Confirmation Date, the Plan Proponents may seek further orders to preserve the status quo during the time between the Confirmation Date and the Effective Date.

10.8. Binding Effect. This Plan shall be binding upon, and inure to the benefit of, the estates of the Debtors, the MRC/Marathon Plan Proponents, the Reorganized Entities and all Holders of Claims and Interests, and their respective successors and assigns, whether or not the Claims and Interests of such Holders are impaired under this Plan, whether or not such Holders have accepted this Plan and whether or not the treatment of such Holders Claims and Interests under this Plan provides for any Distribution to such Holder.

10.9. Dissolution of the Committee. The Committee shall be dissolved on the Effective Date and shall not continue to exist thereafter except for the limited purposes of filing any remaining applications for reimbursement of reasonable fees and expenses of Committee Professionals and Committee members, and the Professionals retained by the Committee shall be entitled to reasonable compensation for services performed and reimbursement of reasonable expenses incurred in connection therewith. Upon dissolution of the Committee, the members of the Committee shall be released and discharged of and from all duties, responsibilities and obligations related to and arising from and in connection with the Reorganization Cases.

10.10. Retention of Professionals after the Effective Date. After the Effective Date, no Professional employed pursuant to sections 327 through 331 of the Bankruptcy Code shall be entitled to any compensation without the express written permission of the MRC/Marathon Plan Proponents and the Reorganized Entities. Upon the Effective Date, the retention of all such Professionals shall be terminated automatically without further Order of the Bankruptcy Court, except for the limited purposes of filing any remaining applications for reimbursement of reasonable fees and expenses. The Reorganized Entities, as the case may be, shall be authorized to employ and compensate professionals in the ordinary course of business and without the need for Bankruptcy Court approval.

XI. EFFECTIVENESS OF THE PLAN

11.1. Conditions Precedent. This Plan shall not become effective unless and until the following conditions have been satisfied:

11.1.1. Conditions to Confirmation.

11.1.1.1. Disclosure Statement. The Bankruptcy Court shall have approved a Disclosure Statement with respect to this Plan as containing adequate information within the meaning of section 1125 of the Bankruptcy Code.

11.1.1.2. Plan Supplement. The Plan Documents to be provided in the Plan Supplement are in a form that is satisfactory to the MRC/Marathon Plan Proponents.

11.1.2. Conditions to Effective Date.

11.1.2.1. Confirmation Order. At least ten days shall have passed after the Bankruptcy Court shall have entered the Confirmation Order in form and substance acceptable to the MRC/Marathon Plan Proponents.

11.1.2.2. No Stay of Confirmation. There shall not be in force any order, decree or ruling of any court or governmental body having jurisdiction, restraining, enjoining or staying the consummation of, or rendering illegal the transactions contemplated by, this Plan.

11.1.2.3. Receipt of Required Authorization. All authorizations, consents and regulatory approvals necessary to effectuate this Plan shall have been obtained.

11.1.2.4. Required Transactions. All transactions required by this Plan have been completed to the satisfaction of the MRC/Marathon Plan Proponents.

11.2. Waiver of Conditions. The conditions to confirmation set forth in Section 11.1.1 above and the conditions to the Effective Date set forth in Section 11.1.2 above may be waived in whole or part by written agreement of both MRC and Marathon, each in its sole discretion, at any time without an order of the Bankruptcy Court.

11.3. Effect of Failure of Conditions. In the event that the conditions specified in Article 11.1. have not been satisfied or duly waived in accordance with Section 11.2 above on or before 60 days after the Confirmation Date, then without an order of the Bankruptcy Court: (a) this Plan shall be null and void in all respects; (b) any settlement of Claims or Interests provided for hereby shall be null and void without further order of the Bankruptcy Court; and (c) the time within which the Debtors may assume and assign or reject all executory contracts and unexpired leases shall be extended for a period of sixty (60) days after such date; *provided, however,* that such 60 day period may be extended by written agreement of both MRC and Marathon, each in its sole discretion, at any time prior to the end of such period without an order of the Bankruptcy Court.

XII. RETENTION OF JURISDICTION

12.1. Bankruptcy Court. Pursuant to sections 105(c) and 1142 of the Bankruptcy Code and notwithstanding entry of the Confirmation Order and the occurrence of the Effective Date, the Bankruptcy Court shall retain such jurisdiction over all matters arising out of, and related to, the Reorganization Cases and this Plan to the fullest extent permitted by law, including, among other things, jurisdiction to:

12.1.1. allow, disallow, determine, liquidate, classify, estimate or establish the priority or secured or unsecured status of any Claim or Interest, including, without limitation, the resolution of any request for payment of any Administrative Expense Claim or Priority Tax Claim and the resolution of any objections to the allowance or priority of Claims or Interests;

12.1.2. hear and rule upon all Causes of Action retained by the Reorganized Entities and the Litigation Trust and commenced and/or pursued by the Debtors, the Reorganized Entities or the Litigation Trust, as the case may be, provided that such Causes of Action are properly before the Bankruptcy Court;

12.1.3. resolve any matters related to the rejection, assumption or assumption and assignment of any executory contract or unexpired lease to which any Debtor is a party or with respect to which the Debtors may be liable and to hear, determine, and, if necessary, liquidate any Claims arising therefrom;

12.1.4. ensure that Distributions on Allowed Claims are accomplished pursuant to the provisions of this Plan;

12.1.5. decide or resolve any motions, adversary proceedings, contested or litigated matters and any other matters and grant or deny any applications involving the Debtors that may be pending on the Effective Date;

12.1.6. enter such orders as may be necessary or appropriate to implement or consummate the provisions of this Plan and all contracts, instruments, releases and other agreements or documents created in connection with this Plan, the Disclosure Statement or the Confirmation Order;

12.1.7. resolve any cases, controversies, suits or disputes that may arise in connection with the consummation, interpretation, or enforcement of this Plan or any contract, instrument, release or other agreement or document that is executed or created pursuant to this Plan, or any entity's rights arising from or obligations incurred in connection with this Plan or such documents;

12.1.8. approve any modification of this Plan before or after the Effective Date pursuant to section 1127 of the Bankruptcy Code or approve any modification of the Disclosure Statement, the Confirmation Order or any contract, instrument, release or other agreement or document created in connection with this Plan, the Disclosure Statement or the Confirmation Order, or remedy any defect or omission or reconcile any inconsistency in any Bankruptcy Court order, this Plan, the Disclosure Statement, the Confirmation Order or any contract, instrument, release or other agreement or document created in connection with this Plan, the Disclosure Statement or the Confirmation Order, in such manner as may be necessary or appropriate to consummate this Plan;

12.1.9. hear and determine all applications for compensation and reimbursement of expenses of Professionals under this Plan or under sections 330, 331, 363, 503(b), 1103 and 1129(a)(9) of the Bankruptcy Code, which shall be payable by the Debtors only upon allowance thereof pursuant to the order of the Bankruptcy Court;

12.1.10. issue injunctions, enter and implement other orders, or take such other actions as may be necessary or appropriate to restrain interference by any Entity with consummation of this Plan, implementation or enforcement of this Plan or the Confirmation Order, including designating one or more Persons under Fed. R. Bankr. P. 7070 and F. R. Civ. P. 70;

12.1.11. hear and determine matters concerning state, local and federal taxes in accordance with sections 346, 505 and 1146 of the Bankruptcy Code;

12.1.12. enter and implement such orders as are necessary or appropriate if the Confirmation Order is for any reason or in any respect modified, stayed, reversed, revoked or vacated, or if Distributions pursuant to this Plan are enjoined or stayed;

12.1.13. determine any other matters that may arise in connection with or relate to this Plan, the Disclosure Statement, the Confirmation Order or any contract, instrument, release, or other agreement, or document created in connection with this Plan, the Disclosure Statement or the Confirmation Order;

12.1.14. enforce all orders, judgments, injunctions, releases, exculpations, indemnifications and rulings entered in connection with the Reorganization Cases;

12.1.15. hear and determine all matters related to (i) the property of the Debtors and the Estates from and after the Confirmation Date and (ii) the activities of the Debtors, Newco or Townco; and

12.1.16. hear and determine such other matters as may be provided in the Confirmation Order or as may be authorized under the Bankruptcy Code.

12.2. Alternative Jurisdiction. In the event that the Bankruptcy Court is found to lack jurisdiction to resolve any matter, then such matter may be brought before any court having jurisdiction with regard thereto; *provided, however,* that any party that has filed a Claim or votes to accept this Plan consents to the jurisdiction of the United States District Court for the Southern District of Texas, Corpus Christi Division and to venue in Nueces County, Texas, regardless of whether the Class of which such party is a member votes to accept this Plan.

XIII. MISCELLANEOUS PROVISIONS

13.1. Plan Supplement. No later than ten (10) days prior to the Voting Deadline, the MRC/Marathon Plan Proponents shall file with the Bankruptcy Court in the Plan Supplement such agreements and other documents as may be necessary or appropriate to effectuate and further evidence the terms and conditions of this Plan. Holders

of Claims or Interests may obtain a copy of the Plan Supplement upon written request to the MRC/Marathon Plan Proponents' counsel and such request may be fulfilled by providing an electronic copy of the Plan Supplement by electronic mail or otherwise.

13.2. Authorization of Effectuating Documents and Further Transactions. The Debtors' officers are authorized in accordance with their authority under the applicable governing documents and under the supervision of the MRC/Marathon Plan Proponents, the Reorganized Entities or any of such entities' board of directors or board of managers, as the case may be, to execute, deliver, file, or record such contracts, instruments, releases, indentures and other agreements or documents, and to take such actions as may be necessary or appropriate, to effectuate and further evidence the terms and conditions of this Plan and the debt and equity securities issued pursuant to this Plan.

13.3. Exemption from Transfer Taxes. Pursuant to section 1146(a) of the Bankruptcy Code, the issuance, transfer, or exchange of notes or equity securities under this Plan, the creation of any mortgage, deed of trust, Lien, pledge or other security interest, the making or assignment of any lease or sublease, or the making or delivery of any deed or other instrument of transfer under, in furtherance of, or in connection with this Plan, shall not be subject to any stamp, real estate transfer, mortgage recording, or other similar tax.

13.4. Exemption for Registration Requirements. Pursuant to section 1145 of the Bankruptcy Code, the offering, issuance and Distribution of any securities contemplated by this Plan shall be exempt from, among other things, the registration requirements of Section 5 of the Securities Act and any state or local law requiring registration prior to the offering, issuance, distribution or sale of securities. In addition, any securities contemplated by this Plan shall be tradable by the recipients thereof, subject to (i) the provisions of section 1145(b)(1) of the Bankruptcy Code; and (ii) the restrictions, if any, on the transferability of such securities and instruments.

13.5. Statutory Fees. All fees payable pursuant to section 1930 of title 28 of the United States Code, as determined by the Bankruptcy Court at the Confirmation Hearing, shall be paid by the Debtors on or before the Effective Date, and thereafter by the Litigation Trustee in accordance with the Litigation Trust Agreement.

13.6. Third Party Agreements. The Distributions to the various Classes of Claims and Interests hereunder shall not affect the right of any Person to levy, garnish, attach, or employ any other legal process with respect to such Distributions by reason of any claimed subordination rights or otherwise. All of such rights and any agreements relating thereto shall remain in full force and effect, except as compromised and settled pursuant to this Plan. Distributions shall be subject to and modified by any Final Order directing distributions other than as provided in this Plan.

13.7. Amendment or Modification of Plan. As provided in section 1127 of the Bankruptcy Code, modification of this Plan may be proposed in writing by the MRC/Marathon Plan Proponents at any time before Confirmation, provided that this Plan, as modified, meets the requirements of sections 1122 and 1123 of the Bankruptcy Code, and the MRC/Marathon Plan Proponents shall have complied with section 1125 of the Bankruptcy Code. As a result of any such modification, the Committee may, in its sole discretion, withdraw as a Plan Proponent. Either the MRC/Marathon Plan Proponents or Newco may modify this Plan at any time after Confirmation and before consummation of this Plan, provided that this Plan, as modified, meets the requirements of sections 1122 and 1123 of the Bankruptcy Code and the Bankruptcy Court, after notice and a hearing, confirms this Plan as modified, under section 1129 of the Bankruptcy Code, and the circumstances warrant such modifications. As a result of any such modification, the Committee may, in its sole discretion, withdraw as a Plan Proponent. A Holder of a Claim that has accepted this Plan shall be deemed to have accepted such Plan as modified if the proposed alteration, amendment or modification does not materially and adversely change the treatment of the Claim or Interest of such Holder.

13.8. Severability. In the event that the Bankruptcy Court determines, prior to the Confirmation Date, that any provision in this Plan is invalid, void or unenforceable, MRC/Marathon Plan Proponents may, at its option, (a) treat such provision as invalid, void or unenforceable with respect to the Holder or Holders of such Claims or Interests that the provision is determined to be invalid, void or unenforceable, in which case such provision shall in no way limit or affect the enforceability and operative effect of any other provision of this Plan, or (b) alter, amend, revoke, or withdraw this Plan.

13.9. Revocation or Withdrawal of Plan. The MRC/Marathon Plan Proponents reserve the right to revoke and withdraw this Plan or to adjourn the Confirmation Hearing at any time prior to the occurrence of the Effective Date. If the MRC/Marathon Plan Proponents revoke or withdraw this Plan, or if Confirmation or consummation does not occur, then (i) this Plan shall be null and void in all respects, (ii) any settlement or compromise embodied in this Plan, assumption or rejection of executory contracts or unexpired leases under this Plan, and any document or agreement executed pursuant to this Plan, shall be deemed null and void, and (iii) nothing contained in this Plan shall (A) constitute a waiver or release of any Claims by or against, or Interests in, such Debtors or any other Person, (B) prejudice in any manner the rights of such Debtors or any other Person, or (C) constitute an admission of any sort by the Debtors or any other Person.

For the avoidance of doubt, if the Confirmation Hearing is adjourned, the MRC/Marathon Plan Proponents reserve the right to amend, modify, revoke or withdraw this Plan and/or submit any new plan of reorganization at such times and in such manner as they consider appropriate, subject to the provisions of the Bankruptcy Code.

13.10. Rules Governing Conflicts Between Documents. In the event of a conflict between the terms or provisions of this Plan and the Plan Documents, the terms of this Plan shall control over the Plan Documents. In the event of a conflict between the terms of this Plan or the Plan Documents, on the one hand, and the terms of the Confirmation Order, on the other hand, the terms of the Confirmation Order shall control. In the event of a conflict between the information contained in the Disclosure Statement and this Plan or any other Plan Document, this Plan or other Plan Document (as the case may be) shall control.

13.11. Governing Law. Except to the extent that federal law (including, but not limited to, the Bankruptcy Code and the Bankruptcy Rules) is applicable or this Plan provides otherwise, the rights and obligations arising under this Plan shall be governed by, and construed and enforced in accordance with, the laws of the State of New York without giving effect to its conflicts of law principles.

13.12. Notices. Any notice required or permitted to be provided under this Plan shall be in writing and served by either (a) certified mail, return receipt requested, postage prepaid, (b) hand delivery, or (c) reputable overnight delivery service, freight prepaid. If to the Plan Proponents and the Reorganized Entities, any such notice shall be directed to the following at the addresses set forth below:

Mendocino Redwood Company, LLC
1360 19th Hole Drive, Suite 200
Windsor, CA 95492
Attention: Richard Higgenbottom, Chief Executive Officer
E-mail: *rhiggenbottom@mendoco.com*
Telecopy: (707) 485-7918

with a copy to:

Sansome Partners, LLC
One Maritime Plaza, 14th Floor
San Francisco, California 94111
Attention: Alexander L. Dean
Email: *sandy@sansome.com*
Telecopy: (415) 288-0549

and

Goodwin Procter LLP
599 Lexington Avenue
New York, NY 10022
Attention: Allan S. Brilliant, Esq.
Craig P. Druehl, Esq.
E-mail: *abrilliant@goodwinprocter.com*
cdruehl@goodwinprocter.com
Telecopy: (212) 355-3333

and

Perkins Coie LLP
131 South Dearborn Street, Suite 1700
Chicago, IL 60603-5559
Attention: Kenneth M. Crane, Esq.
Peter G. Lawrence, Esq.
E-mail: *KCrane@perkinscoie.com*
PLawrence@perkinscoie.com
Telecopy: (312) 324-9400

and

Marathon Structured Finance Fund L.P.
461 Fifth Avenue 14th Floor
New York, NY 10017
Attention: Christine Chartouni, Esq.
E-mail: *cchartouni@marathonfund.com*
Telecopy: (212) 381-4495

with a copy to:

Winston & Strawn LLP
200 Park Avenue
New York, NY 10166
Attention: David Neier, Esq.
Carey D. Schreiber, Esq.
E-mail: *dneier@winston.com*
cschreiber@winston.com
Telecopy: (212) 294-4700

and

Official Committee of Unsecured Creditors
c/o Pachulski Stang Ziehl & Jones LLP
150 California Street, 15th Floor
San Francisco, California 94111-4500
Attention: John D. Fiero, Esq.
Maxim B. Litvak, Esq.
E-mail: *jfiero@pszjlaw.com*
mlitvak@pszjlaw.com
Telecopy: (415) 263-7010

13.13. Interest and Attorneys' Fees. Interest accrued after the Petition Date shall accrue and be paid on Claims only to the extent specifically provided for in this Plan, the Confirmation Order or as otherwise required by the Bankruptcy Court or by applicable law. No award or reimbursement of attorneys' fees or related expenses or disbursements shall be allowed on, or in connection with, any Claim, except as set forth in this Plan or as ordered by the Bankruptcy Court.

13.14. Binding Effect. This Plan shall be binding upon the Debtors, the Reorganized Entities, the Holders of all Claims and Interests, parties in interest, Persons, Entities and Governmental Units and their respective successors and assigns. To the extent any provision of the Disclosure Statement or any other solicitation document may be inconsistent with the terms of this Plan, the terms of this Plan shall be binding and conclusive.

13.15. No Admissions. As to contested matters, adversary proceedings and other Causes of Action or threatened Causes of Actions, nothing in this Plan, the Disclosure Statement or other Plan Documents shall constitute or be construed as an admission by any Person of any fact or liability, stipulation, or waiver, but rather as a statement made in settlement negotiations. This Plan shall not be construed to be conclusive advice on the tax, securities, and other legal effects of this Plan as to Holders of Claims against, or Interests in, the Debtors or any of their subsidiaries and affiliates, as debtors and debtors-in-possession in these Reorganization Cases.

13.16. Appendices, Exhibits and Schedules. All Appendices, Exhibits and Schedules to this Plan are incorporated into and are a part of this Plan as if set forth in full herein.

[SIGNATURE PAGE FOLLOWS]

The undersigned have executed this First Amended Joint Plan of Reorganization, as Modified, as of the 1st day of May, 2008.

Respectfully submitted,

<p>Mendocino Redwood Company, LLC, as Plan Proponent</p> <p>By: <u> /s/ Alexander L. Dean, Jr. </u> Name: Alexander L. Dean, Jr. Title: Chairman, Board of Directors</p>	<p>Marathon Structured Finance Fund L.P., as Plan Proponent</p> <p>By: <u> /s/ Louis Hanover </u> Name: Louis Hanover Title: CIO</p>
<p>Official Committee of Unsecured Creditors, as Plan Proponent</p> <p>By: Pacific Coast Trading, Chair of the Official Committee of Unsecured Creditors</p> <p>By: <u> /s/ Miles T. Crail </u> Name: Miles T. Crail Title: Authorized Representative</p>	

APPENDIX A TO MRC/MARATHON FIRST AMENDED PLAN, AS MODIFIED
UNIFORM GLOSSARY OF DEFINED TERMS FOR PLAN DOCUMENTS

APPENDIX A TO MRC/MARATHON FIRST AMENDED PLAN, AS MODIFIED

Uniform Glossary of Defined Terms for Plan Documents

Unless the context otherwise requires, the following terms, when used in initially capitalized form in the Disclosure Statement, related exhibits, and Plan Documents, shall have the following meanings. Such meanings shall be equally applicable to both the singular and plural forms of such terms. Any term used in capitalized form that is not defined herein but that is defined in the Bankruptcy Code or the Bankruptcy Rules shall have the meaning ascribed to such term by the Bankruptcy Code or the Bankruptcy Rules (with the Bankruptcy Code controlling in the event of a conflict or ambiguity). Certain defined terms used in only one Section of the Disclosure Statement are defined in such Section. The rules of construction set forth herein and in section 102 of the Bankruptcy Code shall apply. All references to the "Plan" shall be construed, where applicable, to include references to the Plan and all its exhibits, appendices, schedules, supplements and annexes (and any amendments made in accordance with their terms or applicable law).

A-1 Timber Notes means Scopac's 6.55% Series B Class A-1 Timber Collateralized Notes due 2028, with an original principal amount of \$160.7 million.

A-2 Timber Notes means Scopac's 7.11 % Series B Class A-2 Timber Collateralized Notes due 2028, with an original principal amount of \$243.2 million.

A-3 Timber Notes means Scopac's 7.71 % Series B Class A-3 Timber Collateralized Notes due 2028, with an original principal amount of \$463.3 million.

Administrative Expense means (a) any cost or expense of administration of the Reorganization Cases incurred before the Effective Date and allowable under section 503(b) of the Bankruptcy Code (including without limitation (x) claims arising under section 503(b)(9) of the Bankruptcy Code and (y) claims asserted by members of the Committee for reimbursement of actual, necessary expenses pursuant to section 503(b)(3)(F) of the Bankruptcy Code which Committee members are permitted to assert) and entitled to priority under section 507(a)(2) of the Bankruptcy Code including, without limitation, (i) any actual and necessary post-petition cost or expense of preserving the Estates or operating the businesses of the Debtors, (ii) any payment required to cure a default on an Assumed Contract, (iii) any post-petition cost, indebtedness, or contractual obligation duly and validly incurred or assumed by a Debtor in the ordinary course of its business, and (iv) compensation or reimbursement of expenses of professionals to the extent allowed by the Bankruptcy Court under sections 330(a) or 331 of the Bankruptcy Code and (b) any fee or charge assessed against the Estates under 28 U.S.C. § 1930.

Administrative Expense Claim means any Claim for the payment of an Administrative Expense.

Administrative Expense Claims Bar Date means the thirtieth day after the Effective Date or such other date as may be fixed by order of the Bankruptcy Court.

Affiliate has the meaning set forth in section 101(2) of the Bankruptcy Code.

Allowed means Bankruptcy Court approval of a Claim or Interest.

Allowed Amount of any Claim or Interest means the amount at which that Claim or Interest is Allowed.

Allowed Claim; Allowed Interest means any Claim or Interest in any of the Debtors or their respective Estates, (i) proof of which was filed on or before the Bar Date (defined below), (ii) if no such proof of Claim or Interest has been timely filed, which has been or hereafter is listed by such Debtor in its Schedules as liquidated in amount and not disputed or contingent or (iii) any Interest registered in the stock or membership register, as the case may be, maintained by or on behalf of the Debtor as of the Record Date, in each such case in clauses (i), (ii) and (iii) above, a Claim or Interest as to which no objection to the allowance thereof, or action to equitably subordinate or otherwise seek recovery from the Holder of the Claim or Interest, has been interposed within the applicable period of

limitation fixed by the Plan, the Bankruptcy Code, the Bankruptcy Rules, or a Final Order, or as to which an objection has been interposed and such Claim has been allowed in whole or in part by a Final Order.

Assets means all property in which a Debtor holds a legal or equitable interest, including all property described in 11 U.S.C. § 541 and all property disclosed in such Debtor's respective Schedules and the Disclosure Statement.

Assumed Contracts means, collectively, an executory contract or unexpired lease that is subject to assumption or rejection under section 365 of the Bankruptcy Code that is identified in the Plan Supplement and which either of the Reorganized Entities intends to assume pursuant to the Plan.

Avoidance Actions means any claim or Cause of Action or right under chapter 5 of the Bankruptcy Code, including all fraudulent-conveyance and fraudulent-transfer laws, all non-bankruptcy laws vesting in creditors' rights to avoid, rescind or recover on account of transfers, all preference laws, the Uniform Fraudulent Transfer Act, state laws of similar import and the proceeds thereof.

Ballot means each of the ballot forms for voting to accept or reject the Plan distributed to all Holders of Impaired Claims entitled to vote on the Plan.

Balloting and Claims Agent means Logan & Company, Inc.

Bank of America means Bank of America, N.A., as lender and as agent for itself and any other lender parties to the Scopac Loan Agreement.

Bankruptcy Code means title 11 of the United States Code, 11 U.S.C. §§ 101, *et seq.*, as in effect on the Petition Date, together with all amendments and modifications thereto subsequently made, to the extent applicable to the Reorganization Cases.

Bankruptcy Court means the United States Bankruptcy Court for the Southern District of Texas, Corpus Christi Division, or such other court having jurisdiction over the Reorganization Cases.

Bankruptcy Rules means the Federal Rules of Bankruptcy Procedure and the local rules and general orders of the Bankruptcy Court, as in effect on the Petition Date, together with all amendments and modifications thereto subsequently made applicable to the Reorganization Cases.

BAPCPA means the Bankruptcy Abuse Prevention and Consumer Protection Act of 2005, Pub.L. 109-8, 119 Stat. 51 (2005).

Bar Date means the date(s) by which any Entity asserting certain Claims against the Debtors must have filed a Proof of Claim or be forever barred from asserting such Claims against the Debtors or their Estates, as established by any order(s) of the Bankruptcy Court or the Plan.

Bar Date Order means the order entered by the Bankruptcy Court establishing July 17, 2007 as the general Bar Date and August 17, 2007 as the Bar Date applicable to Governmental Units, and any subsequent order by the Bankruptcy Court amending, revising, rescinding or superseding the same, including but not limited to the Supplemental Bar Date Order.

Britt means Britt Lumber Co., Inc., a wholly owned subsidiary of Palco.

Business Day means any day other than a Saturday, Sunday, or legal holiday (as such term is defined in Bankruptcy Rule 9006(a)).

California Permits means the Permits issued by California pursuant to the HCP.

Cash means cash, cash equivalents, and other readily marketable securities or instruments, including, without limitation, direct obligations of the United States and certificates of deposit issued by federally insured banks.

Causes of Action means all causes of action, rights, claims, and demands against any Persons that the Debtors or their Estates own or have an interest in or can assert in any fashion, or which could be asserted by the Debtors on behalf of any Creditor or Creditor representative under the Bankruptcy Code as Debtors in Possession, including but not limited to actions under 11 U.S.C. § 510 to subordinate Claims.

CDF means the California Department of Forestry and Fire Protection.

CDF Harvest Limit means the applicable annual harvest limit established by the CDF for each watershed.

Claim has the meaning set forth in section 101(5) of the Bankruptcy Code, against any Debtor or any Estate whether or not asserted.

Claimant means the Holder of a Claim.

Class means a category of Holders of Claims or Interests, as set forth in Articles III of the Plan pursuant to section 1122 of the Bankruptcy Code.

Class 6 Distribution Adjustment means a reduction dollar for dollar by the amount determined by the following equation: (a) the sum of (i) the Allowed Scopac Loan Claim and (ii) any postpetition financing provided to Scopac and (iii) any other Secured Claim required to be paid by Scopac, in excess of the outstanding balance as of the Effective Date in the SAR Account; plus (b) the sum of accrued but unpaid Scopac Administrative Expense Claims in excess of \$5,000,000, as such claims may be estimated as of the Effective Date; minus (c) any accrued but unpaid receivables arising after the Petition Date owed from Palco to Scopac net of any accrued but unpaid receivables owed from Scopac to Palco as of the Effective Date.

Collateral means any property or interest in property of an Estate that is subject to a Lien to secure the payment or performance of a Claim, which Lien is not subject to avoidance or otherwise invalid under the Bankruptcy Code or applicable state law.

Committee means the Official Committee of Unsecured Creditors for the Debtors appointed by the U.S. Trustee on January 25, 2007, as presently constituted.

Confirmation, Confirmation of the Plan, or Plan Confirmation means the approval of the Plan by the Bankruptcy Court at the Confirmation Hearing.

Confirmation Date means the date on which the Confirmation Order is entered on the docket of the Bankruptcy Court.

Confirmation Hearing means the hearing held by the Bankruptcy Court pursuant to section 1128 of the Bankruptcy Code to consider Confirmation of the Plan, as such hearing may be adjourned or continued from time to time.

Confirmation Order means the order of the Bankruptcy Court confirming the Plan pursuant to section 1129 and other applicable sections of the Bankruptcy Code.

Creditor means any Person or Entity holding a Claim against a Debtor's Estate or pursuant to section 102(5) of the Bankruptcy Code against property of the Debtor that arose or is deemed to have arisen on or prior to the Petition Date.

Debtor means any of the Palco Debtors or Scopac.

Debtors means the Palco Debtors and Scopac.

Deficiency Claim means a Claim of a Claimant that asserts a Secured Claim against one or more of the Debtors equal to the amount by which such Claim exceeds the Allowed Secured Claim.

DIP Order means the Bankruptcy Court's order dated July 31, 2007 authorizing the Palco Debtors to enter into the Palco DIP Facility.

Disclosure Statement means the Joint Disclosure Statement in Support of the Respective Plans of Reorganization Proposed by (1) Mendocino Redwood Company, LLC and Marathon Structured Finance Fund L.P.; (2) The Bank of New York Trust Company, N.A., Indenture Trustee for the Timber Notes; and (3) the Debtors and Maxxam Inc., Maxxam Group Holdings Inc., and Maxxam Group Inc., dated February 29, 2008, including all exhibits attached thereto or referenced therein, as submitted pursuant to section 1125 of the Bankruptcy Code and approved by the Bankruptcy Court, as such Joint Disclosure Statement may be further amended, supplemented, or modified from time to time.

Disputed Claim means a Claim that is not an Allowed Claim, including a Claim that is, in whole or in part: (a) listed on the Schedules as, or proof of which is filed as, unliquidated, disputed or contingent; (b) as to which a Proof of Claim designating such Claim as liquidated in amount and not contingent was not timely and properly filed; (c) as to which a Debtor, Reorganized Entity, or other party in interest has filed a timely objection or request for estimation in accordance with the Bankruptcy Code and Bankruptcy Rules; or (d) is otherwise disputed by a Debtor, a Reorganized Entity or other party in interest in accordance with applicable law, which objection, request for estimation or dispute has not been withdrawn or determined by a Final Order.

Distribution means any distribution by the Debtors, the Reorganized Entities or the Litigation Trust to the Holders of Allowed Claims pursuant to the Plan.

Distribution Date, when used with respect to each Claim and Interest, means as soon as practicable after the later of (a) the Effective Date, (b) the date a Claim becomes payable pursuant to any agreement between the Debtors (or, upon the occurrence of the Effective Date, the Reorganized Entities, as the case may be), or (c) solely with respect to Disputed Claims and Disputed Interests as of the Effective Date, no later than 30 days after the date upon which the Claim or Interest becomes an Allowed Claim or Allowed Interest.

Effective Date means the date specified by the Plan Proponents in a notice filed with the Bankruptcy Court as the date on which this Plan shall take effect, and which occurs after (i) the Confirmation Order becomes a Final Order; and (ii) each of the conditions precedent to the Effective Date provided for in Article XI of the Plan have been satisfied or waived.

Entity has the meaning set forth in section 101(15) of the Bankruptcy Code.

Environmental Obligations means, with respect to any Debtor or Reorganized Entity such entity or entities' obligations to Governmental Units to comply, complete, perform, satisfy and/or provide for satisfaction of pre-petition, current, ongoing, executory and/or future regulatory or statutory obligations, including, without limitation, (i) approved THPs, WWDRs, Cleanup and Abatement Orders, Streambed Alteration Agreements, and related permits or authorizations, and may include for example, requirements for completion or correction, monitoring and reporting, winterization, drainage improvement, restoration, inspection, study; (ii) the California State and federal ITPs, which include the HCP, and the associated Implementation Agreement (the "IA"), and the Agreement Relating to Enforcement of AB 1986; (iii) consistency determinations under the California Endangered Species Act that are based upon the federal ITPs, including the HCP and the IA; and (iv) those obligations described in the Claims filed by the California Resources Agency, the California Department of Forestry and Fire Protection, the California Department of Fish and Game, the California Wildlife Conservation Board, the California State Water Resources Board, the California Regional Water Quality Control Board, North Coast Region, the U.S. Fish and Wildlife Services, the U.S. Department of the Interior, the National Marine Fisheries Service, and the U.S. Department of Commerce.

Environmental Plans means the HCP.

EPA means the Federal Environmental Protection Agency.

Equity Interests or **Interests** means the rights of the Holders of the equity securities of a Debtor.

Estate means the legal entity administering the property of a Debtor, in its capacity as a debtor in possession, between the Petition Date and the Effective Date, created pursuant to section 541 of the Bankruptcy Code.

Exculpated Parties means (i) the Plan Proponents and their respective officers, directors, professionals, members, agents and employees, (ii) the Reorganized Entities and their respective officers, directors, professionals, members, agents and employees, and (iii) the Committee, its members and Professionals.

Exit Financing means the proposed financing discussed in Section 7.8 of the Plan.

Final Order means an order of a court: (a) as to which the time to appeal, petition for writ of certiorari, or otherwise seek appellate review or to move for reargument, rehearing, reconsideration or stay has expired and as to which no appeal, petition for writ of certiorari, or other appellate review, or proceedings for reargument, rehearing, reconsideration or stay shall then be pending; or (b) as to which any right to appeal, petition for certiorari, or move for reargument, rehearing or stay shall have been waived in writing by all parties with such right; or (c) in the event that an appeal, writ of certiorari, or other appellate review or reargument, rehearing, reconsideration or stay thereof has been sought, which order shall have been affirmed by the highest court to which such order was appealed or from which writ of certiorari or other appellate review or reargument, rehearing, reconsideration or stay was sought, and as to which the time to take any further appeal, to petition for writ of certiorari, to otherwise seek appellate review, and to move for reargument, rehearing, reconsideration or stay shall have expired; *provided, however*, that the possibility that a motion under Rule 59 or Rule 60 of the Federal Rules of Civil Procedure or under section 1144 of the Bankruptcy Code, or any analogous rule under the Bankruptcy Rules, may be filed with respect to such order shall not cause such order not to be a Final Order.

Funding Amount means that certain \$500,000 to be loaned or caused to be loaned by Newco to the Litigation Trust on the Effective Date which amount shall be used by the Litigation Trustee pending the receipt by the Litigation Trust of recoveries on account of the Litigation Trust Assets solely for the purposes (i) of investigating and prosecuting the Litigation Trust Assets, (ii) paying Statutory Fees as set forth in Section 13.5 of the Plan, and (iii) paying the costs and expenses of the Litigation Trust. Interest shall accrue on the outstanding principal balance of the Funding Amount at the rate of seven and one-half percent per annum (7.5%) until the Funding Amount (together with all accrued interest) has been repaid in full in accordance with the Plan. The term of such loan shall be until the termination of the Litigation Trust in accordance with the Plan.

General Unsecured Claim means a Claim against a Debtor that is not a Secured Claim, an Administrative Expense Claim, a Trade Claim, a Priority Tax Claim, an Other Priority Claim, a Non-Debtor Affiliate Claim or a Professional Compensation Claim (but shall not include Claims that are disallowed or released, whether by operation of law or pursuant to order of the Bankruptcy Court, written release or settlement, the provisions of the Plan or otherwise), which Claims are classified in Classes 7, 8 and 9 and treated under Article IV of the Plan; *provided, however*, that the term "General Unsecured Claim" shall not include (i) the Palco DIP Loan Claim, and (ii) the Palco Term Loan Claim.

Governmental Unit has the meaning ascribed to such term in section 101(27) of the Bankruptcy Code.

HCP means the Habitat Conservation Plan for the Properties of Pacific Lumber, Scotia Pacific, and Salmon Creek Corporation, dated February, 1999 approved in March 1999 in connection with consummation of the Headwaters Agreement, which covers multiple species and encompasses substantially all of the Timberlands.

Headwaters Agreement means the agreement among Palco, Scopac, Salmon Creek, the United States, and California pursuant to which the those companies transferred to the United States government 5,600 acres of timberlands in exchange for \$300 million, approximately 7,700 acres of timberlands, and federal and state government-approved habitat conservation and sustained yield plans.

Headwaters Litigation means the claim filed by Palco and Scopac with the Claims Board against the North Coast Water Board, the State Water Board and the State of California (Claim No. G558159) alleging that the defendants have substantially impaired the contractual and legal rights of Palco and Scopac under the Headwaters Agreement, and the subsequent damages lawsuit entitled *The Pacific Lumber Company and Scotia Pacific Lumber Company LLC v.*

State of California, et al. filed by Palco and Scopac in the Superior Court of Fresno County, California (No. CECG 0422).

Headwaters Timberlands means the 5,600 acres of timberlands transferred by Salmon Creek, Palco and Scopac to the United States government upon consummation of the Headwaters Agreement.

Holder means any Person holding an Interest or Claim.

Impaired means a Claim or a Class of Claims that is impaired within the meaning of section 1124 of the Bankruptcy Code.

Inter-Debtor Claim means any Claim held by any Debtor against any other Debtor, which claim is classified in Class 10 and treated under Article IV of the Plan.

Intercompany Contracts means any contract or agreement by or between any of the Debtors including, but not limited to, the following: (i) the New Reciprocal Rights Agreement; (ii) the New Master Purchase Agreement; (iii) the New Services Agreement; (iv) the New Additional Services Agreement; (v) the Master Lease Agreement; (vi) the Amended and Restated Lease; (vii) the Sales and Marketing Assistance Agreement; and (viii) the Development and Sales Assistance Agreement, as any of such agreements or contracts have been amended through the date of the Disclosure Statement.

Interim Compensation Order means the order entered by the Bankruptcy Court on January 24, 2007 establishing procedures for interim compensation and reimbursement of expenses of professionals of the Debtors and the Committee.

IRS means the Internal Revenue Service.

ITP means Incidental Take Permit, which authorizes certain actions that might otherwise constitute a prohibited "take" of an endangered or threatened species which is otherwise protected by the state and federal Endangered Species Acts.

LIBOR means London Interbank offered rate of interest.

Lien has the meaning set forth in section 101(37) of the Bankruptcy Code.

Liquidation Analysis means the liquidation analysis attached as Exhibit E to the Disclosure Statement.

Litigation Trust means a trust formed in accordance with the Litigation Trust Agreement effective as of the Effective Date (i) into which the Litigation Trust Assets not retained, released, waived or enjoined under Article VIII of the Plan shall automatically vest upon the transfer of Causes of Action by the Reorganized Entities on the Effective Date and into which the Estates and Debtors shall be deemed to have automatically granted, on behalf and for the benefit of their creditors, all of their rights to pursue all such Litigation Trust Assets and receive all recoveries therefrom, and (ii) to administer the proceeds of any such Litigation Actions and to act as the disbursing agent for the proceeds of such Litigation Trust Assets.

Litigation Trust Agreement means the trust agreement for the Litigation Trust in the form to be contained in the Plan Supplement.

Litigation Trust Assets means (a) that certain \$10.6 million to be provided by Newco to the Litigation Trust on the Effective Date which amount shall be used by the Litigation Trustee first for payment to Holders of Allowed Claims classified in Classes 7 and 8, second to repay the Funding Amount and finally, any remaining amounts returned to the Reorganized Entities, and (b) Causes of Action for money damages only, transferred, assigned and otherwise conveyed to the Litigation Trust by the Reorganized Entities on the Effective Date; *provided, however*, for avoidance of doubt, Litigation Trust Assets shall not include rights to setoff under section 553 of the Bankruptcy Code; *provided, further, however*, Litigation Trust Assets shall not include the following: (i) Causes of Action

against any Debtor, MRC/Marathon Plan Proponent (in any capacity, including without limitation, Marathon, as lender to the Palco Debtors), any member (solely in that capacity) or professional of the Committee, the Committee, any Reorganized Entity and the Holder of the Class 5 Scopac Loan Claim; (ii) Avoidance Actions under section 547(b)(4)(a) of the Bankruptcy Code (i.e., ninety (90) day preference actions), with respect to trade creditors that (x) supply the Reorganized Entities in the ordinary course of their business with goods and services, and (y) are identified in writing by the Reorganized Entities to the Litigation Trustee within ten (10) Business Days after the Litigation Trustee submits a written list of potential defendants to the Reorganized Entities; (iii) Causes of Action with respect to accounts receivables, tax refunds, tax rebates and any other amounts owed to the Debtors or the Reorganized Entities by account debtors; (iv) the Headwaters Litigation; and (v) Causes of Action with respect to Environmental Obligations.

Litigation Trust Participation means an uncertificated, nontransferable, Pro Rata beneficial interest in the net recoveries of the Litigation Trust after prosecution, settlement or abandonment of the Litigation Trust Assets, subject to the terms and conditions of the Litigation Trust Agreement. Litigation Trust Participations (a) shall be noted in the books and records of the Litigation Trust, (b) shall not be evidenced by a writing, and (c) may not be transferred, sold, assigned, hypothecated or pledged, except that they may be assigned or transferred by will, intestate succession, or operation of law.

Litigation Trustee means the trustee(s) of the Litigation Trust, as designated in this Plan and the Litigation Trust Agreement. In the prosecution of any Litigation Trust Assets, the Litigation Trustee shall obtain the benefit of any tolling provisions or extensions available to the Estates or Debtors prior to the Confirmation Date or Effective Date, including those set forth in sections 108(a), 546(a), 549(d) and 550(f) of the Bankruptcy Code.

Marathon means, collectively, Marathon Structured Finance Fund L.P. and certain of its affiliates that are lenders to the Palco Debtors

MAXXAM means MAXXAM Inc., MGHI's parent.

MGHI means MAXXAM Group Holdings Inc., MGI's parent.

MGI means, MAXXAM Group Inc., Palco's parent.

Mill or Scotia Mill means the lumber mill of Palco located in Scotia and operated by Palco, together with all Assets of the Debtors currently associated with or anticipated to be associated with Mill on and after the Effective Date.

Mill Working Capital means the marked-to-market value of the ordinary course current receivables and current inventories, less the amount of the current payables of Newco.

MMCAs means the marbled murrelet conservation areas and are also known as the Ancient Redwood Groves.

MRC means, collectively, Mendocino Redwood Company, LLC and certain of its affiliates.

MRC/Marathon Plan Proponents means, collectively, MRC and Marathon.

New Indenture Trustee means that Entity or Entities identified in the Plan Supplement, or any successors and assigns, who shall serve as the trustee under the Series A New Timber Notes Indenture or the Series B New Timber Notes Indenture, as applicable.

Newco means the Reorganized Entity that will include the assets of the Mill and the Timberlands, together with any and all Assets of the Debtors currently associated with or anticipated to be associated with Mill and the Timberlands on and after the Effective Date, provided that Newco will not own any of the Assets to be owned by Townco.

New Master Purchase Agreement means that certain agreement dated July 20, 1998 by and between Scopac and Palco governing the sale of Scopac Timber.

Non-Debtor Affiliate means any Entity that is an affiliate of any of the Debtors (other than another Debtor), within the meaning of section 101(2) of the Bankruptcy Code, including but not limited to MGI, MAXXAM Group Holdings Inc., and MAXXAM.

Non-Debtor Affiliate Claim means a Claim by a Non-Debtor Affiliate against a Debtor, including but not limited to the following Claims, which are collectively classified in Class 11: (i) Claims arising from those certain funds loaned by MGI to Palco during 2005 on an unsecured and subordinated basis totaling approximately \$6,000,000; (ii) Claims arising from those certain funds loaned by MGI to Palco during 2006 on an unsecured and subordinated basis totaling approximately \$30,900,000; (iii) Claims arising from the Lump Sum Purchases; and (iv) Claims arising from MAXXAM's provision of general and administrative assistance and other services to the Debtors, including risk-management services, accounting services, income tax reporting and compliance services, treasury and cash-management services, legal services and employee-benefit services general and administrative assistance and other services which, as of the Petition Date, totaled approximately \$1,782,542, and subsequent to the Petition Date totaled in excess of \$1,200,000.

North Coast Water Board means the California North Coast Regional Water Quality Control Board.

Option A means the plan for complying with California's sustained yield requirements, which has been approved by the California Department of Forestry and Fire Protection and is currently being relied on by Scopac to obtain approval of its THPs.

Option C means an alternative procedure for timber owners to comply with California's sustained yield requirements.

Ordinary Course Professionals Order means the order entered by the Bankruptcy Court on or about July 17, 2007 permitting the Debtors to employ professionals in the ordinary course of their business without the necessity of filing individual retention applications for each professional.

Other Priority Claim means a Claim (or portion thereof), if any, entitled to priority under section 507(a) of the Bankruptcy Code, other than a Priority Tax Claim, an Administrative Expense Claim or a Professional Compensation Claim, which claim is classified in Class 1 and treated under Article IV of the Plan.

Other Secured Claim means any Secured Claim other than the following: (i) the Palco DIP Loan Claim; (ii) the Palco Term Loan Claim; (iii) the Scopac Loan Claim; and (iv) the Scopac Timber Note Secured Claims, which Claim, together with Secured Tax Claims are classified in Class 2 and treated under Article IV of the Plan.

Palco means The Pacific Lumber Company, a wholly owned subsidiary of MGI.

Palco DIP Loan means the senior secured debtor-in-possession financing provided to the Palco Debtors by Marathon pursuant to the Debtor-In-Possession Revolving Credit Agreement, dated as of August 6, 2007.

Palco DIP Loan Claim means a Claim arising under the Palco DIP Loan, which claim is classified in Class 3 and treated under Article IV of the Plan and which shall not include any Claim for any deficiency, which is waived by the Holder of such Claim in consideration for the releases and other good and valuable consideration given and embodied under the Plan.

Palco Debtors means, collectively, Palco, Britt, Salmon Creek, Scotia Inn, and Scotia Development.

Palco General Unsecured Claim means a General Unsecured Claim against Palco, which Claim is classified in Class 7 and treated under Article IV of the Plan together with Palco Trade Claims.

Palco Revolving Credit Agreement means that certain Revolving Credit Agreement, dated as of July 18, 2006 by and among Palco and Britt, as borrowers, and Marathon, as Administrative Agent and as a lender.

Palco Revolving Credit Facility means the five year \$60.0 million senior secured asset based revolving credit facility evidenced by the Palco Revolving Credit Agreement.

Palco Term Loan means the five year \$85.0 million senior secured term loan provided pursuant to the Palco Term Loan Agreement.

Palco Term Loan Agreement means that certain Term Loan Agreement, dated as of July 18, 2006, by and among Palco and Britt, as borrowers, and Marathon, as Administrative Agent and as a lender.

Palco Term Loan Claim means a Claim arising under the Palco Term Loan Agreement, which claim is classified in Class 4 and treated under Article IV of the Plan and which shall not include any Claim for any deficiency, which is waived by the Holder of such Claim in consideration for the releases and other good and valuable consideration given and embodied under the Plan.

Palco Trade Claim means a General Unsecured Claim against the Palco Debtors for goods, supplies, equipment, or services utilized by the Palco Debtors in the operation of their businesses, which Claim is classified in Class 7 and treated under Article IV of the Plan together with Palco General Unsecured Claims.

Pension Plan means any ongoing, defined benefit pension plans to which a Debtor is a contributing sponsor or member of a contributing sponsor's controlled group and to which Title IV of the Employee Retirement Income Security Act applies, including without limitation, the Palco Retirement Plan, Employer Identification No./Plan No. 13-3318327/003.

Person means any person, including without limitation, any individual, entity, corporation, partnership, limited liability company, limited liability partnership, joint venture, association, joint stock company, estate, trust, unincorporated association or organization, official committee, *ad hoc* committee or group, governmental agency or political subdivision thereof, the U.S. Trustee, and any successors or assigns of any of the foregoing.

Petition Date means January 18, 2007, the date on which the Debtors' Reorganization Cases were commenced with the filing of voluntary petitions for relief under chapter 11 of the Bankruptcy Code.

Plan means the First Amended Joint Plan of Reorganization for the Debtors, as Modified, proposed by the Plan Proponents, dated [_____], 2008 under Chapter 11 of the United States Bankruptcy Code, including all exhibits attached thereto or referenced therein, as the same may be amended, modified, or supplemented from time to time.

Plan Documents means, collectively, the Plan, the Disclosure Statement, and all documents, attachments, and exhibits attached to the Plan or the Disclosure Statement that aid in effectuating the Plan, as the same may be amended, modified, or supplemented, in accordance with their terms.

Plan Proponents means, collectively, the MRC/Marathon Plan Proponents and the Committee.

Plan Supplement means the supplement to the Plan in form and substance satisfactory to the Plan Proponents and the Reorganized Entities to be filed with the Bankruptcy Court not later than ten (10) days prior to the Voting Deadline, which shall contain forms of final documents described in the Plan.

Post-petition Interest means simple interest accruing from the Petition Date calculated at the effective interest rate for 90-day securities obligations issued by the United States Treasury on the Effective Date or, if no such securities were issued on the Effective Date, on the date of issuance immediately preceding the Effective Date.

Pre-petition Indenture means the indenture dated July 20, 1998, as amended from time to time, by and between the Debtor and U.S. Bank & Trust, as original trustee, which indenture governs the terms of the Scopac Timber Notes.

Pre-petition Indenture Trustee means The Bank of New York, N.A., or its successors and assigns, as substitute trustee under the Pre-petition Indenture.

Priority Tax Claim means a Claim of a Governmental Unit of the kind specified in sections 502(1) and 507(a)(8) of the Bankruptcy Code.

Pro Rata means, with reference to any Distribution on account of any Allowed Claim or Allowed Interest in a Class, a Distribution equal in amount to the ratio (expressed as a percentage) that the amount of such claims bears to the aggregate amount of all Allowed Claims in the same Class.

Professional Compensation Claim means a Claim for compensation, indemnification or reimbursement of expenses incurred by Professionals retained by the Debtors and the Committee pursuant to sections 327, 328, 330, 331, or 503(b) of the Bankruptcy Code in connection with the Reorganization Cases.

Professionals means those Persons (a) employed pursuant to an order of the Bankruptcy Court in accordance with sections 327, 328, or 1103 of the Bankruptcy Code and to be compensated for services pursuant to sections 327, 328, 329, 330, or 331 of the Bankruptcy Code, for which compensation and reimbursement has been allowed by the Bankruptcy Court pursuant to section 503(b)(1) of the Bankruptcy Code, and/or (b) for which compensation and reimbursement has been allowed by the Bankruptcy Court or is sought pursuant to section 503(b)(4) of the Bankruptcy Code.

Proof of Claim means any proof of claim filed with the Bankruptcy Court or the Balloting and Claims Agent with respect to a Debtor pursuant to section 501 of the Bankruptcy Code and Bankruptcy Rules 3001 or 3002.

Quarterly Payment Date means the last Business Day of the month following the end of each calendar quarter after the Effective Date; *provided, however,* that if the Effective Date is within forty-five (45) days of the end of a calendar quarter, the first Quarterly Distribution Date will be the last Business Day of the month following the end of the first calendar quarter after the calendar quarter in which the Effective Date falls.

Qui Tam Relators means Richard Wilson and Chris Maranto.

Qui Tam Actions means the action filed by the Qui Tam Relators filed on behalf of the United States against the Debtors and related non-debtor parties in the United States District Court for the Northern District of California, case number C-06-7497 and the action filed on behalf of the State of California against the Debtors and related non-debtor parties in San Francisco Superior Court, case number CGC-06-4585.

Qui Tam Claims means the nine Proofs of Claim filed by the Qui Tam Relators in the Debtors' Reorganization Cases, which have been numbered as claims 511 through 519, consecutively, and with respect to which, on February 28, 2008, the Bankruptcy Court approved a settlement, pursuant to which such claims were reduced to \$1.00 each, but any rights of the Qui Tam Relators to pursue non-debtor defendants were preserved.

Real Property Assumed Contract means, collectively, an Assumed Contract (i) relating to a Debtor's interest in real property, and (ii) granting rights or interest related to or appurtenant to the applicable real property, including all easements, license, permits, rights, privileges, immunities, options, rights of first refusal, powers, uses, usufructs, reciprocal easement or operating agreements, vault, tunnel or bridge agreements or franchises, development rights, and any other interests in real estate or right *in rem* related to the applicable real property.

Record Date means the date of entry of the order approving the Disclosure Statement.

Released Parties means (i) the Plan Proponents and their respective officers, directors, professionals, members, agents and employees, and (ii) the Reorganized Entities and their respective officers, directors, professionals, members, agents and employees.

Reorganization Case means any of the cases under chapter 11 of the Bankruptcy Code commenced by the Debtors currently pending in the Bankruptcy Court as Jointly Administered Chapter 11 Case Nos. 07-20027 through 07-20032.

Reorganized Entity or Reorganized Entities mean, collectively, Newco and/or Townco, in each case as applicable.

Restructuring Transactions means, collectively, those sales, mergers, consolidations, restructurings, dispositions, liquidations, transfers of assets or dissolutions that the Plan Proponents and the Reorganized Entities determine to be necessary and appropriate to effect a corporate restructuring in accordance with the Plan.

Salmon Creek means Salmon Creek LLC, a wholly owned subsidiary of Palco, and, as applicable, its predecessor Salmon Creek Corporation.

Salmon Creek Timberlands means approximately 1,300 acres of timberlands owned by Salmon Creek, in respect of which Scopac has the timber harvest rights.

SAR Account means funds held in a reserve account titled the Scheduled Amortization Reserve Account and used to support principal payments on the Scopac Timber Notes.

Schedules means the schedules, statements, and lists filed by the Debtors with the Bankruptcy Court pursuant to Bankruptcy Rule 1007, as may be amended or supplemented from time to time.

Scopac means Scotia Pacific Company LLC, a limited liability company wholly owned by Palco.

Scopac General Unsecured Claim means a General Unsecured Claim against Scopac, including, but not limited to, any Claim by Holders of Scopac Timber Notes on account of the Scopac Timber Notes that is not a Secured Claim, which Claims are classified in Class 9 and treated under Article IV of the Plan; provided, however, that the term "Scopac General Unsecured Claim" shall not include Scopac Trade Claims.

Scopac Loan Agreement means that certain agreement dated as of July 20, 1998 by and between Scopac, as borrower, and Bank of America, N.A., as lender and as agent for itself and any other lender parties, pursuant to which Scopac could borrow in order to pay up to one year's interest on the Scopac Timber Notes on a senior secured basis.

Scopac Loan Claim means any Claim arising from the Scopac Loan Agreement, which claim is classified in Class 5 and treated under Article IV of the Plan.

Scopac Timber Notes means, collectively, the A-1 Timber Notes, the A-2 Timber Notes and the A-3 Timber Notes.

Scopac Trade Claim means a General Unsecured Claim against Scopac for goods, supplies, equipment, or services utilized by Scopac in the operation of its business, which shall include claims of former employees and which Claim is classified in Class 8 and treated under Article IV of the Plan; provided, however, that the term "Scopac Trade Claim" shall not include (i) Claims asserted by former Insiders, (ii) the Palco DIP Loan Claim, and (iii) the Palco Term Loan Claim.

Scotia means Scotia, California.

Scotia Inn means Scotia Inn Inc., a wholly owned subsidiary of Palco.

Scotia Development means Scotia Development LLC, a wholly owned subsidiary of Palco.

Secured Claim means any Claim that is (a) secured in whole or part, as of the Petition Date, by a Lien against property of a Debtor that is valid, perfected, and enforceable under applicable law and is not subject to avoidance under the Bankruptcy Code or applicable nonbankruptcy law, or (b) subject to setoff under section 553 of the Bankruptcy Code; provided, however, with respect to both (a) and (b) above, a Claim is a Secured Claim only to the extent of the value, net of any senior Lien, of the Estate's interest in the assets or property securing any such Claim or the amount subject to setoff, as the case may be.

Secured Tax Claim means any Secured Claim of a Governmental Unit that absent its secured status would be entitled to priority in right of payment under sections 502(1) and 507(a)(8) of the Bankruptcy Code (including without limitation any related Secured Claim for penalties).

Securities Act means the Securities Act of 1933, 15 U.S.C. §§ 77a-77m, as in effect on the Petition Date, together with all amendments and modifications thereto subsequently made applicable to the Reorganization Cases.

Semi-Annual Payment Date means June 15 and December 15; provided, however, if such day is not a Business Day then the Semi-Annual Payment Date shall be the first Business Day thereafter.

Series A New Timber Notes means the instruments of indebtedness delivered to the Pre-petition Indenture Trustee, on behalf of the Holders of Scopac Timber Noteholder Claims to the extent that Class 6 make the election pursuant to section 1111(b)(1)(A)(i) of the Bankruptcy Code, with terms consistent with Article IV of the Plan.

Series A New Timber Notes Indenture means that certain indenture agreement that shall govern the terms of the Series A New Timber Notes.

Series B New Timber Notes means the instruments of indebtedness that Newco is permitted to issue and deliver to the Pre-petition Indenture Trustee, on behalf of the Holders of Scopac Timber Noteholder Claims to the extent that Class 6 make the election pursuant to section 1111(b)(1)(A)(i) of the Bankruptcy Code, to the extent that during the first ten (10) years of the term of the Series A New Timber Notes following the Effective Date, Newco opts to defer the Cash payment of the 1.75% interest rate on no more than twenty (20) of the quarterly interest payment dates, in a like amount of the interest deferred, with terms consistent with Article IV of the Plan.

Series B New Timber Notes Indenture means that certain indenture agreement that shall govern the terms of the Series B New Timber Notes.

State Water Board means the California State Water Resources Control Board.

Supplemental Bar Date Order means the order entered by the Bankruptcy Court establishing September 5, 2007 as the Bar Date for unknown creditors.

SYP means the sustained yield plan approved as part of the Headwaters Agreement and later invalidated by a California state court, which covers multiple species and encompasses substantially all of the Palco Timberlands.

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.

THP means a timber harvesting plan required to be filed with and approved by the CDF prior to the harvesting of timber.

Timberlands means any timberlands owned by Palco, Scopac, or Salmon Creek, including, without limitation, approximately 200,000 acres of timberlands owned by Scopac and the Salmon Creek Timberlands.

TMDLs means total maximum daily load limits.

Townco means the Reorganized Entity that will include any and all Assets of the Debtors currently associated with or anticipated to be associated with Scotia, including, without limitation, industrial use facilities, the cogeneration plant, 270 homes, various commercial properties, and the Britt mill in Arcata, California, and all of the land associated with these Assets, on and after the Effective Date, provided that Townco will not own any of the Assets to be owned by Newco.

U.S. Trustee means the United States Trustee for the Southern District of Texas.

Voting Deadline means the deadline set by the Bankruptcy Court for submitting Ballots on the Plan.

WWDRs means watershed-wide waste discharge requirements.