

January 24, 2007

Dear Scotia Resident:

On January 9, 2007, the City of Rio Dell released reports regarding the potential annexation of Scotia. We hope you will take the time to review these reports at [www.annexscotia.com](http://www.annexscotia.com). Click on annexation and link to the Rio Dell City Annexation page for the full versions of these reports, including the Pacific Lumber infrastructure proposal.

The focus in the annexation process has been on identifying bottom line costs to the residents of Scotia and Rio Dell. While annexation seems to have some advantages, particularly for the City of Rio Dell, studies conducted over the past few months demonstrate that the creation of a Community Services District (CSD) -- to serve an independent Scotia, instead of annexation to Rio Dell -- may be the most cost-effective way for Scotia residents to manage and maintain the infrastructure of the town of Scotia.

A Community Services District (CSD) is a public agency formed to manage utility service within an unincorporated area. A CSD can provide services such as water, wastewater, drainage, street lighting, parks, recreation and open space, and landscape maintenance within public rights of way. A CSD is governed by an elected Board of Directors, in our case, the citizens of Scotia. In most respects, a CSD is no different from an incorporated town like Rio Dell; however, there are certain differences such as:

The CSD cannot provide law enforcement support, this would continue to be provided by the Humboldt County Sheriff if a CSD were formed for Scotia.

The mechanism and procedures for property tax exchange are different as an incorporated town can receive a redistribution of tax revenue from the County as well as other funding sources. However, a CSD will mostly rely on user fees and special taxes or assessments to pay for services; and

The County rather than the city would continue to provide general government services.

No final determination has been made on the ultimate direction for Scotia -- whether CSD or annexation -- but we have started the process to create a CSD for Scotia. Here's why:

- Scotia's public infrastructure already meets or exceeds state standards and will be upgraded and improved to operate in an efficient manner well into the future. Currently, however, Rio Dell has insisted that Scotia's infrastructure be upgraded to a significantly higher standard than our engineers believe is necessary or prudent. Rio Dell's

requirement would mean that the future funding requirements on Pacific Lumber and the Scotia residents would be nearly 60% higher. That may mean higher utility rates and higher future taxes for the Company and the taxpayer residents of Scotia.

We have requested that Rio Dell change their standard to reflect current conditions and reasonable upgrades, but they have not yet done so. If they do not change, we feel strongly that it is in the best interest of all Scotia parties that we aggressively pursue the formation of a Community Services District in case a workable agreement with Rio Dell cannot be reached.

- Rio Dell's infrastructure does NOT, in all instances, currently meet state standards and health and safety concerns. The city's sewage treatment and effluent disposal facilities, for example, are in need of repair and otherwise substandard, and there has been a North Coast Regional Water Quality Control "Board Cease and Desist Order" in effect potentially requiring significant, and expensive reconstruction or reconfiguration in place for some time. These repairs could cause higher utility rates for Scotia residents.

I will continue to keep you updated on a regular basis on the issues surrounding Scotia, with a specific focus on homeownership and costs for residents of Scotia. Prior to any final decision on annexation or a CSD, we will provide a detailed summary of the costs of each option and will ask for your feedback on the option you prefer.

If you have any questions, please contact me at 764-4214 or Andrea Arnot at 764-4216.

Sincerely,



DENNIS WOOD

Vice President – Real Estate Operations

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