

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark one)

Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the fiscal year ended December 31, 2003

or

Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 For the transition period from _____ to _____

Commission File No. 1-9035

Pope Resources, A Delaware Limited Partnership

(Exact name of registrant as specified in its charter)

Delaware

(State of Organization)

91-1313292

(IRS Employer I.D. No.)

19245 Tenth Avenue NE , Poulsbo, WA 98370
(Address of principal executive offices Zip Code)

Registrant's telephone number, including area code: **(360) 697-6626**

Securities registered pursuant to Section 12(b) of the Act:

Title of each class
Depository Receipts (Units)

Name of each exchange on which registered
NASDAQ National Market System

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months, and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant is an accelerated filer within the meaning of Exchange Act Rule 12b-2. Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K.

Approximate aggregate market value of the non-voting equity units of the registrant held by non-affiliates as of June 30, 2003 was \$41,994,000.

The number of the registrant's limited partnership units outstanding as of March 12, 2004 was 4,518,095.

Documents incorporated by reference: **See Item 15. Exhibit Index Item IV.**

Pope Resources, A Delaware Limited Partnership
Form 10-K
For the Fiscal Year Ended December 31, 2003
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PART I

Item 1. BUSINESS

OVERVIEW

Pope Resources, A Delaware Limited Partnership (the “Partnership”), was organized in October 1985 as a result of a spin-off by Pope & Talbot, Inc. (P&T), Pope & Talbot Development, Inc. and other P&T affiliates, of certain of their timberland and real estate development assets.

The Partnership currently operates in three primary business segments: (1) Fee Timber, (2) Timberland Management and Consulting, and (3) Real Estate. Fee Timber operations consist of the growing and harvesting of timber from the Partnership’s tree farms. Timberland Management and Consulting encompasses providing timberland management and forestry consulting services to third-party owners of timberlands and is conducted primarily through the Partnership’s wholly owned indirect subsidiary, Olympic Resource Management LLC (“ORMLLC”). Real Estate operations consist of efforts to enhance the value of the Partnership’s land investments by obtaining the entitlements necessary to make further development possible.

DESCRIPTION OF BUSINESS SEGMENTS

Fee Timber

Operations. The Partnership’s Fee Timber segment consists of operations surrounding management of the Partnership’s core assets: the Hood Canal tree farm, which consists of 71,000-acres located in the Hood Canal area of Washington which the Partnership has held since its formation, and the 44,000-acre Columbia tree farm located in the southwestern area of Washington state which the Partnership purchased in March 2001. On January 15,

2004, the Partnership acquired 3,300 acres of timberland from Plum Creek Timber Company for \$8.5 million. The timberland acquired in this acquisition is contiguous with the Columbia tree farm, will be managed as part of that larger land parcel, and is included in the 44,000 acres referenced above. The Partnership views its two tree farms as core holdings and manages them as a single operating unit. Operations on the tree farms consist of the growing of timber and the subsequent harvesting and marketing of timber and timber products to both domestic and Pacific Rim markets. The Partnership's Fee Timber segment produced 85%, 72%, and 52% of the Partnership's consolidated revenues in 2003, 2002, and 2001, respectively.

Inventory. Inventory information discussed below is for both the Hood Canal and Columbia tree farms and includes the aforementioned timberland acquisition from Plum Creek Timber Company.

As of January 15, 2004, the tree farms' total merchantable inventory volume was estimated to be 483 million board feet (MMBF). The Partnership's merchantable timber inventory volume as of January 1, 2003 was 447 MMBF. Merchantability is defined as timber inventory in productive timber stands that are 35 years of age and older, which represents management's estimate of when merchantable value would be assigned to the timber in a timberland sale. Stands are not normally at their economic rotation age until after 40 years. Economic rotation age represents the estimated optimal age to harvest a specific stand of timber. The economic rotation age varies by geographic site and species.

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The Partnership's merchantable inventory as of January 15, 2004 and January 1, 2003 is spread between age classes as follows:

Age Class	1/15/2004 Volume (in MMBF)	1/1/2003 Volume (in MMBF)
35 to 39	64	43
40 to 44	56	51
45 to 49	33	53
50 to 54	55	65
55 to 59	73	50
60 to 64	102	108
65+	100	77
	483	447

Timber inventory volume is accounted for by the Partnership's standing timber inventory system, which utilizes annual statistical sampling of the timber (a process called "cruising") with adjustments made for estimated growth and depletion of areas harvested. Inventory volumes take into account the applicable state and federal regulatory limits on timber harvests as applied to our properties, including the Forests and Fish Law that supplements Washington State's forest practice regulations to provide for expanded riparian management zones, wildlife leave trees, and other harvest restrictions. The Partnership cruised 20% of its productive timberland acres with stand ages of at least 20 years in each of the years 2003 and 2002 and plans to continue at that rate of cruise activity for the next few years. The Partnership has increased its annual plan for inventory cruises in order to refine future harvest schedules.

The dominant timber species on the Partnership's tree farms is Douglas-fir. Douglas-fir is noted for its strength, flexibility, and other physical characteristics that make it generally preferable to other softwoods and hardwoods for the production of construction grade lumber and plywood. In addition to Douglas-fir, inventory on the Partnership's tree farms include Western Hemlock, Western Red Cedar, and Red Alder. The Partnership's total merchantable timber inventory as of January 15, 2004 is spread between species as follows:

Species	Volume (in MMBF)	Percent of total
Douglas-fir	344	71%
Western Hemlock	57	12%
Western Red Cedar	20	4%
Other Conifer	9	2%
Red Alder	43	9%
Other Hardwood	10	2%
Total	483	100%

The Hood Canal tree farm has significant acreage with mature timber and even more acreage with relatively immature trees, which results in what we call a "bimodal" age class pattern that management believes is common among western U.S. timberland ownerships. This bimodal pattern can be dealt with in three primary ways: (1) delay harvests of mature acres to backfill what would otherwise be smaller harvest years until the immature trees become merchantable; (2) harvest the mature acres at a rate that more closely approximates rotation age and allow later harvest cash flows to decline for some period while the younger blocks of acreage mature; or (3) acquire timberland properties with age-class characteristics that fill in the trough in the bimodal pattern. The Partnership

opted for this last alternative with the acquisition of the Columbia tree farm in March 2001. Management believes it not only made a sound value investment on its own merits in acquiring the Columbia tree farm, but also made significant progress toward smoothing the age-class distribution of the Partnership's timberland holdings.

The Partnership's tree farms total 115,000 acres as of January 15, 2004. Of this total, approximately 100,000 acres are designated productive acres. Productive acres represent land that is suitable for growing and harvesting timber and excludes acreage that is unavailable for harvest because it is in protected wetlands or riparian management zones (stream set-asides). Productive acres also reflect deductions for roads and other land characteristics that inhibit suitability for growing or harvesting timber. As of January 15, 2004, total productive acres are spread by timber age class as follows:

Age Class	1/15/2004 Acres	%
Clear-cut	1,042	1%
0 to 4	12,246	12%
5 to 9	8,799	9%
10 to 14	6,720	7%
15 to 19	16,304	16%
20 to 24	16,008	16%
25 to 29	9,318	9%
30 to 34	4,600	5%
35 to 39	4,979	5%
40 to 44	3,734	4%
45 to 49	1,995	2%
50 to 54	2,700	3%
55 to 59	3,368	3%
60 to 64	4,391	4%
65+	3,985	4%
	100,189	100%

The Partnership's annual harvest level is derived from a long-term harvest plan that factors in economic rotation ages of all stands, existing timber inventory levels, growth and yield assumptions, and regulatory constraints associated with the Washington State Forest Practices Act. From this information, management develops annual and long-term harvest plans predicated on their assessment of existing and anticipated economic conditions with the objective of maximizing long-term values. This plan is updated periodically to take into account changes in timber inventory, including species mix, site index (classification of soils), volume, size, and age of the timber. The long-term harvest plan is calculated using a non-declining even-flow harvest constraint, meaning that future harvest levels will always be as high or higher than current levels.

Projected annual harvest levels over the next 30 years in million board feet:

Period	Harvest (in MMBF)
2004 to 2005	58,000
2006 to 2016	45,000
2017 to 2026	58,000
2027 to 2034	65,000

As stated above, future harvest levels are modeled to be non-declining in volume over time. An exception to this harvest modeling rule will be made for the January 2004 acquisition of 3,300 acres such that projected harvest levels in 2004 and 2005 will be higher than the 45 MMBF otherwise modeled. This January 2004 purchase included a large percentage of merchantable timber that the Partnership plans to harvest over the next two years to recoup a significant part of the acquisition price. Since the cost of the January 2004 acquisition is added to the overall tree farm basis for depletion, the rate of depletion expense per MBF will increase while the incremental harvest should boost operating income. In 2004 and 2005 the management expects this acquisition to increase operating income by between \$2.0 and \$3.0 million, depending on prices realized, net of the expected increase in depletion expense.

Marketing and Markets. The Partnership markets timber using the manufactured log method, where it engages independent logging contractors to harvest the standing timber and manufacture it into logs that the Partnership then sells on the open market. The Partnership or its subsidiaries retain title to the logs until harvest is concluded and delivery takes place, which normally occurs at a customer log yard. We sell our logs both domestically and internationally through log exporting intermediaries. One of our principal international markets is the Pacific Rim. Logs going to this destination are generally sold to US-backed brokers who in turn sell direct to

offshore customers. Japan is by far the largest buyer of logs in the Pacific Rim market, though Korea and China represent significant export markets from time to time.

Another method for selling timber that the Partnership occasionally engages in is the stumpage sale. Under this sale method, standing timber is sold to purchasers who manage the harvesting and marketing of the timber where title to the timber ordinarily transfers at the time of severance. These operations are governed by provisions of the sales contract and are closely monitored by the Partnership to facilitate sound forestry and stewardship practices and regulatory compliance. Stumpage sales are generally used in unique situations when the Partnership believes returns can be improved by selling timber immediately "on the stump" rather than waiting for the harvest to be completed and selling manufactured logs.

Customers. The Partnership sells its logs domestically to lumber mills (and other processors of wood fiber) located throughout western Washington and northwest Oregon. Logs sold to the export market are sold to export intermediaries located at the ports of Tacoma, Olympia, and Longview, Washington. The cost of transporting logs limits the destinations to which the Partnership can profitably sell its logs.

The Fee Timber segment had one major customer, Simpson Timber Company, which represented 35% of segment revenue in 2003. Mill competition for available log supply is an important factor in the harvest and sale of logs. Lumber mill ownership has consolidated over the last few years resulting in fewer local customers for the Partnership's logs. Further consolidation of mill ownership in the Puget Sound area could cause a decline in prices realized for the Partnership's logs.

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Competition. There are many competitors of the Partnership who are, for the most part, comparable in size or larger. Log sellers compete on the basis of quality, pricing, and the ability to satisfy volume demands for various types and grades of logs to respective markets. Management believes that the location, type, and grade of the Partnership's timber will enable it to effectively compete in these markets. However, the Partnership's products are subject to increasing competition from a variety of non-wood and engineered wood products as well as competition from foreign-produced logs.

Forestry and Stewardship Practices. The Partnership's timberland operations incorporate management activities that include reforestation, control of competing brush in young stands, thinning of the timber to achieve optimal spacing after stands are established, and fertilization. During 2003, the Partnership planted 677,000 seedlings on 1,700 acres of the Partnership's tree farms. This compares to the years 2002 and 2001 in which the Partnership planted 648,000 and 667,000 seedlings on 1,500 and 2,100 acres, respectively. The number of acres and seedlings planted will vary from year to year based upon harvest level and timing of harvest together with weather conditions that affect seedling survival. Management's policy is to stay current on its reforestation program, returning all timberlands to productive status as soon as economically feasible following harvest.

Sustainable Forestry Initiative (SFI). In 2003, management engaged Pricewaterhouse Coopers LLP to audit the Partnership's forestry and stewardship practices against those required by the American Forest & Paper Association for SFI certification. The Partnership's tree farms passed the audit and are now SFI certified. Certification under SFI is not currently a requirement to sell to customers in the Partnership's geographic market but the certification is gaining more market acceptance and may represent a competitive advantage in the future. Additionally, management believes that independent third-party verification of the Partnership's strong commitment to good land stewardship practices helps the Partnership maintain positive relationships with customers and neighbors.

Fire Management. Management has taken a number of steps to mitigate risk of loss from fire, which is nonetheless possible on any timberland property. First, the Partnership maintains a well-developed road system that allows access and quick response to fires that do occur. Second, management maintains a fire plan and program that provides for increased monitoring activities and requires all operators to maintain adequate fire suppression equipment during the summer fire season.

Timberland Management and Consulting

Background. In March 1997, the Partnership's unitholders authorized management to expand its timberland business with the Investor Portfolio Management Business (IPMB). The IPMB has two complementary business strategies: (a) timberland management and (b) portfolio development. In 1997, the Partnership formed two wholly owned subsidiaries ORM, Inc. and ORMLLC to facilitate the IPMB activities.

Operations. The Timberland Management and Consulting segment's key operation has been to provide various aspects of timberland management services to third-party timberland owners. During the fourth quarter of 2002 ORMLLC announced that its contract to serve as the western region timberland manager for Hancock Timber Resource Group (HTRG) would not be renewed for fiscal year 2003. That contract accounted for revenues of \$4.1 million for both the fiscal years ended December 31, 2002 and 2001. This segment produced 9%, 23% and 20% of the Partnership's consolidated revenues in 2003, 2002, 2001, respectively.

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activities for its largest timberland management client. As a result ORMLLC begins 2004 without a major timberland management client. Management is actively seeking other opportunities to manage timberlands on behalf of current and prospective clients.

Portfolio Development. Portfolio development's goal is to build and manage diversified portfolios of timberlands for third-party investors, sometimes acting exclusively as a timberland portfolio manager, while at other times co-investing as a partner on behalf of Pope Resources. An example of the strategy ORMLLC is employing to meet this goal is ORM Timber Fund I, LP. This fund, if fully subscribed, will have \$50 million of invested capital and is authorized to borrow up to an additional \$25 million (debt to value is limited to 33%). The fund is currently being marketed to institutional investors (with a minimum investment of \$500,000) and Pope Resources will invest 10%, or up to \$5 million, of the \$50 million equity portion of the fund. As the fund approaches closing, ORMLLC will look for timberland for the fund to acquire. ORMLLC is expected to earn management and acquisition fees from the fund.

Forestry Consulting. In addition to its timberland management activities, ORMLLC also earns revenue by providing forestry consulting services to third-party owners and managers of timberland assets in Washington, Oregon, and California. ORMLLC is providing forestry consulting services from four separate locations in Washington: Port Angeles, Port Gamble, Poulsbo, and Chehalis, and one location in McCloud, California.

Marketing. ORMLLC pursues third-party timberland management opportunities in North America through direct marketing to timberland owners. Marketing includes regular contact with forest products industry representatives and non-industry owners to develop new business opportunities. ORMLLC has developed brochures and other marketing materials that describe the services provided through the Timberland Management and Consulting segment. The Partnership's acquisition and disposition activities keep management informed of changes in timberland ownership that can represent opportunities for the Partnership to market its services.

Customers. Timberland management revenue in 2003 includes one client that represented 76% of segment revenue. Since the project for this customer was a management and disposition project that was largely completed at December 31, 2003, management does not expect to earn significant revenue from this client in 2004.

Competition. ORMLLC and its subsidiaries compete against both larger and smaller companies providing similar services. There are approximately one dozen established timberland investment management organizations competing against ORMLLC in the timberland portfolio development business. The companies in this group have access to established sources of capital and, in some cases, increased economies of scale that can put ORMLLC at a disadvantage. Smaller regional companies compete effectively on price for limited scope consulting and land management projects.

Real Estate

Background. The Partnership's Real Estate activities are closely associated with the management of its timberlands. After logging its timberlands, and subject to zoning regulations, the Partnership has three primary options for what to do next: reforest the land; develop it for sale as improved property; or sell it in undeveloped (or developed) acreage tracts. Management continually evaluates its timberlands in terms of best economic use, whether this means continuing to grow timber or reclassifying the property for sale or development. As management reclassifies timber properties for sale or development, the Partnership may replace such properties with timberland purchases in more remote areas.

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Operations. Real Estate operations include (a) residential and commercial property rentals in Port Gamble and (b) that work considered by management necessary to maximize the value of the Partnership's 2,600-acre portfolio of higher-and-better-use property holdings. This latter objective is generally obtained by securing the entitlements necessary to make development possible.

Port Gamble. Port Gamble has been designated a "Rural Historic Town" under Washington State's Growth Management Act (GMA). This designation allows for substantial new commercial, industrial, and residential development of the town utilizing historic land use patterns, densities, and architectural character. Efforts in 2003 centered on introducing new visitor-focused commercial activities to the town. These include antiques, an art gallery, and a teashop. Additionally, the Partnership made a concerted effort to promote the town as a venue for weddings, hosting over 30 in its first year. Other 2003 efforts included attaining water rights for the town that will allow for a significant first phase of development. In 2004, management will continue to focus on increasing commercial use of the town, and begin an evaluation of existing sewer and water infrastructure.

A negotiated settlement with P&T in January 2002 resulted in the Partnership taking over the millsite as well as providing for the initiation of environmental cleanup activities, the responsibility for which is being split between P&T and the Partnership. That settlement represents a significant step toward defining Port Gamble's future. See "Management's Discussion and Analysis of Financial Condition and Results of Operations – Results of Operations – Real Estate – Environmental Remediation Costs."

Other Land Investments. The Partnership is also involved in adding value to other real estate development properties (such as those located in Gig Harbor, Bremerton, Kingston, and Hansville, Washington) through efforts to secure approved development plans for each of these properties. These investments are long-term in nature. With the passage of the GMA in the early 1990's, the Partnership worked to place as many of its properties as possible within designated Urban Growth Areas to increase long-term values. Value-adding activities include

securing favorable zoning and obtaining final plat approvals to allow for the highest and best use of the properties. Once the Partnership has maximized the land value, alternatives for realizing value from the properties will be considered, including development, outright sale, or joint ventures with experienced property developers. The Partnership expects to realize sales revenue from portions of the aforementioned properties starting in 2004 with the most significant realizations to materialize as certain developments discussed below occur sometime between the years 2005 and 2007.

Gig Harbor. Gig Harbor, a suburb of Tacoma, Washington, is the site of a 320-acre mixed-use development. The Partnership expects to benefit from an amendment to the City of Gig Harbor's comprehensive plan in 2003 that is expected to result in 35 acres of the property being rezoned from business-park to commercial retail. Assuming the rezone of the 35 acres occurs, the development opportunity for the 320-acre project will be roughly as follows: 200 acres for residential development; 51 acres for a business park; and 69 acres for a neighborhood commercial center. In December 2003, the Partnership executed a purchase and sale agreement with Costco Wholesale Corporation for up to 20 acres of the commercial center with the ultimate acreage amount dependent on a finalized site plan. In 2002, the Partnership executed a purchase and sale agreement with the YMCA for 11 acres of the business park. Additional commercial and business park properties will be marketed in 2004. Prior to closing a sale with either Costco Wholesale Corporation or the YMCA, the Partnership will be committed to install infrastructure, including road, sewer, and water infrastructure, in order to facilitate development of the property and comply with obligations set out when the property was annexed into the city. Expenditures to install infrastructure for the Gig Harbor site are expected to begin in the summer of 2004 and continue for several years and are expected to total \$13.0 million to \$15.0 million. The Partnership expects revenues from this property to begin in 2005 and peak in conjunction with the anticipated opening in 2007 of a new Tacoma Narrows Bridge span connecting Gig Harbor with Tacoma.

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Bremerton. The City of Bremerton approved the request for a planned development on the Partnership's 233-acre mixed-use property within the city limits of Bremerton. The planned development has a mix of industrial and residential uses. In July 2000 a 15-year development agreement was approved and adopted by the City of Bremerton. Initial marketing of this property will focus on finding suitable buyers for the 60-acre industrial portion of the property.

Kingston and Hansville. There are three other on-going projects in Kitsap County that involve Partnership land: a 720-acre residential development in Kingston; a 360-acre proposed park adjacent to the aforementioned Kingston project; and a 248-acre residential development in Hansville. The Partnership is currently developing a plan with Kitsap County to delay processing the project application for the 720-acre Kingston project while undergoing a comprehensive plan amendment to bring urban-level zoning to approximately half of the property. In a separate but related activity, Kitsap County is currently analyzing the potential to acquire 360 acres owned by the Partnership adjacent to the 720-acre project for a regional park. The county may also move to acquire the remaining rural zoned area of the Kingston project at a later date. Such new zoning coupled with a proposed new wastewater treatment plant would allow reconfiguration of the existing plan to allow a more diverse set of residential products. Preliminary plat approval was granted for 89 lots on the Hansville property in early 2003. The Partnership intends to market the raw property to other developers in 2004.

Marketing. Marketing activities in the Real Estate segment consisted of marketing residential and commercial space available for lease during 2003. As mentioned above, the Partnership plans in 2004 to begin marketing the Hansville property to residential property developers. The Partnership is currently working with Kitsap County to purchase the 360-acres in Kingston for a county park.

Customers. The Partnership's customers for Port Gamble rental space consist of both individual and commercial tenants. Land-buying customers are typically either private individuals or residential contractors interested in purchasing undeveloped land.

Competition. The Partnership's Real Estate activities consist primarily of adding value to current land holdings. Once those properties are ready for development, the Partnership will likely seek property developers for a sale or joint venture. Other bulk parcel owners in the Puget Sound area have similar strategies.

Transportation. Land values for our Real Estate portfolio are strongly affected by transportation limitations between the Kitsap Peninsula and the Seattle-Tacoma corridor. Transportation options between Seattle/Tacoma and Kitsap County include driving on the Tacoma Narrows Bridge or taking a ferryboat. The Washington State Department of Transportation has been working for several years to add a new span to the Tacoma Narrows Bridge connecting Tacoma and Gig Harbor. The project was proposed as a public/private partnership that would be financed through the imposition of tolls. Construction of the span is now underway and is expected to be completed in 2007.

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Ferry transportation in our operating geography currently includes ferries that carry both automobiles and passengers from Kingston, Bremerton, or Bainbridge Island to Seattle and back. The Washington State Department of Transportation discontinued a foot-ferry service between Bremerton and Seattle in the summer of 2003. Voters in Kitsap County rejected a proposed sales tax that would have funded passenger-only ferry service from south,

central, and northern locations in Kitsap County to Seattle. There are currently several private companies exploring alternatives for providing passenger-only service to the Kitsap Peninsula.

Employees

As of January 1, 2004, the Partnership employed 40 full-time, year-round salaried employees and up to 26 part-time and seasonal personnel, who are distributed between the segments as follows:

Segment	Full Time	Part Time/ Seasonal	Total
Fee Timber	11	5	16
Timberland Management and Consulting	14	8	22
Real Estate	7	11	18
General and Administrative	8	2	10
Totals	40	26	66

None of the Partnership’s employees are subject to a collective bargaining agreement and the Partnership has no knowledge that any steps toward unionization are in progress. Management considers the Partnership’s relations with its employees to be good.

Government Regulation

In the operation and management of its tree farms, the Partnership is subject to federal and state laws that govern land use. Management’s objective is to be in compliance with such laws and regulations at all times. We anticipate that increasingly strict requirements relating to the environment, threatened and endangered species, natural resources, forestry operations, and health and safety matters, as well as increasing social concern over environmental issues, may result in additional restrictions on the timber operations of the Partnership. This will in turn result in increased costs, additional capital expenditures, and reduced operating flexibility. Management believes the Partnership’s assets and properties are in material compliance with all applicable federal, state and local laws, regulations and ordinances applicable to its business. However, there can be no assurance that future legislative, governmental, or judicial decisions will not adversely affect the Partnership’s operations. See “Governmental Regulation,” below.

Regulatory Structure

Growing and harvesting timber are subject to numerous laws and government policies to protect the environment, non-timber resources such as wildlife and water, and other social values. Changes in those laws and policies can significantly affect local or regional timber harvest levels and market values of timber-based raw materials. Real estate development activities are also subject to numerous state and local regulations such as the GMA. In addition, the Partnership is subject to federal, state or provincial, and local pollution controls (with regard to air, water and land); solid and hazardous waste management, disposal and remediation laws; and regulations in each segment and all geographic regions in which it has operations.

Endangered Species and Habitats. A number of fish and wildlife species that inhabit geographic areas near or within Partnership timberlands have been listed as threatened or endangered under the federal Endangered Species Act (ESA) or similar state laws in the United States. Federal ESA listings include the northern spotted owl, marbled murrelet, a number of salmon species, bull trout and steelhead trout in the Pacific Northwest. Listings of additional species or populations may result from pending or future citizen petitions or be initiated by Federal or state agencies. Federal and state requirements to protect habitat for threatened and endangered species have resulted in restrictions on timber harvest on some timberlands, including some timberlands of the Partnership. Additional listings of fish and wildlife species as endangered, threatened, or sensitive under the ESA and similar state laws as well as regulatory actions taken by Federal or state agencies to protect habitat for these species may, in the future, result in the following: an increase in operating costs; additional restrictions on timber harvests, forest management practices or real estate development; and potential impact on timber supply and prices.

Forestry Management Practices. Forest practice acts in some states in the United States increasingly affect present or future harvest and forest management activities. For example, in some states, these rules have one or more of the following impacts: limit the size of clear-cut; require some timber to be left unharvested to protect water quality and fish and wildlife habitat; regulate construction and maintenance of forest roads; require reforestation following timber harvest; and contain procedures for state agencies to review and approve proposed forest practice activities. Federal, state, and local regulations protecting wetlands could affect future harvest and forest management practices on some of the Partnership’s timberlands.

Each state in which the Partnership owns or manages timberlands has developed “best management practices” to reduce the effects of forest practices on water quality and aquatic habitats. Additional, more stringent

regulations may be adopted in order to achieve the following: enhance water quality standards under the federal Clean Water Act; protect fish and wildlife habitats; or advance other public policy objectives.

In the State of Washington, the Forest and Fish Report became the basis for revised Forest Practices Rules and Regulations that were adopted in 2000. The Washington Forest Protection Association produced the Forest and Fish Report through the collaborative efforts of Washington State’s private landowners; federal, state and county governments; and Native American tribes. The goals of these revised rules are:

- To provide compliance with the Endangered Species Act (ESA) for aquatic and riparian dependent species on private forest lands;
- To restore and maintain riparian habitat on private land to support a harvestable supply of fish;
- To meet the requirements of the Clean Water Act for water quality on private forest lands; and
- To keep the timber industry economically viable in the State.

The proposed Water Quality Standards that the Washington State Department of Ecology adopted in 2003 have undergone Department of Ecology and public scrutiny. As such, these rules should be sufficient to comply with the Anti-Degradation Implementation Plan as described in the Clean Water Act.

The regulatory and non-regulatory forest management programs described above have increased operating costs and resulted in changes in the value of timber and logs from the Partnership’s timberlands. These kinds of programs also can make it more difficult to respond to rapid changes in markets, extreme weather or other unexpected circumstances. One additional effect may be further reductions in usage of (and some substitution of other products for) lumber and plywood. The Partnership does not believe that these kinds of programs have had, or in 2004 will have, a significant effect on the Partnership’s total harvest of timber, although they may have such an effect in the future. Further, management does not expect the Partnership to be disproportionately affected by these programs as compared with typical timberland owners. Likewise, management does not expect that these programs will significantly disrupt its planned operations over large areas or for extended periods.

Water Quality. The U.S. Environmental Protection Agency also promulgated regulations in 2000 requiring states to develop total maximum daily load (TMDL) allocations for pollutants in water bodies that have been determined to be “water quality impaired.” The TMDL requirements may set limits on pollutants that may be discharged to a body of water or set additional requirements, such as best management practices for nonpoint sources, including timberland operations, to reduce the amounts of pollutants. These requirements are expected to impact tree farming principally through new rules requiring tree farms to better control silt from roads, harvest blocks and other management activities from coming in contact with water quality impaired bodies of water. TMDLs will be established for specific water bodies in many of the states in which the Partnership operates. TMDLs will be written to achieve water quality standards within 10 years when practicable. It is not possible at this time to estimate the capital expenditures that may be required for the Partnership to meet pollution allocations until a specific TMDL is promulgated or to determine whether these expenditures will have a material impact on the Partnership’s financial condition or results of operations.

Washington State Growth Management Act (GMA). Land holdings throughout Washington State are affected by the GMA, which requires counties to submit comprehensive plans that identify the future direction of growth and stipulate where population densities are to be concentrated. The purposes of the GMA include: (1) direction of population growth to population centers (Urban Growth Areas), (2) reduction of “suburban sprawl”, and (3) protection of historical sites. The Partnership works with local governments within the framework of the GMA to develop its real estate holdings to their highest and best use.

Item 2. PROPERTIES

Property	Segment	Acres/ Sq.Ft.	Type	Owned/ Leased	Encumbrance
Poulsbo headquarters building	G&A	4 Acres/ 10,000 Sq.Ft.	Office building	Owned	None
Total Acres used for office space		4 Acres			
Hood Canal tree farm	Fee Timber	71,145 acres	Timberland property	Owned	\$36.9 Million
Columbia tree farm	Fee Timber	43,979 acres*	Timberland property	Owned	None
Total Fee Timber Acres		115,124 acres			

Port Gamble townsite	Real Estate	130 acres	Land held for development	Owned	None
Kingston	Real Estate	1 acre	Land held for development	Owned	None
Bremerton	Real Estate	233 acres	Land held for development	Owned	\$0.1 Million
Gig Harbor	Real Estate	320 acres	Land held for development	Owned	\$0.7 Million
Hansville	Real Estate	248 acres	Land held for development	Owned	None
Teal Vista	Real Estate	272 acres	Land held for development	Owned	None
Shine Canyon	Real Estate	70 acres	Land held for development	Owned	None
Arborwood	Real Estate	720 acres	Land held for development	Owned	None
Heritage Park	Real Estate	360 acres	Land held for development	Owned	None
Point No Point	Real Estate	191 acres	Land held for development	Owned	None
Other	Real Estate	91 acres	Land held for development	Owned	None
Total Real Estate Acres		2,636			
Grand total acres		117,764			

* Includes 3,371 acres acquired in January 2004.

Item 3. LEGAL PROCEEDINGS

None.

Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of the Partnership's unit holders during the fourth quarter of 2003.

PART II

Item 5. MARKET FOR PARTNERSHIP'S UNITS AND RELATED SECURITY HOLDER MATTERS

Market Information

Certain information respecting trades in the Partnership's equity securities is quoted on the Nasdaq National Market System. The Partnership's units trade under the ticker symbol "POPEZ". The following table sets forth the 2002 – 2003 quarterly ranges of low and high prices for the Partnership's units:

	2003		2002	
	High	Low	High	Low
First Quarter	\$ 12.50	\$ 7.00	\$ 15.50	\$ 10.50
Second Quarter	\$ 12.40	\$ 8.95	\$ 15.00	\$ 11.70
Third Quarter	\$ 14.65	\$ 11.70	\$ 13.24	\$ 11.55
Fourth Quarter	\$ 15.99	\$ 12.56	\$ 11.80	\$ 9.30

Unitholders

As of January 31, 2004, there were approximately 280 holders of record of 4,518,095 outstanding units.

Distributions

All cash distributions are at the discretion of the Partnership's managing general partner, Pope MGP, Inc. (the "Managing General Partner"). The Partnership made two quarterly five-cents-per-unit distributions and two quarterly seven-cents per-unit distributions totaling \$1.1 million in 2003. The Partnership did not make distributions in 2001 and in October 2002 the Managing General Partner announced that it was reinstating a distribution policy. Management intends to continue to pay quarterly seven-cents-per-unit distributions in 2004 so long as the Managing General Partner determines this amount to be appropriate. Constraints established through existing timber mortgages limit distributions to 50% of net income, excluding distributions made to offset income tax expense resulting from ownership of the Partnership units. Management will periodically examine the distribution policy to ensure it meets the long-term objective of maximizing Partnership value.

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Issuance of Unregistered Securities

The Partnership did not conduct any unregistered offering of its securities in 2003.

Item 6. SELECTED FINANCIAL DATA

Actual Results. The financial information set forth below for each of the indicated years is derived from the Partnership's audited consolidated financial statements. This information should be read in conjunction with the consolidated financial statements and related notes included with this report and previously filed with the Securities and Exchange Commission (SEC).

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(Dollars in thousands, except per unit data)	2003	2002	2001	2000	1999
Statement of operations data					
Revenues:					
Fee Timber (4)	\$22,916	\$23,298	\$24,999	\$ 21,444	\$23,467
Timberland Management and Consulting	2,386	7,295	9,703	11,011	11,705
Real Estate (5)	1,734	1,599	13,143	18,202	15,681
Total revenues	27,036	32,192	47,845	50,657	50,853
Operating income/(loss):					
Fee Timber (4)	9,669	10,199	9,190	12,895	13,609
Timberland Management and Consulting (2)(7)	272	919	1,685	75	1,861
Real Estate (1)(5)(6)	(476)	(1,667)	(2,709)	(11,593)	(508)
General and Administrative	(2,842)	(3,864)	(5,110)	(7,254)	(8,282)
Total operating income/(loss)	6,623	5,587	3,056	(5,877)	6,680
EBITDDA (8):					
Net income/(loss) (3)	3,528	3,334	(432)	(6,251)	5,066
Net interest and income tax	3,048	2,106	3,317	374	1,298
Depreciation, Depletion, and amortization	3,546	3,864	7,698	2,899	2,683
EBITDDA	10,122	9,304	10,583	(2,978)	9,047
Free cash flow (8):					
Net income (loss)	3,528	3,334	(432)	(6,251)	5,066
Plus:					
Depreciation, Depletion, and amortization	3,546	3,864	7,698	2,899	2,683
Cost of land sold	200	189	777	31	1,193
Less:					
Principal payments	1,662	1,110	3,460	424	497
Recurring capital expenditures	2,017	2,158	1,995	2,858	3,764
Free cash flow(4)	3,595	4,119	2,588	(6,603)	4,681
Cash flow from operations	8,641	9,005	11,237	9,973	8,347
Earnings/(loss) per unit – diluted	0.78	0.74	(0.10)	(1.38)	1.11
EBITDDA per unit	2.23	2.06	2.34	(0.66)	2.00
Distribution per unit	0.24	0.10	—	0.40	0.40
Balance sheet data					
Total assets	86,308	86,788	84,187	60,857	66,880
Long-term debt	36,114	37,665	38,592	12,685	13,282
Partners' capital	46,036	43,598	40,673	41,280	49,302
Debt to total capitalization	45%	47%	49%	24%	22%

Other data

Acres owned/managed (thousands)	114	270	617	655	534
Fee timber harvested (MMBF)	45.0	45.1	36.3	37.3	42.0

- (1) Real Estate operating income in 2002 includes the following charges the Partnership does not expect to recur: \$730,000 environmental remediation charge related to the townsite at Port Gamble, Washington and a \$165,000 charge for warranty liabilities for homes sold in Port Ludlow, Washington prior to the August 2001 sale of Port Ludlow operations.
- (2) Timberland Management and Consulting operating income in 2002 includes \$583,000 of restructuring charges following the loss of the HTRG timberland management contract and closure of timberland consulting offices in Canada.
- (3) The Partnership recorded a tax benefit of \$907,000 in 2002 following the closure of the timberland consulting offices in Canada.
- (4) The Partnership acquired the Columbia tree farm in March 2001. This acquisition does not represent a recurring capital expenditure and was not included in the calculation of free cash flow.
- (5) The Partnership sold its assets and operations in Port Ludlow, Washington in August 2001. Real Estate results for the 2001-year end include asset impairment charges of \$1.3 million resulting from negotiations surrounding the sale of assets in Port Ludlow.
- (6) In December 2000 the Partnership recorded an asset impairment charge of \$9.2 million as a result of the planned disposition of Port Ludlow. Year 2000 Real Estate results also include a \$2.0 million charge for estimated environmental remediation charges at the Port Gamble townsite.
- (7) In December 2000 the Partnership recorded an asset impairment charge of \$900,000 as a result of the planned disposition of the forestry consulting operations in British Columbia and a decline in acres managed for Hancock Timber Resource Group.
- (8) The Company considers earnings (net income or loss) before interest expense, income taxes, depreciation, depletion and amortization (EBITDDA) and free cash flow to be relevant and meaningful indicators of liquidity and earnings performance commonly used by investors, financial analysts and others in evaluating companies in its industry and, as such, has provided this information in addition to the generally accepted accounting principle-based presentation of net income or loss.

Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Note: Certain information in this report constitutes forward-looking statements within the meaning of federal securities laws. Forward-looking information, which includes forecasted asset purchases and sales and forecasted sources and uses of cash is subject to risks, trends, and uncertainties that could cause actual results to differ materially from those projected. Those uncertainties include but are not limited to changes to (1) regulations that affect the Partnership's ability to harvest timber and develop real estate, (2) economic conditions, which can have a significant effect on the price the Partnership can obtain for its timber, real estate, and other investments, and (3) each of those items discussed in "Risk and Uncertainties", below.

This discussion should be read in conjunction with the Partnership's audited consolidated financial statements included with this report.

EXECUTIVE OVERVIEW

Pope Resources, A Delaware Limited Partnership ("we" or the "Partnership"), was organized in October 1985 as a result of a spin-off by Pope & Talbot, Inc. ("P&T"). Pope Resources is engaged in three primary businesses. The first, and by far most significant segment in terms of owned assets and operations, is the Fee Timber segment. Operations in this segment consist of growing timber to be harvested as logs for sale to export and domestic manufacturers. The second most significant business in terms of total assets owned is the development and sale of real estate. Real Estate activities primarily take the form of securing permits and entitlements for raw land and then realizing that land's value by the selling of larger parcels to buyers who will take the land further up the value chain-either to home buyers or commercial property end-users. Since these land projects span multiple years, the Real Estate segment may incur losses for multiple years until a major project is sold resulting in operating income. Our third business is that of providing timberland-related services to third parties. These services may take the form of large-scale timberland management, forestry consulting, or acquisition or disposition services. Factors affecting results from each of these segments are discussed in more detail below.

As of December 31, 2003, we owned nearly 112,000 acres of timberland in western Washington state plus 2,600 acres of real estate held for development. In January 2004 the Partnership acquired an additional 3,300 acres of timberland in its current operating area. Our third-party services have been historically conducted in the states of Washington, Oregon, and California, plus the Canadian provinces of British Columbia and Alberta.

Macroeconomic factors that have a significant bearing on our business include the following: housing starts in the US (and to a lesser degree in Japan); interest rates; and currency exchange rates – particularly those between the US and Canada, Japan, and Europe. The first two of these macroeconomic factors reflect or influence the health of the U.S. housing market. The housing market, together with the repair and remodel market, consume nearly 73% of the log volume supplied to the U.S. Currency exchange rates influence the competitiveness of our primary product compared to logs that might be imported from Canada, Europe, or the Southern Hemisphere. A favorable US\$/yen exchange rate can help our export logs compete in the Japanese market with logs that originate from Canada, Europe, or the Southern Hemisphere.

As an owner and manager of timberland, we focus keenly on three “product” markets: the markets for logs, lumber and timberland. Each of these markets has unique and distinct market factors so that they do not move up or down in lockstep with each other. Generally, the lumber market is the most volatile as it responds quickly (even daily) to changing demand expectations that are housing-driven and changes to lumber inventories. Log markets will in turn be affected by what is happening in the lumber spot markets, but pricing shifts typically adjust monthly rather than daily. Log price volatility is also moderated because logs are used to produce products besides just lumber (especially pulp). The market for timberland tends to be even less volatile with pricing that lags both lumber and log markets. This is a function of the longer time horizons utilized by investors in timberland where the short-swing fluctuations of log or lumber prices become stabilized in acquisition modeling. We watch the lumber market because activity there can presage log price changes. We are in the log market constantly as we negotiate delivery prices to our customers. The timberland market is important as we are constantly evaluating our own portfolio and its underlying value as well as the opportunities to adjust that portfolio through either the acquisition or disposition of such land.

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Management’s major opportunity and challenge is to profitably grow our revenue base. We have added almost 44,000 acres over the last three years to our timberland portfolio with the most recent addition of 3,300 acres coming in January 2004. Our real estate challenges center around how and when to “harvest” a parcel of land and capture the optimum value increment through sale. Regarding our third-party timberland services, we are without a major client contract in early 2004 for the first time in six years and are intently seeking to secure income opportunities for this segment.

Our consolidated revenues in 2003, 2002, and 2001, on a percentage basis by segment, are as follows:

Segment	2003	2002	2001
Fee Timber	85%	72%	52%
Timberland Management and Consulting	9%	23%	20%
Real Estate	6%	5%	28%

Further segment financial information is presented in Note 10 to the Partnership’s Consolidated Financial Statements included with this report.

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RESULTS OF OPERATIONS

The following table reconciles net income (loss) for the years ended December 31, 2003 to 2002 and 2002 to 2001. This table provides readers with some detailed numeric analysis of factors affecting changes in net income over the last three years. Explanatory text describing these changes is contained in the remainder of this Management Discussion and Analysis of Operations.

	ANNUAL COMPARISONS (Amounts in \$000's except per unit data)			
	2003 vs. 2002		2002 vs. 2001	
	Total	Per Unit	Total	Per Unit
Net income (loss):				
2003	\$ 3,528	\$ 0.78		
2002	3,334	0.74	\$ 3,334	\$ 0.74
2001			(432)	(0.10)
Variance	194	0.04	3,766	0.84
Detail of earnings variance:				
Fee Timber				
Log price realizations (A)	(693)	(0.15)	(501)	(0.11)
Log volumes (B)	(2)	0.00	3,050	0.67
Timberland sale income	236	0.05	(4,675)	(1.04)

Depletion	198	0.04	3,323	0.73
Other Fee Timber	(269)	(0.06)	(196)	(0.04)
Timberland Management & Consulting				
Management fee changes	(3,791)	(0.84)	(1,152)	(0.25)
Other Timberland Mgmt & Consulting	3,144	0.70	386	0.09
Real Estate				
Environmental remediation reserve	730	0.16	(730)	(0.16)
Operating results from sold RE op's	112	0.02	925	0.20
Other Real Estate	349	0.08	(403)	(0.09)
Asset impairment	-	-	1,250	0.28
General & administrative costs	1,022	0.23	1,246	0.27
Interest expense	235	0.05	127	0.03
Other (taxes, minority int., interest inc.)	(1,077)	(0.24)	1,116	0.25
Total change in earnings	\$ 194	\$ 0.04	\$ 3,766	\$ 0.83

(A) Price variance allocated based on changes in price using the current period volume.

(B) Volume variance allocated based on change in sales volume and the average log sales price for the prior period less variance in log production costs.

Fee Timber

Revenues and Operating Income

Fee Timber revenue is earned primarily from the harvest and sale of logs from the Partnership's 112,000 acres of fee timber located in western Washington and to a lesser extent from the sale of gravel and cellular communication tower leases. In January 2004 we acquired an additional 3,300 acres of timberland, which increased our timberland holdings to 115,000 acres.

Revenue and operating income generated by the Fee Timber segment for each year in the three-year period ended December 31, 2003, are as follows:

Year ended	Timber revenue	Mineral, cell tower, and other revenue	Total Fee Timber revenue	Operating income
December 31, 2003	\$21.4 million	\$1.5 million	\$22.9 million	\$9.7 million
December 31, 2002	22.0 million	1.3 million	23.3 million	10.2 million
December 31, 2001	18.3 million	6.7 million	25.0 million	9.2 million

Fiscal Year 2003 compared to 2002. Fee Timber revenue decreased \$382,000, or 1.6%, to \$22.9 million in 2003 from \$23.3 million in 2002. Harvest volume declined slightly to 45.0 million board feet (MMBF) from 45.1 MMBF for 2002. The decline in harvest volume combined with a \$12 per MBF decline in average price realized resulted in the decline in revenue, which was partially offset by an increase in revenue from small timberland sales that represented \$288,000 of revenue in 2003 and \$44,000 of revenue in 2002. Operating income decreased \$530,000, or 5.2%, to \$9.7 million from \$10.2 million in 2002. The decrease in operating income is due to the decline in revenue and an increase in road maintenance and silviculture costs.

The Partnership regularly adjusts its timberland portfolio of holdings as part of its active management through acquisitions and dispositions of smaller parcels. The timberland acquisition in January of 2004 of 3,300 acres for \$8.5 million is a good example of this type of transaction. A large component of this specific acquisition represented merchantable timber. As a result, annual harvest levels in 2004 and 2005 are expected to increase to approximately 58 MMBF and are forecasted to fall back to the 2003 level of 45 MMBF in 2006.

Fiscal Year 2002 compared to 2001. Fee Timber revenue decreased \$1.7 million, or 7%, to \$23.3 million in 2002 from \$25.0 million in 2001. In 2002, we harvested 45.1 million board feet (MMBF) — up 8.8 MMBF, or 24%, from the 2001 harvest volume of 36.3 MMBF. In spite of this harvest volume difference, annual revenues for 2002 are 7% lower than the prior year's revenues due to the sale of 3,750 acres of land and timber for \$5.3 million in 2001. Our weighted average log price of \$488 per thousand board feet (MBF) for the year ending 2002 was down \$15/MBF, or 3%, from the year ending 2001. Operating income increased \$1.0 million, or 11%, to \$10.2 million in 2002 from \$9.2 million in 2001, largely due to the increase in harvest volume.

Export Log Market. Log revenues from our timberland ownership are significantly affected by export log market conditions. Sales to the export market totaled 11%, 15%, and 20% of log revenue for 2003, 2002, and 2001, respectively. The vast majority of our export log volume is sold to Japan. Indirect sales to the export market totaled 4.2 MMBF, 6.3 MMBF, and 8.1 MMBF, of softwood logs for 2003, 2002, and 2001, respectively. The decrease in volume sold through the export market in 2003 is indicative of deteriorating export market conditions, a trend that also existed from 2001 to 2002. The average price per MBF realized for export logs sold was \$574, \$574, and \$620 for 2003, 2002, and 2001, respectively.

The 2003 realized average export log price did not change from 2003 to 2002 but declined 7% from 2002 to 2001. Low export prices realized in 2003 and 2002 were driven largely by weak economic conditions in Japan, the growth of engineered wood products, and increased foreign competition in the log market. The export log market is experiencing some improvement in export pricing in the first quarter of 2004, but management does not project a significant, sustained improvement in the export market in the foreseeable future.

Domestic Log Market. Domestic sawlog volumes were 32.0 MMBF, 30.6 MMBF, and 19.9 MMBF in 2003, 2002, and 2001, respectively. The increase in domestic volume sold in 2003 from 2002 represents a shift in volume from the export market to the domestic market. Average realized domestic log prices per MBF were \$514, \$535, and \$560 in 2003, 2002, and 2001, respectively. Prices realized from domestic log sales declined due to two separate factors. First, lumber imports from Canada have increased as a result of the softwood lumber dispute between the U.S. and Canada. As a result, log prices have declined as domestic mills are competing with imported Canadian lumber. Second, the domestic log market remains saturated with logs that were redirected away from weak Asian export markets. Management expects to continue pursuing heavier sales volumes in domestic markets so long as overseas log markets remain relatively weak.

Other Timber Products. Pulp, hardwood, and other log volumes represented 19%, 18%, and 23% of total harvest volume for 2003, 2002, and 2001, respectively. The slight increase in other timber volume sold as a percent of total volume in 2003 relative to 2002 is due to the harvesting of more lower-quality hemlock stands on the Hood Canal tree farm, which produced a higher proportion of pulp logs. The significant decline in pulp, hardwood and other volume as a percent of total harvest in 2002 relative to 2001 is due to improved log merchandising. Logs sold as pulp generally command lower prices than logs sold as sawlogs in the domestic market. To the extent log volume can be moved from pulp logs to domestic sawlog sorts, higher revenue is realized. Other log prices were \$292, \$249, and \$254, per MBF for 2003, 2002, and 2001, respectively. The increase in price realized on other timber products represents an improvement in price realized on pulp logs in 2003 relative to 2002. The increase in pulp prices was caused by a decline in local pulp log inventories. The decline in other log prices in 2002 relative to 2001 reflects the overall decline in log prices during that period.

Harvest Volumes and Seasonality. We harvested the following timber for each year in the three-year period ended December 31, 2003:

Year	Softwood sawlogs		Pulp, hardwood, and other		Totals	
	Volume MMBF	Price \$/MBF	Volume MMBF	Price \$/MBF	Volume MMBF	Price \$/MBF
2003	36.2	\$521	8.8	\$292	45.0	\$476
2002	36.8	\$542	8.3	\$249	45.1	\$488
2001	27.9	\$577	8.4	\$254	36.3	\$503

The Partnership's 115,000 acres of timberland consist of the 71,000-acre Hood Canal tree farm and the 44,000-acre Columbia tree farm, which includes the 3,300 acres acquired in January 2004. The Hood Canal tree farm is located in the Hood Canal region of Washington State. Most of this tree farm acreage is at a relatively low elevation where harvest activities are possible year-round. As a result of this competitive advantage, we are often able to harvest and sell a greater portion of our annual harvest in the first half of the year when the log supply in the marketplace tends to be lower. During 2003 management decided to front load harvest toward the beginning of the year to take advantage of what appeared to be a short-term spike in the log markets. Harvest activities in 2002 were relatively consistent from quarter to quarter while, during 2001, harvest activities tapered off in early autumn as we reached our planned annual harvest volume. The percentage of annual harvest volume harvested by quarter for each year in the three-year period ended December 31, 2003 is as follows:

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Year ended	Q1	Q2	Q3	Q4
December 31, 2003	29%	28%	27%	16%
December 31, 2002	16%	32%	27%	25%
December 31, 2001	23%	30%	36%	11%

Cost of Sales

Fee Timber cost of sales for each year in the three-year period ended December 31, 2003, are as follows:

Year ended	Depletion	Harvest, haul and other	Land sale costs	Total
December 31, 2003	\$2.9 million	\$7.3 million	\$ -million	\$10.2 million
December 31, 2002	3.1 million	7.3 million	-million	10.4 million
December 31, 2001	6.4 million	6.1 million	0.8 million	13.3 million

Depletion costs from harvest activities averaged \$64, \$68, and \$55 per MBF for 2003, 2002, and 2001, respectively. The depletion rate changes each year as harvested timber stands are removed, or depleted, and new depletion "layers" are added to the overall depletion pool as merchantable timber stands reach the age of 40. The depletion rate in 2003 declined 6% from the rate in 2002, reflecting the interplay between removing harvested timber stands and adding new depletion "layers." Blending the higher relative cost basis of the timber on the Columbia tree farm acquired in 2001 with Hood Canal tree farm's low historical basis caused the depletion rate per MBF to increase significantly from 2001 to 2002. Depletion costs in 2001 also include \$4.4 million in depletion resulting from timberland sales, most notably stemming from the 3,750-acre sale of a portion of the Columbia tree farm. The depletion rate in 2002 represents one full year of harvest from the higher cost basis Columbia tree farm. Management expects an increase in the depletion rate in 2004 as we closed on an \$8.5 million timberland acquisition early in 2004.

Harvest, haul and other costs (excluding costs resulting from timberland sales) averaged \$160, \$159, and \$165 per MBF for 2003, 2002, and 2001, respectively. Average harvest haul and other costs increased modestly from 2002 to 2003 and decreased from 2001 to 2002. Harvest costs vary based upon the physical site characteristics of acreage harvested. Harvest units that are difficult to access, or that are located on steep hillsides, are more expensive to harvest. Haul costs vary based upon the distance between the harvest site and the customer's location. Costs resulting from timberland sales were \$32,000, \$20,000, and \$0.8 million in 2003, 2002, and 2001, respectively. The timberland sale costs in 2001 resulted from the aforementioned 3,750-acre sale of a portion of the Columbia tree farm.

Operating Expenses

Fee Timber operating expenses for each of the three years ended December 31, 2003, 2002, and 2001 were \$3.1 million, \$2.7 million, and \$2.5 million, respectively. Operating cost increased in 2003 relative to 2002 due to added silviculture and road maintenance costs. Silviculture costs represent the cost of projects that are undertaken for the purpose of increasing the quantity or quality of our timber inventory. Examples include management of competing vegetation and work performed to improve the seed stock available for us to grow seedlings for future reforestation. We have experienced an increase in road maintenance costs following the enactment of new road maintenance rules in Washington state. Management expects continued high levels of road maintenance costs for the next 2 to 3 years as we upgrade roads and culverts to comply with the new rules. The increase in operating expenses in 2002 relative to 2001 is due to the first full year of operating costs for the Columbia tree farm that was acquired in March of 2001.

Timberland Management and Consulting

Revenues and Operating Income

The Timberland Management and Consulting segment earns revenue by providing timberland management and forestry consulting services to timberland owners and managers. An additional aspect of that segment's activities is the development of timberland property portfolios on behalf of third-party clients. Management is currently marketing a timber fund to individual and institutional investors interested in investing directly in timberland properties to diversify their portfolios.

Results for 2003 reflect the decline in revenue following HTRG's decision to integrate management of its client properties into operations with the corollary decision not to renew the timberland management contract with ORMLLC. Revenues and operating income for the Timberland Management and Consulting segment for each year in the three-year period ended December 31, 2003, are as follows:

Year ended	Revenues	Operating income
December 31, 2003	\$2.4 million	\$0.3 million
December 31, 2002	7.3 million	0.9 million [^]
December 31, 2001	9.7 million	1.7 million

[^] Net of \$583,000 of restructuring charges

Fiscal Year 2003 compared to 2002. Revenue decreased \$4.9 million, or 67%, to \$2.4 million in 2003 from \$7.3 million in 2002. The decrease in revenue was primarily the result of HTRG's decision to not renew the management contract with ORMLLC and the closure of our Canadian forestry consulting offices. Operating income declined \$647,000, or 72%. Revenue and operating income in 2003 includes \$1.8 million and \$1.6 million of revenue, respectively, from a major timberland management client. ORMLLC successfully completed the

management assignment for this client in late 2003. As a result, operating results for 2004 are expected to compare unfavorably to 2003 for this segment unless additional management or consulting assignments are located to replace the revenue from the completed project.

Fiscal Year 2002 compared to 2001. Revenue decreased \$2.4 million, or 25%, to \$7.3 million in 2002 from \$9.7 million in 2001. The decrease in revenue resulted from the renegotiation of a timberland management contract in mid-2001. The contract change resulted in a lower management fee offset in part by a larger fee earned upon disposition of the properties managed. Operating income declined \$766,000 or 47%. The decrease in operating income is primarily due to \$583,000 of restructuring charges recorded in the fourth quarter of 2002 following HTRG's decision to not renew the management contract with ORMLLC and the closure of our Canadian forestry consulting offices.

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Operating Expenses

Timberland Management and Consulting operating expenses for each of the three years ended December 31, 2003, 2002, and 2001 were \$2.1 million, \$6.4 million, and \$8.0 million, respectively. Operating expenses decreased \$4.3 million, or 67%, in 2003 relative to 2002 as a result of reducing the support infrastructure supporting the HTRG contract and closure of the forestry consulting offices in Canada. Operating expenses decreased in 2002 relative to 2001 as a result of reduced operating expenses in the forestry consulting business in Canada offset by the \$583,000 of restructuring charges recorded following the loss of the HTRG contract and closure of the forestry consulting offices in Canada.

Investor Portfolio Management Business (IPMB)

IPMB operations include timberland management and portfolio development. An example of portfolio development is ORM Timber Fund I, LP. If and when the fund is fully subscribed, both management and acquisition fees will be earned from administering the fund. These activities are, as well as the marketing costs associated with the fund, part of the IPMB. IPMB operations are currently conducted in ORMLLC and are subject to the following terms in the fund's Limited Partnership Agreement.

Limitation on Expenditures

The 1997 amendment to Pope Resources' Limited Partnership Agreement authorizing the IPMB strategy limits our cumulative net expenditures to \$5,000,000, including debt guarantees. As of December 31, 2003 cumulative expenditures incurred in pursuit of IPMB opportunities, including guarantees, were less than cumulative revenues generated. Therefore, cumulative net expenditures as of December 31, 2003 against the \$5,000,000 limit are zero.

Allocation of Income

The 1997 amendment to Pope Resources' Limited Partnership Agreement further specifies that income from the IPMB will be split using a sliding scale allocation method beginning at 80% to the Partnership's wholly-owned subsidiary, ORM, Inc., and 20% to Pope MGP, Inc., the managing general partner of the Partnership. The sliding scale allocation method will evenly divide IPMB income between ORM, Inc. and Pope MGP, Inc. once such income reaches \$7,000,000 in any given fiscal year.

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Real Estate

Revenues and Operating Income

Real Estate segment revenues are derived from land sales and rental income from income-producing properties. Results from Real Estate operations are expected to vary significantly from year to year as we make multi-year investments in entitlements and infrastructure prior to selling entitled or developed land.

An example of this is our development property at Gig Harbor, Washington. In 2003, the City of Gig Harbor approved an amendment to its comprehensive plan that allows 35 acres of our property to be upzoned from "business park" to "commercial" zoning. Following this amendment, work began immediately to submit a rezone application and to plan the infrastructure necessary to make development of this site possible. In December 2003 we signed a purchase and sale agreement with Costco Wholesale Corporation to sell up to 20 acres of this 320-acre site for a store expected to open in 2005. Our agreement with Costco specifies a price to be paid of \$10 per square foot, with the amount of square footage ultimately dependent on final site layout and store design considerations. We expect the ultimate sale price paid to be approximately \$7.5 million for approximately 17 acres. This sale is not expected to close until late 2004 or 2005 as closing is contingent upon completion of the rezone application and installation of certain key infrastructure components.

Revenues and operating loss for the Real Estate segment for each year in the three-year period ended December 31, 2003, are as follows:

Year ended	Revenues	Operating loss	Operating loss excluding nonrecurring expenses
December 31, 2003	\$1.7 million	\$(0.5) million	(0.5) million
December 31, 2002	1.6 million	(1.7) million#	(0.8) million
December 31, 2001	13.1 million	(2.7) million^	(1.4) million

Includes \$730,000 of environmental remediation charges related to Port Gamble and \$165,000 of warranty charges related to Port Ludlow.

^ Includes \$1.3 million in asset impairment charges related to the sale of Port Ludlow.

Fiscal Year 2003 compared to 2002. Revenue increased \$135,000, or 8%, to \$1.7 million from \$1.6 million in 2002. The increase in revenue is due to an increase in revenue generated at the Port Gamble townsite offset by a decrease in revenue from land sales. The Port Gamble townsite has benefited from increased management attention following the sale of Port Ludlow in 2001. Management has identified several buildings that were not being utilized to their full potential and, after making some capital improvements, has leased the properties at higher rates than previously realized. Land sale revenue has declined following the 2002 sale of all the lots in the Seabeck and Grandridge plats.

Fiscal Year 2002 compared to 2001. Revenue generated by the Real Estate segment decreased \$11.5 million due to the sale of Port Ludlow operations in August 2001. Operating loss decreased \$1.0 million primarily due to fewer non-recurring charges in 2002 (\$895,000 in 2002 and \$1.3 million in 2001) and the sale of Port Ludlow in 2001.

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Cost of Sales

Real Estate cost of sales for each of the three years ended December 31, 2003, 2002, and 2001 were \$390,000, \$1.0 million, and \$7.2 million, respectively. The decrease in cost of sales in 2003 relative to 2002 is due to the decrease in land sales. The decrease in costs of sales in 2002 relative to 2001 was due to the sale of Port Ludlow in the earlier period.

Operating Costs

Real Estate operating expenses for each of the three years ended December 31, 2003, 2002, and 2001 were \$1.8 million, \$2.3 million, and \$8.6 million, respectively. The decrease in operating expense from 2003 to 2002 is due to \$895,000 of non-recurring expenses (\$730,000 of environmental remediation and \$165,000 of warranty charges) in 2002 netted against an increase in operating expenses for the Gig Harbor property. The decrease in operating expenses in 2002 relative to 2001 is due to the sale of Port Ludlow in 2001 offset by the \$895,000 of non-recurring charges in 2002.

Environmental Remediation Costs

We have an accrued liability of \$292,000 and \$629,000 at December 31, 2003 and 2002, respectively. The accrual represents estimated environmental remediation charges in and around the townsite of Port Gamble. Port Gamble is a historic town that was owned by Pope & Talbot, Inc. (P&T) for decades until 1985 when the townsite and other assets were spun off to the Partnership. P&T continued to operate the townsite through 1995 and lease the mill site at Port Gamble until January 2002 when a settlement agreement was signed between the Partnership and P&T, which divided up the responsibility for paying environmental remediation charges in Port Gamble. The mill site had an operating lumber mill through 1995 that was dismantled by the end of 1996.

Activity in the environmental remediation liability consists of the following:

	Balances at the beginning of the period	Additions to accrual	Expenditures for remediation	Balances at the end of the period
Year Ended December 31, 2001	\$1,870,000	\$ —	\$ 461,000	\$1,409,000
Year Ended December 31, 2002	1,409,000	730,000	1,510,000	629,000
Year Ended December 31, 2003	629,000	—	337,000	292,000

As of December 31, 2003 the majority of the clean up work was complete. Most of the expenditures now represent the cost of monitoring the sites, which is required for five years. The remaining liability as of December 31, 2003 is expected to be adequate to cover remaining costs; however, if monitoring activities discover additional contamination, costs could exceed management's current estimate.

General and Administrative (G&A)

Fiscal Year 2003 compared to 2002. G&A costs decreased \$1.1 million, or 26%, to \$2.8 million from \$3.9 million in 2002. The decrease is due to reductions in administrative headcount following the loss of the HTRG

contract in December of 2002. G&A costs represented 11% of revenue for the year ended December 31, 2003 as compared to 12% of revenue for the comparable period in 2002.

Fiscal Year 2002 compared to 2001. G&A costs decreased \$1.2 million, or 24%, to \$3.9 million in 2002 from \$5.1 million in 2001. The decrease is due to continued efforts to realize cost savings from our administrative departments following the sale of operations at Port Ludlow offset by \$90,000 of restructuring charges incurred in 2002 following the loss of the HTRG contract. G&A costs represented 12% of revenue for the year ended December 31, 2002 as compared to 11% for the comparable period in 2001.

Taxes

Fiscal Year 2003 compared to 2002. Income tax expense represents the tax expense associated with the Partnership's taxable subsidiaries where third-party fee-for-service business is conducted. Tax expense in 2003 was \$242,000 compared with a tax benefit of \$788,000 in 2002. The income tax benefit in 2002 is the result of reducing the valuation allowance on a deferred tax asset relating to the realization of net operating losses from a subsidiary in Canada that was liquidated in the fourth quarter of 2002.

Fiscal Year 2002 compared to 2001. An income tax benefit of \$788,000 was recorded in 2002 compared to an expense of \$0.4 million in 2001. The income tax benefit in 2002 resulted from the aforementioned realization of a tax benefit resulting from the Canadian subsidiary. Tax expense in 2001 resulted from income generated from the third-party fee-for-service business.

Minority Interest

Minority interest represents Pope MGP, Inc.'s share of earnings from the Partnership's IPMB. A description of IPMB can be found in the preceding discussion of operating results for the Timberland Management and Consulting segment.

Fiscal Year 2003 compared to 2002. The minority interest charge decreased \$100,000 in 2003 to \$47,000 from \$147,000 in 2002. The decline in minority interest is due to the loss of the HTRG contract in December 2002. Minority interest in 2003 was generated through commissions earned on the disposition of timberland properties for a timberland management customer.

Fiscal Year 2002 compared to 2001. The minority interest charge decreased \$24,000 to \$147,000 in 2002 from \$171,000 in 2001. The decrease in minority interest is due to the reduction in operating income from our timberland management activities following HTRG's decision not to renew its management contract with ORM LLC.

Supplemental Segment Information

The following table provides quarterly comparative operating information for our segments:

	SEGMENT INFORMATION (all amounts in \$000's)			
	Three months ended Dec. 31, 2003	Three months ended Dec. 31, 2002	Twelve months ended Dec. 31, 2003	Twelve months ended Dec. 31, 2002
Revenues:				
Fee Timber	\$3,809	\$ 5,873	\$22,916	\$23,298
Timberland Management & Consulting (TM&C)	1,350	1,672	2,386	7,295
Real Estate	520	221	1,734	1,599
Total	\$5,679	\$ 7,766	\$27,036	\$32,192
EBITDDA (1):				
Fee Timber	1,717	3,323	12,676	13,363
TM&C	736	(94)	341	1,109
Real Estate	(195)	(337)	(391)	(1,610)
General & administrative and minority interest	(691)	(971)	(2,504)	(3,558)
Total	\$1,567	\$ 1,921	\$10,122	\$ 9,304
Depreciation, depletion and amortization:				
Fee Timber	481	729	3,007	3,164
TM&C	19	40	69	190

Real Estate	23	12	85	57
General & administrative	94	119	385	453
	<hr/>	<hr/>	<hr/>	<hr/>
Total	\$ 617	\$ 900	\$ 3,546	\$ 3,864
	<hr/>	<hr/>	<hr/>	<hr/>
Operating income/(loss):				
Fee Timber	1,236	2,594	9,669	10,199
TM&C	717	(134)	272	919
Real Estate	(218)	(349)	(476)	(1,667)
General & administrative	(738)	(1,078)	(2,842)	(3,864)
	<hr/>	<hr/>	<hr/>	<hr/>
Total	\$ 997	\$ 1,033	\$ 6,623	\$ 5,587
	<hr/>	<hr/>	<hr/>	<hr/>
Reconciliation of net income to EBITDDA:				
Net income	--	696	3,528	3,334
Depreciation depletion and amortization	617	900	3,546	3,864
Net interest expense	711	733	2,806	2,894
Income tax provision (benefit)	239	(408)	242	(788)
	<hr/>	<hr/>	<hr/>	<hr/>
EBITDDA	\$1,567	\$ 1,921	\$10,122	\$ 9,304
	<hr/>	<hr/>	<hr/>	<hr/>

(1) EBITDDA represents earnings before interest, taxes, depletion, depreciation, and amortization.

LIQUIDITY AND CAPITAL RESOURCES

Cash Flows

General. The Partnership's cash position has been building since 2001 when we used a combination of timber mortgage debt and proceeds from the sale of Port Ludlow to acquire the Columbia tree farm. As of December 31, 2003 our cash position was \$10.4 million, representing a \$3.7 million increase from the December 31, 2002 balance of \$6.6 million. In January 2004 we used \$8.3 million of this cash balance to acquire 3,300 acres of timberland that is interspersed among the Columbia tree farm (a \$250,000 earnest money deposit had been paid into escrow prior to year-end 2003). As a result of this acquisition, our timber harvest is expected to increase 25% to 58 MMBF in both 2004 and 2005 from 45 MMBF in 2003 and 2002, which will result in an increase in both net income and operating cash flows.

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We generate operating cash flow through the sale of timber products, by providing timberland management and consulting services, and by selling land for development. An additional recurring source of cash is payments received on a note receivable from the purchaser of the Port Ludlow assets, which were sold in 2001. This note, secured by homes and lots in Port Ludlow, has a balance of \$817,000 at December 31, 2003, and matures in August 2004. Significant recurring uses of cash include the following: replanting and fertilizing trees; maintaining an adequate road system on our tree farms; investing in our development properties; funding annual debt payments on timber mortgages and local improvement district debt; and funding quarterly cash distributions. As a general rule, management expects operating cash flows will be sufficient to cover the foregoing and to build up cash reserves. As discussed below, however, we may incur additional debt in the future to fund timberland purchases or significant capital improvements on our development properties if management determines operating cash flows or cash reserves are not sufficient to cover these expenditures. Management decided to not renew its line of credit in 2002 as the cash balance and short-term capital needs made the line of credit unnecessary. While credit markets are currently very favorable for the Partnership, management can make no assurance that if we need to obtain capital through borrowing in the future that financing will be available on terms acceptable to management.

Operating cash flows. The table below provides the components of operating cash flows for each of the three years 2001, 2002, and 2003. Cash received from customers and paid to suppliers and employees results from the harvest and sale of forest products from our tree farms, timberland management and consulting services provided to timberland owners, and finally, the sale and management of our development properties.

	12/31/2003	12/31/2002	12/31/2001
Operating cash flow:			
Cash received from customers	\$ 29,582	\$ 33,997	\$ 44,918
Cash paid to suppliers and employees	(17,961)	(21,841)	(30,897)
Interest received	306	416	490
Interest paid, net of amounts capitalized	(3,117)	(3,382)	(3,264)
Income taxes paid	(169)	(185)	(10)
	<hr/>	<hr/>	<hr/>
Cash provided by operations	\$ 8,641	\$ 9,005	\$ 11,237
	<hr/>	<hr/>	<hr/>

Cash provided by operations decreased \$364,000 or 4% to \$8.6 million in 2003 from \$9.0 million in 2002. The decrease in cash provided by operations is due primarily to the loss of the HTRG management contract in

December 2002. In addition to the loss of cash generated from this contract we made restructuring payments of \$466,000 during 2003 to restructure operations following the loss of this portion of our operations. Offsetting these decreases in operating cash flow was a \$1.2 million decrease in cash paid for the environmental remediation at Port Gamble and an increase in cash generated from the Fee Timber segment as a result of the timing of harvest activities at the end of 2002 and during 2003.

Cash provided by operations decreased \$2.2 million or 20% to \$9.0 million from \$11.2 million in 2001. The decrease in operating cash flow was primarily due to the sale of Port Ludlow in 2001 and an increase in environmental remediation expenditures of \$1.0 million.

Cash used in investing activities. The table below represents the components of cash used in investing activities for the three years 2001, 2002, and 2003. Investing activities consist primarily of tree planting, road building and silviculture activities on our tree farms and investment in our development properties to acquire the entitlements necessary to make further development of the properties possible.

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	12/31/2003	12/31/2002	12/31/2001
Investing activities:			
Buildings and equipment	\$ (624)	\$ (668)	\$ (865)
Development properties	(613)	(280)	(94)
Timber and roads	(780)	(1,210)	(1,036)
Acquisition of Columbia tree farm	-	-	(54,555)
Proceeds from the sale of fixed assets	17	482	7
Proceeds from the sale of Port Ludlow	-	-	10,151
Cash used in investing activities	\$ (2,000)	\$ (1,676)	\$ (46,392)

Cash used in investing activities increased \$324,000, or 19%, to \$2.0 million due to an increase in investments in development properties, a decrease in proceeds from the sale of fixed assets netted against a decrease in permanent road construction (temporary roads and road repair are expensed as incurred). The increase in development property capital expenditures has been driven by an increase in activities on our development property at Gig Harbor. In 2002, we sold an office building acquired with the Columbia tree farm that resulted in greater proceeds from sales of fixed assets when compared to 2003.

Cash used in investing activities decreased \$44.7 million to \$1.7 million in 2002 from \$46.4 million in 2001. This decrease is due to the acquisition of the Columbia tree farm in 2001, netted against proceeds from the sale of Port Ludlow. Following the sale of Port Ludlow, capital expenditures for buildings and equipment decreased. Port Ludlow's various commercial properties required large recurring capital expenditures.

Cash used in financing activities. The table below represents the components of cash used in financing activities for the three years 2001, 2002, and 2003. Our financing activities primarily result from payments made on the timber mortgages, unitholder distributions, and distributions to the managing general partner, Pope MGP for its minority interest in the IPMB.

	12/31/2003	12/31/2002	12/31/2001
Financing activities:			
Mortgage proceeds	\$ -	\$ -	\$30,000
Mortgage/LID payments	(1,662)	(1,110)	(3,460)
Cash distribution to unitholders	(1,084)	(452)	-
Cash used to repurchase units	-	-	(162)
Minority interest distribution	(161)	(187)	(58)
Cash (used) provided by financing activities	\$ (2,907)	\$ (1,749)	\$26,320

Cash used in financing activities increased \$1.2 million, or 66%, to \$2.9 million in 2003. Half this increase is due to an increase in required principal payments on our timber mortgages from \$1.0 million in 2002 to \$1.5 million in 2003. The increase in required annual principal payments under the mortgages was negotiated at the time of the acquisition of the Columbia tree farm in 2001. The other half of the increase is due to an increase in cash used for distributions, which increased from two quarterly distributions totaling \$0.10 per unit in 2002 to four quarterly distributions totaling \$0.24 per unit in 2003.

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Cash provided by financing activities decreased from \$26.3 million in 2001 to cash used in financing activities of \$1.7 million in 2002. The primary reason for this fluctuation is mortgage debt of \$30.0 million incurred in connection with the acquisition of the Columbia tree farm, netted against \$3.0 million in mortgage

prepayments in late 2001 following the sale of a subset of the newly acquired Columbia tree farm. The additional mortgage principal payment was allowed under the mortgage agreement without incurring a prepayment premium. The Partnership has already taken advantage of all unscheduled mortgage paydowns allowed without triggering a prepayment premium under the mortgage agreement.

Expected future changes to cash flows

Operating cash flows. As discussed above, we plan to increase the Partnership's annual harvest volume from 45 MMBF in 2003 to 58 MMBF in 2004 and 2005. The increase is due to the January 2004 acquisition of 3,300 acres of timberland with a large component of merchantable timber. The increased harvest level is expected to translate into an increase in cash flow from operations in both 2004 and 2005.

Investing Activities. As noted above, we incurred timberland acquisition cost of \$8.5 million in January 2004 to purchase additional acreage. Additional investing activities in 2004 and 2005 include a planned \$5 million co-investment in ORM Timber Fund I, LP (the "Fund"). The Fund is currently being marketed to institutional investors and high net worth individuals as a vehicle for investment in timberlands. The Partnership has agreed to invest up to 10% of the total amount of equity capital raised by the Fund, targeted at \$50 million. This investment will not be made until the Fund is fully subscribed and timberland acquisitions have been identified. In addition to the Fund, expenditures on our project at Gig Harbor are expected to increase over the next few years.

Financing Activities. When the Fund is fully subscribed we may need to raise additional capital to make our co-investment in the Fund. Additionally, management is always looking for opportunities to add to our timberland portfolio where expected returns meet management's expectations. The capital required for Gig Harbor is expected to result in only a short-term capital infusion to bridge the time between making infrastructure investments and closing land sales such as for Costco Wholesale Corporation. Management anticipates using short-term bank debt to bridge this capital need. However, we currently have no credit arrangements in place.

Management is currently evaluating options for financing the projects discussed under investing activities. As indicated above, current plans are to fund these projects from a combination of operating cash flow and short-term debt. In considering the options for funding cash requirements, management has weighed the alternatives of issuing new Partnership units vs. incurring debt. Management's view is that the prevailing trading price of the Partnership's units at this time makes the issuance of additional units a sub-optimal currency with which to fund growth. Our debt-to-total-capitalization ratio as of December 31, 2003, as measured by the book and market value of our equity, was 45% and 35%, respectively. Should a financing need arise, management is comfortable that there is room to take on some debt with the ratio at these levels, since our loan covenant which limits debt-to-total-capitalization to 50% is measured against the lower of these two calculations.

The Hood Canal tree farm secures the Partnership's current timberland mortgage while the Columbia tree farm is not currently used as collateral on any debt obligations. The Partnership's strong financial position and historically low interest rates makes borrowing relatively inexpensive and easy to obtain.

Risks and Uncertainties

A number of known risks, some of which are discussed below, as well as various unknown risks and uncertainties, may cause our revenues to fall short of management's expectations. Although certain statements in this report are forward looking in nature, these known and unknown risks make it impossible for management to predict with any degree of certainty either quantitative factors such as cash flow, results of operations or financial condition, or qualitative factors such as management's plans, objectives, or responses to various events or occurrences. Readers therefore should recognize that statements other than those of historical fact are not guarantees or assurances of future performance, but are "forward looking statements" within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended. Some of our forward looking statements can be identified by the use of predictive terms such as "expect," "anticipate," "will," "might," "may," "plans" and words of similar meaning or construction. The following section discusses some of the known risks that may cause our actual financial results to fall materially short of management's expectations, or that may cause management to deviate from its expressed intentions or predictions. Readers should also recognize that this list is not exhaustive, and in addition to those factors listed below, a wide range of risks faced by most or all participants in the timber industry or in international trade, as well as various unexpected events or conditions, may adversely impact our business.

Competition Generally

We compete against much larger companies in each of its business segments. We compete with these companies for management and line personnel, as well as for purchases of relatively scarce capital assets such as land and standing timber and for sales of our products. These larger competitors may have access to larger amounts of capital and significantly greater economies of scale, and they may be better able to absorb the risks of our line of business. Moreover, the timber industry has experienced significant consolidation in recent years, and as that consolidation occurs, our relative market share decreases and the relative financial capacity of our competitors increases. While management believes the Partnership is at a competitive advantage over some of these companies because of our lack of vertical integration into forest products manufacturing, our advantageous tax structure, and management's attempts to diversify our asset base, we cannot assure readers that competition will not have a material and adverse effect on our results of operations or our financial condition.

Fee Timber Competition and Demand Issues

Fee Timber revenue is generated primarily through the sale of softwood logs to the domestic and export markets located in western Washington. The market for these products is significantly affected by fluctuations in U.S. and Japanese economies and in relative currency exchange rates. The market for our timber products is generally negatively affected by the rise in the use of engineered wood products that substitute for solid-sawn products. The rise in the use of engineered wood products results in less of a premium for larger-diameter Douglas-fir logs. Many of the engineered wood products are made from lower quality logs, which over time has eroded log prices and created more of a "commoditization" of wood fiber. While timber sold has realized lower prices with the rise in engineered wood products, wood fiber is expected to remain an important commodity that management expects will continue to be used extensively for building.

The proximity of lumber mills to the timberland supplying these mills is important to our profitability. Western Washington has experienced a trend towards consolidation of lumber mills to fewer, larger volume manufacturers. Local demand for our products has remained strong through the trend towards consolidation of lumber mills in western Washington. If in the future that consolidation leads to less local competition for wood fiber, our profitability could be negatively impacted.

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Canadian lumber imports have increased over the last few years as a result, in part, of the protracted trade dispute between the U.S. and Canada, in which the U.S. imposed duties on Canadian lumber imports. Because these duties were based upon the average cost per MBF to produce lumber in Canada, they had the inadvertent effect of increasing Canadian production as producers worked to lower their per unit costs and thus lower their export duties, as measured on a per MBF basis. This resulted in an increase of Canadian lumber imports, which has had a negative impact on domestic lumber prices. Lower domestic lumber prices tend to decrease the price of logs sold domestically. The impact to log prices of any eventual settlement to the trade dispute between the U.S. and Canada is difficult to predict.

Our ability to grow and harvest timber can be significantly impacted by legislation to restrict or stop forest practices. Restrictions to logging, planting, road building, fertilizing, managing competing vegetation, and other activities can significantly increase the cost or reduce available inventory thereby reducing future income.

Timberland Management and Consulting

Over 76% of Timberland Management and Consulting revenue in 2003 was generated through one client. The project that we were working on in 2003 for this client was largely completed as of December 31, 2003 with the disposition of the last of their properties. As a result management does not expect 2004 operations to include significant revenue from this client. We are working to expand our customer base through market outreach efforts to create additional management and consulting opportunities for prospective clients that are looking to lower costs and improve efficiencies. However, we cannot assure readers that these plans will prove viable or that management will successfully implement those plans.

Real Estate

The value of our real estate investments is subject to changes in the economic and regulatory environment. Our real estate investments are long-term in nature, which raises the risk of unforeseen changes in the economy or laws surrounding development activities having an adverse affect on our investments.

Tax Status

The Partnership is a Master Limited Partnership (MLP) and is therefore not subject to income taxes. If that changed due to a change in tax law (or interpretation of current tax law) such that the Partnership became subject to income taxes, operating results would be adversely affected.

Securities and Exchange Commission (SEC) Regulation

As a publicly traded partnership the company is subject to the laws and regulations affecting all publicly held entities. The cost of compliance with these laws and regulations has increased over the last few years as rule making, enforcement actions, and lawsuits have become more prevalent. Our strategy for dealing with these changes is to continue to make our periodic reporting to investors and the SEC accurate, informative and in compliance with applicable securities laws.

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Contractual Obligations, Commercial Commitments and Contingencies

Our commitments at December 31, 2003 consist of performance bonds, operating leases, and purchase obligations entered into in the normal course of business.

Obligation or Commitment	Payments Due By Period/ Commitment Expiration Period				
	Total	Less than 1 year	1-3 years	4-5 years	After 5 years
Total debt	\$37,745,000	\$1,631,000	\$3,250,000	\$2,750,000	\$30,114,000
Performance bonds	93,000	—	—	—	93,000
Operating Leases	133,000	70,000	49,000	14,000	—
Unconditional purchase obligations	251,000	147,000	104,000	—	—
Other long term obligations	442,000	125,000	130,000	130,000	57,000
Total contractual obligations	\$38,664,000	\$1,973,000	\$3,533,000	\$2,894,000	\$30,264,000

We have debt totaling \$37.7 million with the contractual maturities described in Note 3 of Partnership's Consolidated Financial Statements included with this report. The Partnership has committed to invest 10% of equity capital in ORM Timber Fund I, LP once a timberland acquisition is closed by the fund. Targeted equity capital for this fund is \$50 million and at that level the Partnership's commitment would be \$5.0 million.

Other long-term obligations include the Partnership's \$292,000 contingent liability as of December 31, 2003 for environmental remediation in and around the Port Gamble townsite and \$150,000 liability for a supplemental employment retirement plan. We expect to spend \$125,000 of these liabilities in 2004 and \$317,000 thereafter.

The Partnership may from time to time be a defendant in lawsuits arising in the ordinary course of business. Management believes that loss to the Partnership, if any, will not have a material adverse effect to the Partnership's consolidated financial condition or results of operations.

Off Balance Sheet Arrangements

The Partnership is not a party to off-balance sheet arrangements and does not hold variable interests in unconsolidated entities.

Capital Expenditures and Commitments

We acquired 3,300 acres of timberland that is interspersed with the Columbia tree farm in January 2004 using \$8.5 million of cash. Additional capital expenditures in 2004 are currently expected to be approximately \$4.4 million. However, these expenditures could be increased or decreased as a consequence of future economic conditions. The majority of the increase in capital expenditures in 2004 over both 2003 and 2002 represents costs expected to be incurred at our development property at Gig Harbor, Washington. We expect that the funds for these expenditures will primarily be generated internally through operations but may require some short-term external financing.

Government Regulation

Compliance with laws, regulations, and demands usually involves capital expenditures as well as operating costs. We cannot easily quantify future amounts of capital expenditures required to comply with laws, regulations, and demands, or the effects on operating costs, because in some instances compliance standards have not been developed or have not become final or definitive. Accordingly, at this time we have not included herein a quantification of future capital requirements to comply with any new regulations being developed by the United States or Canadian regulatory agencies.

Additionally, many federal and state environmental regulations, as well as local zoning and land use ordinances, place limits upon various aspects of our operations. These limits include restrictions on our harvest methods and volumes, remediation requirements that may increase our post-harvest reclamation costs, ESA limitations on our ability to harvest in certain areas, zoning and development restrictions that impact our real estate segment, and a wide range of other existing and pending statutes and regulations. Various initiatives are presented from time to time that seek further restrictions on timber and real estate development businesses, and although management currently is not aware of any material noncompliance with applicable law, we cannot assure readers that we ultimately will be successful in complying with all such regulations or that additional regulations will not ultimately have a material adverse impact upon our business.

Accounting Standards Implemented

In January 2003, the FASB issued Interpretation No. 46 (FIN No. 46), "Consolidation of Variable Interest Entities." This Interpretation addresses consolidation by business enterprises of variable interest entities (VIE's). A VIE is subject to the consolidation provisions of FIN No. 46 if it cannot support its financial activities without additional subordinated financial support from third parties or its equity investors lack any one of the following characteristics: the ability to make decisions about its activities through voting rights, the obligation to absorb losses of the entity if they occur, or the right to receive residual returns of the entity if they occur. FIN No. 46 requires a VIE to be consolidated by its primary beneficiary. The primary beneficiary is the party that holds the variable interests that expose it to a majority of the entity's expected losses and/or residual returns. For purposes of determining a primary beneficiary, all related party interests must be combined with the actual interests of the Company in the VIE. The application of this Interpretation is immediate for VIE's created or altered after January 31, 2003, and is effective at the end of the first interim or annual period ending after December 15, 2003, for variable interest entities that existed prior to February 1, 2003.

The Partnership is currently working to locate investors for a partnership with a target amount of \$50 million in equity capital. Upon funding this \$50 million target, this new partnership will seek to place the raised capital in timberland investments. The Partnership will invest 10% of the equity capital in the fund so that, for example, if the target of \$50 million is reached Pope Resources will have contributed \$5 million of that equity total. ORM Timber Fund I, LP is expected to be classified as a VIE and will need to be consolidated into the Partnership's financial statements since an indirect subsidiary of the Partnership (Olympic Resource Management LLC) will act as manager and general partner of this partnership.

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Critical Accounting Policies and Estimates

We believe our most critical accounting policies and estimates include those related to management's calculation of timber depletion and liabilities related to matters such as environmental remediation, potential asset impairments, and valuation allowance on deferred tax assets. In relation to liabilities, potential impairments and other estimated charges, it is management's policy to conduct ongoing reviews of significant accounting policies and assumptions used in the preparation of the financial results of the Partnership. The assumptions used are tested against available and relevant information and reviewed with subject-matter experts for consistency and reliability. During the preparation of financial results, when facts or circumstances indicate that asset impairment may exist, tests are conducted to ascertain that the net book carrying values of these assets are not in excess of fair values. These tests use current market information, if available, or other generally accepted valuation methods, such as future cash flows. When the use of estimates is necessary, an exact answer is unlikely, and therefore, the reporting within a range of likely outcomes is used in the preparation of the financial statements. Tests are also applied in order to be reasonably assured that liabilities are properly reflected on the records of the Partnership and that the notes to the financial statements are prepared in a fashion that informs readers of possible outcomes and risks associated with the conduct of business.

Depletion: Depletion represents the cost of timber harvested and is charged to operations by applying a depletion rate to volume harvested during the period. The depletion rate is calculated on January 1st of each year by dividing the Partnership's cost of merchantable timber by the volume of merchantable timber. Merchantable timber is defined as timber that is equal to or greater than 40 years of age. To calculate the depletion rate the Partnership has determined that a combined pool representing costs and volume of both the Hood Canal and Columbia tree farms is the most appropriate method to use.

Inventory volumes take into account the applicable state and federal regulatory limits on timber harvests as applied to the Partnership's properties, including the new Forests and Fish law that supplements Washington State's forest practice regulations to provide for expanded riparian management zones, wildlife leave trees, and other harvest restrictions. Timber inventory volume is accounted for by the Partnership's standing timber inventory system, which utilizes annual statistical sampling of the timber (cruising) with annual adjustments made for estimated growth and the depletion of areas harvested.

The standing inventory system is subject to two processes each year to monitor accuracy. The first is the annual cruise process and the second is a comparison of (a) volume actually extracted by harvest to (b) inventory in the standing inventory system at the time of the harvest. A "cruise" represents a physical measurement of timber on a specific set of acres. The cruise process is completed when the physical measurement totals are compared to the inventory in the standing inventory system. Only productive acres with timber that is at least 20 years old are selected to cruise. The Partnership cruised 20% of its productive acres with 20 year old or greater timber in 2003 and plans to continue to cruise 20% for at least the next few years. Specific acres are first selected for cruising with a bias towards those acres that have gone the longest without a cruise and, second, with a bias towards those acres that have been growing the longest. As the cruise is being performed, only those trees with a breast height diameter (approximately 4.5 feet from the ground) of at least 6 inches are measured for inclusion in the inventory.

A 5% change in estimated timber inventory volume would have changed 2003 depletion expense by \$152,000.

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Environmental remediation: The environmental remediation liability represents estimated payments to be made to remedy and monitor certain areas in and around the townsite of Port Gamble. Port Gamble is a historic town that was owned and operated by P&T, a related party, until 1985 when the townsite and other assets were spun off to the Partnership. P&T continued to operate the townsite until 1996 and leased the mill site at Port Gamble through January 2002, at which point P&T signed an agreement with the Partnership dividing the responsibility for environmental remediation of Port Gamble between the two parties.

The environmental remediation liability on the Partnership's books is based upon an estimate of the Partnership's portion of the clean-up costs under this agreement with P&T. During 2002 the environmental liability increased \$730,000 as a result of costs to complete the Partnership's share exceeding the original estimate. While the majority of the Partnership's portion of the clean up efforts is complete, there remains the possibility that the remaining remediation or monitoring activities may exceed estimates, resulting in an additional environmental remediation charge. Management will continue to monitor the remaining liability against estimates to complete to determine if an adjustment to the environmental remediation liability is necessary to accurately represent management's estimate of remaining cost to complete the project.

Deferred tax assets: The Partnership has a United States subsidiary corporation that has \$1.0 million of deferred tax assets as of December 31, 2003. The majority of this balance represents net operating loss carryforwards resulting from the liquidation of our subsidiary in Canada. Management evaluates the likelihood of earning taxable income to absorb net operating loss carryforwards each reporting period to determine if deferred tax assets are likely to be utilized.

Item 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rate Risk

As of December 31, 2003, the Partnership had \$37.7 million of fixed rate debt outstanding with a fair value of approximately \$42.2 million based on the current interest rates for similar financial instruments. A change in the interest rate on fixed rate debt will affect the fair value of the debt, whereas a change in the interest rate on variable rate debt will affect interest expense and cash flows. A hypothetical 1% change in prevailing interest rates would change the fair value of the Partnership's fixed-rate long-term debt obligations by \$1.9 million.

Since the Partnership's currently outstanding debt is fixed rate, net income and cash flows are not affected when market interest rates change.

Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTAL DATA

POPE RESOURCES

A DELAWARE LIMITED PARTNERSHIP

YEARS ENDED DECEMBER 31, 2003, 2002, AND 2001

POPE RESOURCES, A DELAWARE LIMITED PARTNERSHIP

YEARS ENDED DECEMBER 31, 2003, 2002, AND 2001

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INDEPENDENT AUDITORS' REPORT

Board of Directors and Unitholders
Pope Resources, A Delaware Limited Partnership:

We have audited the accompanying consolidated balance sheets of Pope Resources, A Delaware Limited Partnership, and subsidiaries (collectively, the Partnership) as of December 31, 2003 and 2002, and the related consolidated statements of operations, partners' capital and comprehensive income (loss), and cash flows each of the years in the two year period ended December 31, 2003. In connection with our audits of the consolidated financial statements we also have audited the consolidated financial statement schedule listed in the index at Item 15 as of and for the years ended December 31, 2003 and 2002. These consolidated financial statements and consolidated financial statement schedule are the responsibility of the Partnership's management. Our responsibility is to express an opinion on these consolidated financial statements and consolidated financial statement schedule based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above, present fairly, in all material respects, the financial position of Pope Resources, A Delaware Limited Partnership, and subsidiaries as of December 31, 2003 and 2002, and the results of their operations and their cash flows for each of the years in the two year period ended December 31, 2003, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the related consolidated financial statement schedule as of and for the years ended December 31, 2003 and 2002, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

/s/ KPMG LLP

Seattle, Washington
February 3, 2004

INDEPENDENT AUDITORS' REPORT

Board of Directors and Unitholders
Pope Resources, A Delaware Limited Partnership
Poulsbo, Washington

We have audited the accompanying consolidated balance sheet of Pope Resources, A Delaware Limited Partnership, and subsidiaries (collectively, the "Partnership") as of December 31, 2001 (not included herein), and the related consolidated statements of operations, partners' capital, and cash flows for the year then ended. Our audit also included the consolidated financial statement schedule listed in the index at Item 15. These financial statements and financial statement schedule are the responsibility of the Partnership's management. Our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Pope Resources, A Delaware Limited Partnership, and subsidiaries as of December 31, 2001, and the results of their operations and their cash flows for the year then ended, in conformity with accounting principles generally

accepted in the United States of America. Also, in our opinion, such consolidated financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

/s/ Deloitte & Touche LLP

Seattle, Washington
February 22, 2002

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POPE RESOURCES, A DELAWARE LIMITED PARTNERSHIP

CONSOLIDATED BALANCE SHEETS

DECEMBER 31, 2003 AND 2002

(IN THOUSANDS)

	2003	2002
ASSETS		
Current assets:		
Cash and cash equivalents	10,361	6,627
Accounts receivable, net of allowance for doubtful accounts of \$13 and \$31	865	1,768
Work-in-progress	135	175
Current portion of contracts receivable	872	23
Prepaid expenses and other	545	325
	<hr/>	<hr/>
Total current assets	12,778	8,918
	<hr/>	<hr/>
Properties and equipment, at cost:		
Land and land improvements	20,800	20,179
Roads and timber, net of accumulated depletion of \$21,335 and \$18,453	48,203	50,316
Buildings and equipment, net of accumulated depreciation of \$5,537 and \$4,990	3,107	3,335
	<hr/>	<hr/>
	72,110	73,830
	<hr/>	<hr/>
Other assets:		
Contracts receivable, net of current portion	196	2,721
Other	1,224	1,319
	<hr/>	<hr/>
	1,420	4,040
	<hr/>	<hr/>
Total assets	86,308	86,788
	<hr/>	<hr/>
LIABILITIES AND PARTNERS' CAPITAL		
Current Liabilities:		
Accounts payable	536	546
Accrued liabilities	1,325	1,739
Restructuring	—	466
Environmental remediation	100	430
Current portion of long-term debt	1,631	1,574
Minority interest	89	203
Other current liabilities	135	168
	<hr/>	<hr/>
Total current liabilities	3,816	5,126
	<hr/>	<hr/>
Long-term debt	36,114	37,665
Other long-term liabilities	342	399
Commitments and contingencies		
Partners' capital (units outstanding: 4,518 and 4,518)	46,036	43,598
	<hr/>	<hr/>
Total liabilities and partners' capital	86,308	86,788
	<hr/>	<hr/>

See accompanying notes to consolidated financial statements.

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POPE RESOURCES, A DELAWARE LIMITED PARTNERSHIP

CONSOLIDATED STATEMENTS OF OPERATIONS

YEARS ENDED DECEMBER 31, 2003, 2002, AND 2001

(IN THOUSANDS, EXCEPT PER UNIT INFORMATION)

	2003	2002	2001
	<u> </u>	<u> </u>	<u> </u>
Revenues:			
Fee timber	\$ 22,916	\$ 23,298	\$ 24,999
Timberland management and consulting	2,386	7,295	9,703
Real estate	1,734	1,599	13,143
	<u> </u>	<u> </u>	<u> </u>
Total revenues	27,036	32,192	47,845
Costs and expenses:			
Cost of sales:			
Fee timber	(10,150)	(10,364)	(13,271)
Real estate	(390)	(990)	(7,160)
	<u> </u>	<u> </u>	<u> </u>
Total cost of sales	(10,540)	(11,354)	(20,431)
Operating expenses:			
Fee timber	(3,097)	(2,735)	(2,538)
Timberland management and consulting (TM&C)	(2,114)	(5,793)	(8,018)
TM&C Restructuring costs	—	(583)	—
Real estate	(1,820)	(1,546)	(7,442)
Real estate environmental remediation	—	(730)	—
Real estate asset impairment	—	—	(1,250)
General & administrative (G&A)	(2,842)	(3,774)	(5,110)
G&A restructuring costs	—	(90)	—
	<u> </u>	<u> </u>	<u> </u>
Total operating expenses	(9,873)	(15,251)	(24,358)
Operating income (loss)			
Fee timber	9,669	10,199	9,190
Timberland management and consulting	272	919	1,685
Real estate	(476)	(1,667)	(2,709)
Unallocated general & administrative (G&A)	(2,842)	(3,864)	(5,110)
	<u> </u>	<u> </u>	<u> </u>
Total operating income	6,623	5,587	3,056
Other income (expense):			
Interest expense	(3,089)	(3,324)	(3,443)
Interest income	283	430	482
	<u> </u>	<u> </u>	<u> </u>
Total other expense	(2,806)	(2,894)	(2,961)
Income (loss) before income taxes and Minority interest	3,817	2,693	95
Income tax benefit (expense)	(242)	788	(356)
	<u> </u>	<u> </u>	<u> </u>
Income (loss) before minority interest	3,575	3,481	(261)
Minority interest	(47)	(147)	(171)
	<u> </u>	<u> </u>	<u> </u>
Net income (loss)	\$ 3,528	\$ 3,334	\$ (432)
Earnings (loss) per unit:			
Basic	\$ 0.78	\$ 0.74	\$ (0.10)
	<u> </u>	<u> </u>	<u> </u>
Diluted	\$ 0.78	\$ 0.74	\$ (0.10)
	<u> </u>	<u> </u>	<u> </u>

See accompanying notes to consolidated financial statements.

AND COMPREHENSIVE INCOME (LOSS)

YEARS ENDED DECEMBER 31, 2003, 2002, AND 2001

(IN THOUSANDS)

	General Partners	Limited Partners	Total
January 1, 2000	\$ 816	\$ 40,464	\$ 41,280
Net loss	(6)	(426)	(432)
Translation loss	—	(13)	(13)
Comprehensive loss	(6)	(439)	(445)
Partnership unit repurchase	—	(162)	(162)
December 31, 2001	810	39,863	40,673
Net income	44	3,290	3,334
Translation income	1	42	43
Comprehensive income	45	3,332	3,377
Distributions	(6)	(446)	(452)
December 31, 2002	849	42,749	43,598
Net income	47	3,481	3,528
Translation loss	—	(6)	(6)
Comprehensive income	47	3,475	3,522
Distributions	(14)	(1,070)	(1,084)
December 31, 2003	\$ 882	\$ 45,154	\$ 46,036
Weighted average units outstanding:	12/31/2003	12/31/2002	12/31/2001
Basic	4,518	4,518	4,526
Diluted	4,522	4,520	4,526

See accompanying notes to consolidated financial statements.

POPE RESOURCES, A DELAWARE LIMITED PARTNERSHIP

CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2003, 2002, AND 2001

(IN THOUSANDS)

	2003	2002	2001
Cash flows from operating activities:			
Cash received from customers	\$ 29,582	\$ 33,997	\$ 44,918
Cash paid to suppliers and employees	(17,961)	(21,841)	(30,897)
Interest received	306	416	490
Interest paid, net of amounts capitalized	(3,117)	(3,382)	(3,264)

Income taxes (paid)/received	(169)	(185)	(10)
Net cash provided by operating activities	8,641	9,005	11,237
Cash flows from investing activities:			
Capital expenditures	(2,017)	(2,158)	(1,995)
Proceeds from sale of fixed assets	17	482	7
Proceeds from the sale of Port Ludlow	—	—	10,151
Columbia tree farm acquisition	—	—	(54,555)
Net cash used for investing activities	(2,000)	(1,676)	(46,392)
Cash flows from financing activities:			
Cash distributions to unitholders	(1,084)	(452)	—
Issuance of long-term debt	—	—	30,000
Repayment of long-term debt	(1,662)	(1,110)	(3,460)
Purchase of Partnership units	—	—	(162)
Minority interest distribution	(161)	(187)	(58)
Net cash provided (used) for financing activities	(2,907)	(1,749)	26,320
Net increase (decrease) in cash and cash equivalents	3,734	5,580	(8,835)
Cash and cash equivalents:			
Beginning of year	6,627	1,047	9,882
End of year	\$ 10,361	\$ 6,627	\$ 1,047
Reconciliation of net income (loss) to net cash provided by operating activities:			
Net income (loss)	\$ 3,528	\$ 3,334	\$ (432)
Cost of land sold	200	189	777
Cost of Art sold	175	—	—
Minority interest	47	165	156
Depreciation and amortization	658	779	1,290
Depletion	2,888	3,085	6,408
Deferred tax expense	242	(975)	107
Loss on retirement of PP&E	—	292	16
Increase (decrease) in cash from changes in operating accounts:			
Accounts receivable	903	(649)	814
Work in progress	40	343	7,541
Contracts receivable	1,676	2,087	(3,174)
Other current assets	(384)	158	50
Loan fees and other	—	32	(60)
Accounts payable and accrued liabilities	(424)	336	(129)
Restructuring	(466)	441	(630)
Environmental remediation	(337)	(780)	(461)
Deposits	(1)	24	(437)
Deferred profit	(32)	22	(568)
Other long-term liabilities	(50)	84	—
Other, net	(22)	38	(31)
Net cash provided by operating activities	\$ 8,641	\$ 9,005	\$ 11,237

See accompanying notes to consolidated financial statements.

POPE RESOURCES, A DELAWARE LIMITED PARTNERSHIP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2003, 2002 AND 2001

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of operations:

Pope Resources, A Delaware Limited Partnership (the "Partnership") is a publicly traded limited partnership engaged principally in managing timber resources on its own properties as well as those owned by others. The managing general partner is Pope MGP, Inc. The Partnership operates in three business segments: Fee Timber, Timberland Management and Consulting, and Real Estate. Fee Timber represents the growing and harvesting of trees from owned properties. Timberland Management and Consulting represents management and consulting services provided to third party owners of timberlands. Real Estate consists of obtaining entitlements for properties that have been identified as having value as developed residential or commercial

property and operating the Partnership's existing commercial and residential properties in Kitsap County, Washington. Prior to August 2001, Real Estate included the sale of single-family homes and various commercial property operations. As described in Note 2, the majority of those real estate operations were sold during 2001.

Principles of consolidation:

The consolidated financial statements include the accounts of the Partnership and its subsidiaries. Intercompany balances and transactions have been eliminated in consolidation.

Minority interest:

Minority interest represents Pope MGP, Inc.'s interest in the Investor Portfolio Management Business (IPMB) (see Note 9) and has been classified as a current liability since the minority interest's share in income is generally distributed on an annual basis.

Use of estimates in financial statements:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cost of sales:

For statement of operations presentation, cost of sales consists of the Partnership's cost basis in homes, lots, timber, other inventory sold, and direct costs incurred to make those assets saleable. Those direct costs include the expenditures associated with the harvesting and transporting of timber and closing costs incurred in home and lot sale transactions.

Concentration of credit risk:

Financial instruments that potentially subject the Partnership to concentrations of credit risk consist principally of accounts and contracts receivable. Receivables from foreign sales represent 12%, 6%, and 68% of the Partnership's accounts receivable balance as of December 31, 2003, 2002, and 2001, respectively. The Partnership limits its credit exposure by considering the creditworthiness of potential customers. Losses from accounts receivable have historically been less than \$10,000 per year. An allowance for doubtful accounts was recorded in the Canadian subsidiary of \$33,000 in 2000. In 2003 and 2002, \$13,000 and \$31,000 of the original allowance remained, respectively. The Partnership regularly assesses the collectibility of its accounts receivables and recognizes an allowance as appropriate. The Partnership believes that the allowance for doubtful accounts is adequate to absorb estimated losses.

Contracts receivable:

The Partnership sells land parcels under contracts requiring a minimum cash down payment of 20% and having financing terms of up to eight years at interest rates of 7% to 10% per annum. The Partnership reduces credit risk on contracts through down payment requirements and utilizing the underlying land as collateral. Over the past several years, there have been a steadily declining number of outstanding contracts receivable, as fewer new land sales have been transacted on this basis. Existing contracts are being paid off as they come due or as the result of refinancing obtained from other parties on more favorable terms.

At December 31, 2003, minimum principal payments on contracts receivable for the next five years and thereafter are due as follows:

2004	\$872,000
2005	33,000
2006	13,000
2007	39,000
2008	90,000
Thereafter	21,000

Minimum principal payments due in 2004 include an \$817,000 note receivable resulting from the Port Ludlow sale as discussed in Note 2. This note is secured by homes and lots in Port Ludlow and payments on this note are due as the properties are sold.

Income taxes:

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are

recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Operating loss and tax credit carry forwards are also factored into the calculation of deferred tax assets and liabilities. Deferred tax assets and liabilities are measured using enacted tax rates that are expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

Property, equipment, and roads:

Depreciation is provided using the straight-line method over the estimated useful lives of the assets, which range from 5 to 39 years. The Partnership capitalizes the cost of building permanent roads on the tree farms and expenses temporary roads and road maintenance. Capitalized roads are depleted as timber is harvested. The road depletion rate is calculated by dividing the cost of capitalized roads at the beginning of the year by merchantable timber inventory. The resulting rate is applied to timber harvested during the year to determine road depletion expense.

When facts and circumstances indicate the carrying value of properties may be impaired, an evaluation of recoverability is performed by comparing the carrying value of the property to the projected future undiscounted cash flows. Upon indication that the carrying value of such assets may not be recoverable, the Partnership would recognize an impairment loss, determined on the basis of fair market value, and charge this amount against current operations (See Note 2).

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Timber:

The depletion rate is calculated by dividing estimated merchantable timber inventory into the cost basis of merchantable inventory as of the beginning of the year. Since the tree farms are managed as a single investment and share products and customers a single depletion rate is calculated and utilized for both tree farms. The cost of replanting acres harvested is initially capitalized as a part of pre-merchantable timber. Then, after 40 years such costs are reclassified from pre-merchantable to merchantable timber and are then incorporated into the cost basis for purposes of calculating the depletion rate. The cost of acquiring the Columbia tree farm was allocated to the age classes of timber purchased and each of these annual "depletion layers" are rolled into merchantable timber inventory when those stands turn 40 years old. The combined depletion rate is then applied to all timber volume harvested which results in depletion expense.

Revenue recognition:

Revenue on timber sales is recorded when title and risk of loss passes to the buyer. Revenue on real estate sales is recorded on the date the sale closes and upon receipt of adequate down payment. The Partnership does not currently sell real estate with less than a 20% down payment and therefore has not deferred profit on real estate sales. Management fees and consulting service revenues are recognized as the related services are provided. Accounts receivable includes earned but unbilled services of \$13,000 and \$21,000 at December 31, 2003 and 2002, respectively.

Timberland sales:

The Partnership considers the sale of tracts of timberland to be part of its normal operations and therefore recognizes revenue from the sale and cost of sales for the Partnership's basis in the property sold. Cash generated from these sales are included in cash flow from operations on the Partnership's statement of cash flows.

Stock based compensation:

The Partnership accounts for unit-based compensation in accordance with APB Opinion No. 25, Accounting for Stock Issued to Employees. Accordingly, compensation expense for unit options is measured as the excess, if any, of the fair value of the Partnership's units at the date of grant over the amount an employee must pay to acquire the unit.

Unit options granted have an exercise price not less than the fair value of the Partnership's unit price on the date of the grant. Had compensation expense for unit option grants been recognized based on the fair value at the grant date consistent with the Black-Scholes method described in Statement of Financial Accounting Standards (SFAS) No. 123, Accounting for Stock-Based Compensation, the Partnership's net income (loss) for the years ended December 31 would have been adjusted to the pro forma amounts indicated below:

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Net income (loss) as reported	\$ 3,528	\$ 3,344	\$ (432)
Add back employee units based compensation expense recognized	—	—	—
Subtract proforma compensation expense under SFAS No. 123	(285)	(309)	(373)
Proforma net income (loss) under SFAS No. 123	\$ 3,243	\$ 3,035	\$ (805)
Earnings (loss) per unit			
As reported:			
Basic	\$ 0.78	\$ 0.74	\$ (0.10)
Diluted	\$ 0.78	\$ 0.74	\$ (0.10)
Proforma:			
Basic	\$ 0.72	\$ 0.67	\$ (0.18)
Diluted	\$ 0.72	\$ 0.67	\$ (0.18)

Unit options used in the calculation of proforma SFAS 123 compensation expense for 2003, 2002, and 2001 were 60,835, 68,525, and 40,250, respectively. The fair value of options was calculated using the Black-Scholes option-pricing model, with the following assumptions:

	2003	2002	2001
Expected life	5 years	5 years	5 years
Risk free interest rate	3.70%	4.04%	4.97%
Dividend yield	1.90%	2.20%	1.75%
Volatility	20%	48%	56%

The Partnership calculates volatility using unit close prices on the 15th day (or nearest business day to the 15th) of each month over the prior 30 months.

Foreign currency translation:

The Canadian dollar had been determined to be the functional currency for our operations in the Canadian subsidiary. Assets and liabilities are translated into U.S. dollars at the rate of exchange in effect at the balance sheet date. Revenues and expenses are translated at average monthly exchange rates prevailing during the year. There were no significant foreign exchange gains or losses in the years presented. In December 2002, the Partnership's offices in Canada were closed. The Partnership no longer has international subsidiaries as of January 2003.

Comprehensive income (loss):

Comprehensive income (loss) consists of net income and foreign currency translation adjustments. The Consolidated Statements of Partners' Capital and Comprehensive Income (Loss) contain the disclosure and calculation of comprehensive income loss.

Income (loss) per partnership unit:

Basic income (loss) per partnership unit is computed using the weighted average number of units outstanding during each year. Diluted income (loss) per unit is calculated using the weighted average units outstanding during the year, plus the dilutive impact of unit options outstanding. Unit options are excluded from the computation if their effect is anti-dilutive.

	2003	Year Ended December 31, 2002	2001
Weighted average units outstanding (in thousands):			
Basic	4,518	4,518	4,526
Dilutive effect of unit options	4	2	—

Unit options outstanding that were not included in the calculation of earnings (loss) per partnership unit as they were anti-dilutive were 316,251, 317,052, and 185,562 in 2003, 2002, and 2001, respectively.

Statement of cash flows:

The Partnership considers all highly liquid debt instruments with maturity of three months or less when purchased to be cash equivalents.

Supplemental disclosure of non-cash investing activities:

During 2003 and 2002, the Partnership incurred local improvement district debt of \$168,000 and \$682,000, respectively, which represents capitalized improvements to the properties.

During 2001 in connection with its sale of Port Ludlow assets and operations the purchaser assumed \$476,000 of liabilities.

Reclassifications:

Certain reclassifications have been made to the prior years' financial statements to conform to the current year's presentation.

Accounting Standards Implemented

In January 2003, the FASB issued Interpretation No. 46 (FIN No. 46), "Consolidation of Variable Interest Entities." This Interpretation addresses consolidation by business enterprises of variable interest entities (VIE's). A VIE is subject to the consolidation provisions of FIN No. 46 if it cannot support its financial activities without additional subordinated financial support from third parties or its equity investors lack any one of the following characteristics: the ability to make decisions about its activities through voting rights, the obligation to absorb losses of the entity if they occur, or the right to receive residual returns of the entity if they occur. FIN No. 46 requires a VIE to be consolidated by its primary beneficiary. The primary beneficiary is the party that holds the variable interests that expose it to a majority of the entity's expected losses and/or residual returns. For purposes of determining a primary beneficiary, all related party interests must be combined with the actual interests of the Company in the VIE. The application of this Interpretation is immediate for VIE's created or altered after January 31, 2003, and is effective at the end of the first interim or annual period ending after December 15, 2003, for variable interest entities that existed prior to February 1, 2003.

The Partnership is currently working to locate investors for a partnership with a target amount of \$50 million in equity capital. Upon funding this \$50 million target, this new partnership will seek to place the raised capital in timberland investments. The Partnership will invest 10% of the equity capital in the fund so that, for example, if the target of \$50 million is reached Pope Resources will have contributed \$5 million of that equity total. ORM Timber Fund I, LP is expected to be classified as a VIE and will need to be consolidated into the Partnership's financial statements since an indirect subsidiary of the Partnership (Olympic Resource Management LLC) will act as manager and general partner of this partnership.

2. ASSET DISPOSITIONS

In August of 2001, the Partnership sold its real estate assets in Port Ludlow, Washington. The assets and operations consisted of a golf course, marina, 37-room inn, water and sewer services, commercial property leases, and homes and lots for retail sale. The Partnership received \$10.2 million in cash, a \$5.8 million note secured by homes and lots in Port Ludlow and the purchaser assumed \$0.5 million in liabilities upon closing of the sale. The balance of the note receivable at December 31, 2003 and 2002 was \$817,000 and \$1.9 million, respectively.

The Partnership recorded \$1.3 million in asset impairment expense in March 2001 in connection with the negotiations surrounding the sale of Port Ludlow real estate assets.

3. LONG-TERM DEBT

Long-term debt at December 31 consists of (in thousands):

	2003	2002
Mortgage note payable to an insurance company, with interest at	\$11,692	\$12,259

9.65%, collateralized by timberlands, with monthly interest payments and annual principal payments maturing April 2011

Mortgage note payable to an insurance company, with interest at 7.63%, collateralized by timberlands, with monthly interest payments and annual principal payments maturing April 2011

25,174 26,206

Local improvement district assessments, with interest ranging from 5.03% to 6.5%, due through 2013

879 774

37,745 39,239

Less current portion

(1,631) (1,574)

Total long-term debt

\$36,114 \$37,665

The Partnership's debt agreements contain covenants which require the Partnership to maintain a required debt service coverage ratio and a debt to market capitalization ratio. Additionally, distributions are limited by the debt agreements to 50% of net income, excluding distributions made to offset income tax expense resulting from ownership of the Partnership units. As of December 31, 2003, the Partnership was in compliance with its debt covenants.

At December 31, 2003, principal payments on long-term debt for the next five years and thereafter are due as follows (in thousands):

2004	\$ 1,631
2005	1,625
2006	1,625
2007	1,375
2008	1,375
Thereafter	30,114

4. FAIR VALUE OF FINANCIAL INSTRUMENTS

The Partnership's financial instruments include cash and cash equivalents, accounts receivable, contracts receivable, accounts payable, and accrued liabilities, for which the carrying amount of each approximates fair value based on current market interest rates or their short-term nature. The fair value of fixed rate debt having a carrying value of \$37.7 million and \$39.2 million has been estimated based on current interest rates for similar financial instruments approximated \$42.3 million and \$43.1 million as of December 31, 2003 and 2002, respectively.

5. INCOME TAXES

The Partnership is not subject to income taxes. Instead, partners are taxed on their share of the Partnership's taxable income, whether or not cash distributions are paid. However, the Partnership is subject to income taxes through operations in several of its taxable subsidiaries. The following tables provide information on the impact of income taxes in those taxable subsidiaries. Consolidated Partnership earnings are reconciled to earnings before income taxes in taxable subsidiaries for the years ended December 31 :

(000's)	2003	2002	2001
Consolidated Partnership income (loss) before income taxes (less minority interest)	\$3,770	\$2,546	\$ (76)
Less: Income earned in entities that pass-through pre-tax earnings to the partners	3,348	2,920	71
Income (loss) subject to income taxes:			
Domestic	422	128	221
Foreign	—	(502)	(368)
Total income (loss) subject to taxes	\$ 422	\$ (374)	\$ (147)

The Partnership's Canadian offices were closed in December 2002 and never generated taxable income. The provision for income taxes relating to taxable subsidiaries of the Partnership consists of the following income tax benefit (expense) for the years ended December 31:

(000's)	2003	2002	2001
Current	\$ —	\$ (187)	\$ (82)
Deferred	(242)	975	(274)
Total	\$ (242)	\$ 788	\$ (356)

Reconciliation between the federal statutory tax rate and the Partnership's effective tax rate is as follows for the years ended December 31:

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	2003	2002	2001
Statutory tax on income	34%	34%	34%
Income (loss) earned in entities that pass-through pre-tax earnings to the partners	(28%)	(37%)	(25%)
Liquidation of Canadian subsidiary	—	(34%)	—
Non-deductible operating losses of subsidiaries	—	10%	383%
Other	—	(2%)	(17%)
Effective income tax rate	6%	(29%)	375%

The net deferred income tax assets include the following components for the years ended December 31:

(000's)	2003	2002
Current (included in prepaid expenses and other)	\$ 30	\$ 208
Non current (included in other assets)	981	1,045
Total	\$ 1,011	\$ 1,253

The deferred tax assets (liabilities) are comprised of the following:

(000's)	2003	2002
Net operating loss carryforward	\$ 840	\$ 907
Employee related accruals	36	221
Depreciation	16	3
Other	119	122
Total	\$ 1,011	\$ 1,253

In 2002, the Partnership's taxable subsidiaries have operating losses generated in the U.S. from liquidation of the Canadian subsidiary of \$2.7 million. This net operating loss expires, if unused, in December 31, 2022. No valuation allowance is considered necessary as the Partnership expects to generate taxable income in its corporate subsidiaries to utilize the deferred tax assets recorded at December 31, 2003. The Partnership reduced its valuation allowance for deferred tax assets resulting from losses at its subsidiary in Canada by \$907,000 in 2002 due to the aforementioned liquidation.

6. UNIT OPTION PLAN

The Partnership's 1997 Unit Option Plan authorized the granting of nonqualified unit options to employees, officers, and directors of the Partnership. A total of 1,500,000 units have been reserved for issuance under the plan of which there are 1,136,635 units authorized but unissued as of December 31, 2003. Unit options are granted at prices not less than the fair value of the limited partnership units on the date of the grant. The options generally become exercisable annually over a four-year period and have a maximum term of ten years. Unit options vested were 199,965, 118,085, and 90,562, at December 31, 2003, 2002, and 2001, respectively.

Vested unit options had weighted average exercise prices of \$18.71, \$20.65, and \$22.91, at December 31, 2003, 2002, and 2001, respectively. Unit options outstanding were as follows:

	Number of units (in thousands)	Weighted average price per unit
Balance, January 1, 2001	185.6	\$ 22.84
Granted	178.7	12.45
Exercised	—	—
Expired	(40.5)	(21.45)
Balance, December 31, 2002	323.8	17.28
Granted	40.4	10.07
Exercised	—	—
Expired	(9.5)	(14.94)
Balance, December 31, 2003	354.7	\$ 16.52

The following table summarizes information about unit options outstanding at December 31, 2003:

Price range	Options outstanding	Weighted average exercise price options outstanding	Options exercisable	Weighted average exercise price options exercisable	Weighted average remaining contractual life (yrs)
\$9 - \$14	194,965	\$ 12.14	62,565	\$ 11.96	8.41
\$15 - \$19	65,208	\$ 19.17	65,208	\$ 19.17	6.87
\$20 - \$24	69,067	\$ 22.46	46,692	\$ 22.46	6.46
\$25 - \$30	25,500	\$ 27.25	25,500	\$ 27.25	4.68
Total	354,740	\$ 16.52	199,965	\$ 18.71	7.48

7. EMPLOYEE BENEFITS

As of December 31, 2003, all employees of the Partnership and its subsidiaries are eligible to receive benefits under a defined contribution plan. During 2003, 2002 and 2001 the Partnership matched 50% of the employees' contributions up to 8% of compensation. The Partnership's contributions to the plan amounted to \$82,000, \$57,000, and \$103,000, for each of the years ended December 31, 2003, 2002, and 2001, respectively.

8. COMMITMENTS AND CONTINGENCIES

Restructuring: The Partnership decided in the fourth quarter of 2002 to close its two timberland consulting offices in Canada. Additionally, the Partnership closed two offices in Oregon and one office in British Columbia following notification by Hancock Timber Resource Group (HTRG) that they would not be renewing their management contract with the Partnership's subsidiary Olympic Resource Management LLC in 2003. As a result of these office closures and reduction in employees the Partnership recorded a \$673,000 restructuring charge in the fourth quarter of 2002. Costs included in the restructuring charge were severance, lease costs, and losses on computer and software equipment used to service the HTRG contract. Expenditures resulting from the restructuring charge during the years ended December 31, 2003 and 2002 were \$466,000 and \$207,000, respectively.

Environmental remediation: The Partnership has an accrual for estimated environmental remediation costs of

\$292,000, \$629,000, and \$1.4 million as of December 31, 2003, 2002 and 2001, respectively. Of this amount \$100,000 is expected to be expended in 2004. The accrual represents estimated payments to be made to remedy and monitor certain areas in and around the townsite of Port Gamble. Port Gamble is a historic town that was owned and operated by Pope & Talbot, Inc. (P&T), a related party, until 1985 when the townsite and other assets were spun off to the Partnership. P&T continued to operate the townsite until 1996 and leased the mill site at Port Gamble through January 2002, at which point P&T signed an agreement with the Partnership dividing the responsibility for environmental remediation of Port Gamble between the two parties.

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Based on information provided by consultants and P&T, the Partnership estimates that the cost range for cleaning up the Port Gamble townsite and surrounding area to applicable State standards is \$10.0 million to \$13.0 million. The environmental remediation liability at year-end is based upon an estimate of the Partnership's portion of the clean-up and monitoring costs that remain to be completed under this agreement.

Performance bonds: In the ordinary course of business, and as part of the entitlement and development process, the Partnership is required to provide performance bonds to ensure completion of certain public facilities. The Partnership had performance bonds of \$93,000 and \$100,000 outstanding at December 31, 2003 and 2002, respectively.

Purchase commitments: The Partnership has purchase commitments outstanding as of December 31, 2003 for one and two year service agreements. Future payments expected under these commitments are as follows:

<u>Year</u>	<u>Amount</u>
2004	\$147,000
2005	104,000

Operating leases: The Partnership has non-cancelable operating leases for automobiles, office space, and computer equipment. The lease terms are from 12 to 48 months. Rent expense under the operating leases totaled \$57,000, \$219,000, and \$949,000 for the years ended December 31, 2003, 2002, and 2001, respectively.

Supplemental Retirement Plan: The Partnership has a supplemental retirement plan for a retired key employee. The plan provides for a retirement income of 70% of his base salary at retirement after taking into account both 401(k) and Social Security benefits. The Partnership accrued \$181,000 for this benefit in 1995 and an additional \$109,000 in 2002 and pays \$25,013 under the plan annually based on an approximation of the cost of purchasing a life annuity paying the aforementioned benefit amount. The balance of the liability as of December 31, 2003 was \$150,013.

Future minimum rental payments required under non-cancelable operating leases by year are as follows:

<u>Year</u>	<u>Amount</u>
2004	\$70,000
2005	29,000
2006	20,000
2007	13,000
2008	1,000

Contingencies: The Partnership may from time to time be a defendant in various lawsuits arising in the ordinary course of business. Management believes Partnership losses related to such lawsuits, if any, will not have a material adverse effect to the Partnership's consolidated financial condition or results of operations or cash flows.

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9. RELATED PARTY TRANSACTIONS AND MINORITY INTEREST

Pope MGP, Inc. is the managing general partner of the Partnership and receives an annual management fee of \$150,000.

The minority interest represents Pope MGP, Inc.'s interest in the IPMB. The 1997 amendment to the Limited Partnership Agreement authorizing management to pursue the IPMB specifies that annual net income from the IPMB will be split using a sliding scale allocation method, commencing with 80% to ORM, Inc., a subsidiary of Pope Resources, and 20% to Pope MGP, Inc. The sliding scale allocation method will allocate income evenly between ORM, Inc. and Pope MGP, Inc. once net income from the IPMB reaches \$7.0 million in a fiscal year. The aforementioned amendment authorizing pursuit of the IPMB limits cumulative net expenditures to \$5.0 million. As of December 31, 2003, cumulative revenue from IPMB exceeds cumulative IPMB expenditures.

A director of Pope MGP, Inc. is also a director of P&T. In 2001, the Partnership received annual lease payments of \$75,000 from P&T for lease of a log sorting and storage site at Port Gamble, Washington.

In October 2003, the Partnership sold an art collection to a director and shareholder of Pope MGP, Inc. The proceeds from the sale were \$315,000 in cash and is included in Real Estate segment revenue. The sale price was based upon an independent appraisal of the collection. Prior to the sale, P&T leased the art collection from the Partnership through October 2003. Revenue received from the art lease was \$15,000 annually for the two-year period ended December 31, 2002. Lease payments received in 2003 were \$12,239.

10. SEGMENT AND MAJOR CUSTOMER INFORMATION

The Partnership's operations are classified into three segments: Fee Timber, Timberland Management and Consulting, and Real Estate. The Fee Timber segment consists of the harvest and sale of timber from the Partnership's 112,000 acres of fee timberland in Washington State.

The Timberland Management and Consulting segment during 2003 managed over 150,000 acres of timberland properties for third parties and provided timberland consulting services throughout the Western United States. Timberlands under management were in Washington, Oregon, and California. The Partnership closed its Canadian consulting offices in the fourth quarter of 2002. In addition, as a result of the integration of timberland management into its own operations, Hancock Timber Resource Group notified the Partnership in the fourth quarter of 2002 that they would not be renewing their management contract in 2003. Hancock Timber Resource Group represented 13%, and 9% of consolidated Partnership revenue in 2002 and 2001, respectively. As of December 31, 2003, the Timberland Management and Consulting segment no longer has a significant timberland management client.

Prior to August 2001, the Real Estate segment, in Port Ludlow, Washington, built and sold homes and lots, managed several commercial properties including a marina, golf course, sewer and water facilities, and leased commercial properties. These operations were sold in August 2001. After the disposition, the remaining Real Estate segment's operations consist of management of early stage development properties, and the rental of residential and commercial properties in Port Gamble and Kingston, Washington. Real Estate is working with 2,600 acres of early stage development properties as of December 31, 2003. All of the Partnership's real estate activities are in Washington State.

For the year ended December 31, 2003, the Partnership had one major customer that represented 30% of consolidated revenue. For the year ended December 31, 2002, there were two major customers representing 21% and 13% of consolidated revenue. In 2001, there was one major customer with 9% of consolidated revenue. No other customer represents 10% or greater of consolidated revenue during 2003, 2002, or 2001.

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Identifiable assets are those used exclusively in the operations of each industry segment or those allocated when used jointly. The Partnership does not allocate cash, accounts receivable, certain prepaid expenses, or the cost basis of the Partnership's administrative office for purposes of evaluating segment performance. Intersegment transactions are valued at prices that approximate the price that would be charged to a major third-party customer. Details of the Partnership's operations by business segment for the years ended December 31 were as follows (in thousands):

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	2003	2002	2001
Revenues:			
Fee Timber	\$22,988	\$23,428	\$25,019
Elimination of intersegment amounts	(72)	(130)	(20)
Fee Timber (External)	\$22,916	\$23,298	\$24,999
Timberland Management and Consulting	\$ 2,860	\$ 8,611	\$11,204
Elimination of intersegment amounts	(474)	(1,316)	(1,501)
Timberland Management and Consulting (External)	\$ 2,386	\$ 7,295	\$ 9,703

Real Estate	\$ 1,833	\$ 1,657	\$13,146
Elimination of intersegment amounts	(99)	(58)	(3)
Real Estate (External)	\$ 1,734	\$ 1,599	\$13,143
<hr/>			
Total revenue	\$27,681	\$33,696	\$49,369
Elimination of intersegment amounts	(645)	(1,504)	(1,524)
Total revenue (External)	\$27,036	\$32,192	\$47,845

Operating income/(loss):

Fee Timber	\$ 9,171	\$ 9,880	\$ 8,630
Elimination of intersegment amounts	498	319	560
Fee Timber (External)	\$ 9,669	\$10,199	\$ 9,190
<hr/>			
Timberland Management and Consulting	\$ 686	\$ 1,228	\$ 2,261
Elimination of intersegment amounts	(414)	(309)	(576)
Timberland Management and Consulting (External)	\$ 272	\$ 919	\$ 1,685

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	2003	2002	2001
Real Estate	\$ (386)	\$ (1,647)	\$ (2,705)
Elimination of intersegment amounts	(90)	(20)	(4)
Real Estate (External)	\$ (476)	\$ (1,667)	\$ (2,709)
<hr/>			
Unallocated General and Administrative	\$ (2,848)	\$ (3,874)	\$ (5,130)
Elimination of intersegment amounts	6	10	20
Unallocated General and Admin (External)	\$ (2,842)	\$ (3,864)	\$ (5,110)
<hr/>			
Operating income	\$ 6,623	\$ 5,587	\$ 3,056
Elimination of intersegment amounts	—	—	—
Operating income (External)	\$ 6,623	\$ 5,587	\$ 3,056

Depreciation, amortization, and depletion:

Fee Timber	\$ 3,001	\$ 3,164	\$ 6,520
Timberland Management and Consulting	70	190	241
Real Estate	104	57	402
Unallocated General and Administrative	371	453	535

Total	\$ 3,546	\$ 3,864	\$ 7,698
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Identifiable assets:

Fee Timber	\$63,118	\$68,361	\$70,712
Timberland Management and Consulting	187	205	492
Real Estate	5,894	5,264	4,019
Unallocated General and Administrative	17,109	12,958	8,964
Total	\$86,308	\$86,788	\$84,187

Capital and land expenditures:

Fee timber	\$ 809	\$ 1,315	\$55,716
Timberland management and consulting	50	179	142
Real estate	1,117	491	452
Unallocated General and Administrative	41	173	240
Total	\$ 2,017	\$ 2,158	\$56,550

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Revenues by product line for the years ended December 31, 2003, 2002, and 2001 are as follows (in thousands):

	2003	2002	2001
Sales of forest products:			
Domestic	\$20,489	\$19,695	\$19,982
Export, indirect	2,427	3,603	5,017
Sales of homes, lots, and undeveloped acreage	613	871	7,647
Fees for service:			
Domestic	3,507	6,634	10,983
Foreign	—	1,389	4,216
Total Revenue	\$27,036	\$32,192	\$47,845

11. SUBSEQUENT EVENT

On January 15, 2004 the Partnership acquired 3,300 acres of timberland from Plum Creek Timber Company for \$8.5 million. The timberland acquired in this acquisition is contiguous with the Columbia tree farm and will be managed as part of that larger land parcel.

12. QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

(in thousands except per unit amounts)	Revenues	Income from Operations	Net Income	Earnings per Partnership unit basic	Earnings per Partnership unit diluted
2003					
First quarter	\$7,312	\$1,999	\$1,291	\$.29	\$.29
Second quarter	7,480	1,999	1,296	.29	.29
Third quarter	6,565	1,628	941	.20	.20

Fourth quarter	5,679	997	—	—	—
2002					
First quarter	\$5,837	\$ 738	\$ 12	\$ —	\$ —
Second quarter (1)	9,935	1,852	1,563	.35	.35
Third quarter	8,654	1,964	1,063	.24	.24
Fourth quarter (2)	7,766	1,033	696	.15	.15

- (1) Includes \$730,000 (or \$0.16 per diluted unit) increase in the environmental remediation liability in Port Gamble, \$165,000 increase (or \$0.04 per diluted unit) in the liability for home warranty repairs at Port Ludlow, offset against a \$527,000 (or \$0.11 per diluted unit) tax benefit resulting from recognition of the benefit of tax losses generated as a result of the liquidation of the Canadian subsidiary.
- (2) Includes \$673,000 (or \$0.15 per diluted unit) in restructuring costs following expiration of HTRG's timberland management contract and closure of the timberland consulting offices in Canada offset against a \$380,000 tax (or \$0.8 per diluted unit) benefit resulting from the restructuring of the Canadian subsidiary.

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Item 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None

Item 9a. CONTROLS AND PROCEDURES.

The Partnership's management maintains an adequate system of internal controls to promote the timely identification and reporting of material, relevant information. Those controls include requiring executive management and all managers in accounting roles to sign a Code of Ethics (See Exhibit 14 to this report). Additionally the Partnership's senior management team meets regularly to discuss significant transactions and events affecting the Partnership's operations. The Partnership's President & CEO and V.P. & CFO lead these meetings and consider whether topics discussed represent information that should be disclosed under generally accepted accounting principles and the rules of the SEC. The Board of Directors of the Partnership's general partner includes an Audit Committee. The Audit Committee reviews the earnings release and all reports on Form 10-Q and 10-K prior to their filing. The Audit Committee is responsible for hiring the Partnership's external auditors and meets with those auditors at least four times each year.

The Partnership's President & CEO and V.P. & CFO are responsible for establishing and maintaining disclosure controls and procedures. They have designed such controls to ensure that others make all material information known to them within the organization. Management regularly evaluates ways to improve internal controls.

As of the end of the period covered by the annual report on Form 10-K our executive officers completed an evaluation of the disclosure controls and procedures and have determined them to be functioning properly and effectively. They did not discover any significant deficiencies or material weaknesses within the controls and procedures that required modification. There were no significant changes in the Partnership's internal controls over financial reporting that occurred during the most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Partnership's internal control over financial reporting.

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PART III

Item 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

General Partner

The Partnership has no directors. Instead, the Board of Directors of its managing general partner, Pope MGP, Inc. (the "General Partner"), serves in that capacity. The General Partner's address is the same as the address of the principal offices of the Partnership. Pope MGP, Inc. receives \$150,000 per year for acting as managing general partner of the Partnership.

The following table identifies the officers and directors of the General Partner as of March 1, 2004. Officers of the General Partner hold identical offices with the Partnership.

Name	Age	Position and Background
David L. Nunes (2)	42	President and Chief Executive Officer, and Director, from January 2002 to present. President and Chief

Operating Officer from September 2000 to January 2002. Senior Vice President Acquisitions & Portfolio Development from November 1998 to August 2000. Vice President Portfolio Development from December 1997 to October 1998. Director of Portfolio Development from April 1997 to December 1997 of Pope MGP, Inc. and the Partnership. Strategic Planning Director of Weyerhaeuser Company from June 1988 to April 1997.

Thomas M. Ringo	50	Vice President and CFO from December 2000 to present. Senior Vice President Finance and Client Relations from June 1996 to December 2000. Vice President Finance from November 1991 to June 1996. Treasurer from March 1989 through October 1991 of Pope MGP, Inc. and the Partnership. Tax Manager of Westin Hotel Company, 1985 to March 1989. Tax Consultant for Price Waterhouse, 1981 to 1985.
Douglas E. Norberg (1), (3), (4), (5)	63	Director; Vice Chairman, Wright Runstad & Company, since 2000; President, Wright Runstad & Company, 1975 until 2000. Wright Runstad & Company is in the business of real estate investing, development, and management.
Peter T. Pope (1), (4)	69	Director; Director, Pope & Talbot, Inc. 1971 to present; Chairman of the Board and CEO of Pope & Talbot, Inc., 1971 to 1999. Mr. Pope retired as CEO of Pope & Talbot, Inc. in 1999. Mr. Pope is also a director and President of Pope EGP, Inc.

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J. Thurston Roach (1), (3), (4), (5)	62	Director; private investor; Director Deltic Timber Corporation, December 2000 to present; Director The Liberty Corporation May 1994 to Present; President and CEO HaloSource Corporation, October 2000 to November 2001; Director HaloSource Corporation, October 2000 to February 2002; Senior Vice President and CFO, Owens Corning, January 1999 to April 2000; Senior Vice President and President of Owens Corning's North American Building Materials Systems Business, February 1998 to December 1998; Vice Chairman, Simpson Investment Company, July 1997 to February 1998; President, Simpson Timber Company, January 1996 to June 1997; Senior Vice President and Chief Financial Officer and Secretary, Simpson Investment Company, August 1984 to December 1995.
Marco F. Vitulli (2), (3), (4)	69	Director; President, Vitulli Ventures Ltd., 1980 to present. Vitulli Ventures Ltd. is in the business of real estate investments.

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- 1) Class A Director
 - 2) Class B Director
 - 3) Member of the Audit Committee
 - 4) Member of the Human Resources Committee
 - 5) Designated financial expert for the Board of Directors Audit Committee

Board of Directors of the Managing General Partner

Board Composition. The Managing General Partner's Articles of Incorporation provide that directors are divided into two classes, each class serving a period of two years. The Managing General Partner's shareholders elect approximately one-half of the members of the Board of Directors annually. The terms of the Class A directors expire on December 31, 2004, and the terms of the Class B directors expire on December 31, 2005. The directors' election to the Managing General Partner's Board of Directors is subject to a voting agreement between the Managing General Partner's two shareholders, Mr. Peter T. Pope and Ms. Emily T. Andrews. Mr. Pope serves as his own appointee, and J. Thurston Roach serves as Ms. Andrews' appointee to the Board of Directors. The Managing General Partner's Board of Directors met 5 times in 2003 to discuss Partnership matters. As permitted by NASD Rules 4360(c) and 4350(c)(4), board nominations are not made or approved by a separate nominating committee or by a majority of the independent directors.

Audit Committee. The Audit Committee of the General Managing Partner’s Board of Directors is comprised of three outside directors who comply with Nasdaq’s qualification requirements for Audit Committee members. The audit committee met to discuss the Partnership 4 times during 2003. The Audit Committee currently has two financial experts: Douglas E. Norberg and J. Thurston Roach. See report of the Audit Committee on financial statements below.

Human Resources Committee. The Human Resources Committee is responsible for (1) establishing compensation programs for executive officers and senior management of the Partnership designed to attract, motivate, and retain key executives responsible for the success of the Partnership as a whole; (2) administering and maintaining such programs in a manner that will benefit the long-term interests of the Partnership and its unit holders; and (3) determining the salary, bonus, unit option and other compensation of the Partnership’s executive officers and senior management. The Human Resources Committee met once during 2003. See report of the Human Resources Committee on executive compensation below.

Beneficial Ownership and Section 16(a) Reporting Compliance

The Partnership is a reporting company pursuant to Section 12 of the Securities Exchange Act of 1934 (“Exchange Act”). Under Section 16(a) of the Exchange Act, and the rules promulgated hereunder, directors, officers, greater than 10% shareholders, and certain other key personnel (the “Reporting Persons”) are required to report their ownership and any change in ownership of Partnership units to the Securities and Exchange Commission. The Partnership believes that the Reporting Persons have complied with all Section 16(a) filing requirements applicable to them. In making the foregoing statement, the Partnership has relied solely upon oral or written representations of the Reporting Persons, and copies of the reports that the Reporting Persons have filed with the SEC.

Item 11. EXECUTIVE COMPENSATION

The following table sets forth certain information concerning the cash compensation paid to each of the five most highly compensated executives of the Partnership (the “Named Executives”) in fiscal year 2003, 2002 and 2001. The titles used in this Item 11 correspond to these persons’ titles during 2003.

Summary Compensation Table

Name and Principal Position	Year	Annual Compensation			Long-term Compensation	
		Salary (\$)	Bonus \$(1)	Other Annual Compensation (\$)	All Other Compensation \$(2)	LTIP Payments \$(3)
David L. Nunes President and CEO	2003	234,792	169,127		6,000	5,961
	2002	223,075	155,250		5,500	15,111
	2001	175,000	57,188		5,250	15,103
Thomas M Ringo V.P. and CFO	2003	153,125	103,289		7,000	4,471
	2002	148,174	78,750		5,500	15,111
	2001	143,199	33,781		5,250	5,343
Jonathan P. Rose Director Real Estate	2003	120,327	48,152		6,000	—
	2002	115,774	44,203		5,205	—
	2001	98,462	15,753		4,467	—
John T. Shea Director Business Development	2003	122,500	101,522		6,000	4,471
	2002	97,521	37,500		4,315	15,111
	2001	86,500	15,262		4,556	4,315
Allen E. Symington(4) Former Chairman and CEO	2003	138,461	—		5,538	—
	2002	194,867	—		6,000	—
	2001	200,000	49,313		5,250	15,075

(1) Amounts represent bonuses or commissions earned in the year shown but paid after year-end.

(2) Amounts represent contributions to the Partnerships 401(k) plan.

(3) The LTIP payments are made from Pope MGP’s share of the IPMB. Amounts shown above are earned in the year specified and paid in the subsequent year. See “Long-Term Incentive Plans – Awards in Last Fiscal Year”.

(4) Mr. Symington’s employment agreement ended in August 2003.

Compensation Pursuant To Unit Options

During 2003 there were no unit options issued to named executive officers of the Partnership.

Aggregated Option Exercises

The following table provides information on option exercises in fiscal 2003 by the named executive officers and the value of exercisable and unexercisable unit options at December 31, 2003.

Name	Units Acquired on Exercise	Value Realized	Number of securities underlying unexercised options at year-end (#)		Value of unexercised in-the-money options at year-end (\$)	
			Exercisable	Unexercisable	Exercisable	Unexercisable
David L. Nunes President and CEO	—	—	24,750	42,000	\$26,280	\$105,120
Thomas M. Ringo V.P. and CFO	—	—	20,125	22,750	13,140	52,560
Jonathan P. Rose Director Real Estate	—	—	5,525	11,475	7,008	28,032
John T. Shea Director Business Development	—	—	3,400	10,600	7,008	28,032
Allen E. Symington Former Chair. and CEO	—	—	45,000	—	—	—

Long-Term Incentive Plans-Awards in Last Fiscal Year

During 2004 the following awards were made from the Long-Term Incentive Plan based upon 2003 operating results for the IPMB:

Name and Principal Position	Award (\$)(1)	Performance Period
David L.Nunes President and CEO	\$5,961	1/1/2003 to 12/31/2003
Thomas M.Ringo V.P.and CFO	\$4,471	1/1/2003 to 12/31/2003
John T.Shea Director Business Development	\$4,471	1/1/2003 to 12/31/2003

- (1) Awards from the LTIP are made based upon performance of the Investor Portfolio Management Business (IPMB) during 2003 and are contingent upon the officer's employment with the Partnership on the last day of the award year. LTIP payments are made from Pope MGP's share of the IPMB.

Compensation of General Partner's Directors

Compensation of the outside directors of Pope MGP, Inc. consists of a monthly retainer of \$1,500 plus a \$1,000 per day fee for each board meeting attended and \$500 for participation in a board meeting via telephone. The Chairman of the Audit Committee receives an additional annual retainer amount of \$3,000 that is paid in a monthly pro rata fashion. Both the Chairman of the Audit and Human Resources Committees receive an additional \$500 per committee meeting fee. Outside directors have the option of receiving their \$1,500 monthly board retainer in unit options. The number of options granted is based upon the fair value of the options on the date of grant. All option grants so made to outside directors in 2003 were made pursuant to the Partnership's 1997 Unit Option Plan for their service as directors of Pope MGP, Inc.

For the year ended December 31, 2003, two outside directors each received 8,115 and one received 2,125 options with strike prices ranging from \$9.50 to \$14.30. As of December 2003, two outside directors were receiving their retainers in cash. One director received a 6,000-option grant with an exercise price of \$10.00 vesting over five years.

For the year ended December 31, 2002, three outside directors each received 5,737 options as a form of compensation for their monthly retainer with strike prices ranging from \$9.30 to \$14.75. The fourth outside director elected to have his retainer paid in cash. Each of the outside directors was also granted 9,000 units with an exercise price of \$12.51 in March 2002.

For the year ended December 31, 2001, the four outside directors each received 3,189 options in lieu of cash retainers with strike prices ranging from \$14.75 to \$22.00. Each of the outside directors was also granted 3,000 units with an exercise price of \$22.00 in March 2001.

Unit Option Plan

The Partnership's 1997 Unit Option Plan authorizes the granting of nonqualified unit options to employees, officers, and directors of the Partnership. A total of 1,500,000 units have been reserved for issuance under the plan. Unit options are granted at prices not less than the fair value of the limited partnership units on the date of the grant, and currently range from \$9.30 to \$27.88 per unit. The options generally become exercisable annually over a four-year period and have a maximum term of ten years. Unit options issued and outstanding at December 31, 2003 and 2002 were 354,740 and 323,835, respectively, and unit options vested at December 31, 2003 and 2002 were 199,965 and 118,085, respectively. To date, 8,625 unit options have been exercised. The units issued under the unit options have been registered on a Form S-8 registration statement.

The Partnership accounts for unit-based compensation in accordance with APB Opinion No. 25, Accounting for Stock Issued to Employees. Accordingly, compensation cost for unit options is measured as the excess, if any, of the fair value of the Partnership's units at the date of grant over the amount an employee must pay to acquire the unit.

Employee Benefit Plans

As of December 31, 2003 all employees of the Partnership and its subsidiaries are eligible to receive benefits under a defined contribution plan. During 2003 and 2002 the Partnership matched 50% of the employees' contribution up to 8% of compensation. Partnership contributions to the plan amounted to \$82,000, \$57,000, and \$103,000, for each of the years ended December 31, 2003, 2002, and 2001, respectively. Employees become fully vested over a six-year period in the Partnership's contribution.

Employment Contracts

Thomas M. Ringo Employment Agreement. Effective January 1, 2003 the Partnership entered into a three-year Employment Agreement with Mr. Ringo under which he has served as the Partnership's Vice President and Chief Financial Officer. Under that agreement, Mr. Ringo received an annual salary of \$153,125, an annual target bonus of 35% of annual salary, and participation in the IPMB Incentive Plan.

John T. Shea Employment Agreement. Effective January 1, 2003 the Partnership entered into a three-year Employment agreement with Mr. Shea under which he has served as the Partnership's Director of Business Development. Under that agreement, Mr. Shea received an annual salary of \$122,500, an annual target bonus of 25% of annual salary, and participation in the IPMB Incentive Plan.

Symington Arrangements. On August 31, 2000, the Partnership entered into a three-year Employment Agreement with Mr. Symington under which he served as the Partnership's Chairman and Chief Executive Officer. Under that Employment Agreement, Mr. Symington received an annual salary of \$200,000, an annual bonus of up to 45% of his base salary based upon attainment of performance criteria, and a \$25,000 signing bonus. He also received 45,000 unit options under the Partnership's 1997 Unit Option Plan, which vest over three years, and are exercisable for four years after termination of employment. Options to purchase 45,000 units are currently vested. The Partnership paid Mr. Symington's annual salary of \$200,000 in equal monthly installments through the end of his employment agreement (August 2003).

Supplemental Retirement Plan. The Partnership has a supplemental retirement plan for George H. Folquet, a retired key employee. The plan provides for a retirement income of 70% of his base salary at retirement after taking into account both 401(k) and Social Security benefits. The Partnership accrued \$181,000 for this benefit in 1995 and an additional \$109,000 in 2002 and pays \$25,013 under the plan annually based on an approximation of the cost of purchasing a life annuity paying the aforementioned benefit amount. The balance of the liability as of December 31, 2003 was \$150,013.

Report of the Audit Committee on Financial Statements

The Audit Committee of the General Partner's Board of Directors has furnished the following report on the Partnership's year-end financial statements and audit for fiscal year 2003. The Audit Committee's report is intended to describe in general terms the process the Audit Committee undertakes and the matters it considers in reviewing the Partnership's financial statements and monitoring the work of the Partnership's external auditors.

Responsibilities and Composition of the Audit Committee

The Audit Committee is responsible for (1) hiring the Partnership's external auditors and (2) approving all fees paid to the external auditor. Additionally, the Audit Committee (3) reviews the Partnership's year-end financial statements with management and the external auditors. The Board of Directors has adopted an audit committee charter and all members of the Audit Committee are independent as defined by Nasdaq.

The Audit Committee is currently composed of Douglas E. Norberg, J. Thurston Roach, and Marco F. Vitulli. Mr. Vitulli serves as Audit Committee Chair. All members of the Audit Committee are independent as defined under Nasdaq rule 4200(a)(15). Mr. Norberg and Mr. Roach are both designated as "financial experts" as defined under 10(a) of the Securities Exchange Act of 1934 and Nasdaq rule 4350(d).

During the year, the Audit Committee reviewed with the Partnership's management and with its independent public accountants the scope and results of the Partnership's internal and external audit activities and the adequacy of the Partnership's internal accounting controls. The Audit Committee also reviewed current and emerging accounting and reporting requirements and practices affecting the Partnership. The Audit Committee discussed certain matters with the Partnership's external auditors and received certain disclosures from the external auditors regarding their independence. All fees paid during the year to the Partnership's external auditor were reviewed and approved by the Audit Committee. The Audit Committee has also made available to employees of the Partnership and its subsidiaries a confidential method of communicating financial or accounting concerns to the Audit Committee.

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Conclusion

Based on this review, the Audit Committee recommends to the Partnership's Board of Directors that the Partnership's audited financial statements be included in the Partnership's report on Form 10-K.

Douglas E. Norberg
J. Thurston Roach
Marco F. Vitulli

Report of the Human Resources Committee on Executive Compensation

The Human Resources Committee of the General Partner's Board of Directors (the "HR Committee") has furnished the following report on the Partnership's executive compensation for fiscal year 2003. The HR Committee's report is intended to describe in general terms the process the HR Committee undertakes and the matters it considers in determining the appropriate compensation for the Partnership's executive officers, Mr. Nunes and Mr. Ringo.

Responsibilities and Composition of the Committee

The HR Committee is responsible for (1) establishing compensation programs for executive officers of the Partnership designed to attract, motivate, and retain key executives responsible for the success of the Partnership as a whole; (2) administering and maintaining such programs in a manner that will benefit the long-term interests of the Partnership and its unit holders; and (3) determining the salary, bonus, unit option, and other compensation of the Partnership's executive officers.

The HR Committee is currently composed of Douglas E. Norberg, Peter T. Pope, J. Thurston Roach, and Marco F. Vitulli. Mr. Pope serves as committee chair. None of the members are officers or employees of the Partnership or the General Partner.

Compensation Philosophy

The Partnership's strategic plan is to focus on growing its fee timber and timberland management businesses. The Partnership's growth strategy consists of the following elements:

- Add to owned timberland asset base;
- Build third-party service business by providing cost-effective timberland management and forestry consulting services;
- Focus real estate activities on where we can add the most value; and
- Support operations with appropriate, efficient levels of overhead.

The achievement of these goals is intended to create long-term value for the Partnership's unitholders.

The HR Committee believes that compensation of the Partnership's Chief Executive Officer, other executive officers and key personnel should be based to a substantial extent on achievement of the goals and strategies that the Partnership has established and enunciated.

When establishing salaries, bonus levels, and unit option awards for executive officers, the HR Committee considers (1) the Partnership's performance during the past year and recent quarters in meeting its financial and other performance goals; (2) the individual's performance during the past year and recent quarters; and (3) the salaries of executive officers in similar positions with companies of comparable size, maturity and pursuing similar

objectives, and other companies within the timber industry. With respect to executive officers other than the Chief Executive Officer, the Committee takes into consideration the recommendations of the Chief Executive Officer. The method for determining compensation varies from case to case based on a discretionary and subjective determination of what is appropriate at the time.

Compensation Programs and Practices

The Partnership's compensation program for executives consists of four key elements: (1) base salary; (2) a performance-based annual bonus; (3) periodic grants of unit options; and (4) IPMB award payments (referred to above as long-term incentive plan).

The HR Committee believes that this four-part approach best serves the interests of the Partnership and its unitholders. It enables the Partnership to meet the requirements of the highly competitive environment in which it operates, while ensuring that executive officers are compensated in a way that advances both the short- and long-term interests of unitholders. The variable, annual bonus permits individual performance to be recognized and is based, in significant part, on an evaluation of the contribution made by the executive to the Partnership's overall performance. Unit options relate a significant portion of long-term remuneration directly to unit price appreciation. This type of compensation is intended to align the interests of option holders and of the Partnership's unitholders, and further serve to promote an executive's continued service to the organization. IPMB awards encourage business growth in the Partnership's third-party timberland management and forestry consulting businesses.

Base Salary. Base salaries for the Partnership's executive officers are developed and approved by the HR Committee with periodic consultation provided by Towers Perrin, a nationally recognized compensation-consulting firm. Base salary amounts for executive officers take into account such factors as competitive industry salaries, an executive's scope of responsibilities, and individual performance and contribution to the organization. The HR Committee obtains executive compensation data through Towers Perrin who has developed salary surveys that reflect a peer group of other timber companies, including companies of different sizes. This data is integral to the HR Committee's deliberations and conclusions regarding appropriate levels of executive compensation. To the extent it deems appropriate, the HR Committee also considers general economic conditions within the area and within the industry. It is the HR Committee and not management that consults with and engages Towers Perrin.

Annual Bonus. Executive officers have an annual incentive (bonus) opportunity with awards based on the overall performance of the Partnership and on specific individual performance targets. The performance targets may be based on one or more of the following criteria: successfully pursuing the Partnership's growth strategies, maintaining sound asset quality, improving productivity, and increasing earnings and return on equity.

The size of the bonus pool is based upon an assessment of the Partnership's performance as compared to both budgeted and prior fiscal year performance and the extent to which the Partnership achieved its overall goals. Once the bonus pool is determined, the Chief Executive Officer makes individual bonus recommendations to the HR Committee, within the limits of the pool, for eligible employees based upon an evaluation of their individual performance and contribution to the Partnership's overall performance.

Unit Options. The HR Committee follows a compensation philosophy that includes unit options as a long-term incentive program for management. The Partnership's use of unit-based compensation focuses on the following guiding principles: (1) unit-based compensation has been and will continue to be an important element of employee pay, (2) the grant of unit options will be based on performance measures within the employee's control, (3) owning units is an important ingredient in forming the partnership between employees and the organization, and (4) ownership of significant amounts of the Partnership's units by executives and senior officers of the Partnership will facilitate aligning management's goals with the goals of unitholders. The HR Committee anticipates that it will continue to emphasize unit-based compensation in the future.

IPMB Award. The IPMB awards are paid from Pope MGP's share of earnings from the IPMB. Awards are paid in a lump sum following the year in which the award was earned.

Chief Executive Officer Compensation

In fiscal year 2001 Mr. Symington served as Chief Executive Officer and Mr. Nunes served as President and COO, of the Partnership and the General Partner. Since Mr. Symington's retirement on January 9, 2002, Mr. Nunes has been serving as Chief Executive Officer and President. In evaluating the compensation of Mr. Nunes for services rendered in 2003, the HR Committee considered both quantitative and qualitative factors.

In looking at quantitative factors, the HR Committee reviewed the Partnership's 2003 financial results and compared them with the Partnership's 2003 budget and actual financial results for 2002. Specifically, the HR Committee considered the following:

- Impact of product markets on results
- Progress towards subscribing ORM Timber Fund I, LP
- Amount of new timberland management and consulting business added

- Reductions in overhead costs

In addition to these quantitative accomplishments, the HR Committee also considered certain qualitative accomplishments by Mr. Nunes in 2003. Specifically, the HR Committee considered the following:

- Assessment and implementation of plan for high-yield forestry applications on owned timberlands,
- Negotiation of key contracts for timberland management services and other non-log revenues,
- Sustainable Forestry Initiative (SFI) certification

Policy With Respect to \$1 Million Deduction Limit

It is not anticipated that the limitations on deductibility, under Internal Revenue Code Section 162(m), of compensation to any one executive that exceeds \$1,000,000 in a single year will apply to the Partnership or its subsidiaries in the foreseeable future. In the event that such limitations would apply, the Committee will analyze the circumstances presented and act in a manner that, in its judgment, is in the best interests of the Partnership. This may or may not involve actions to preserve deductibility.

Conclusion

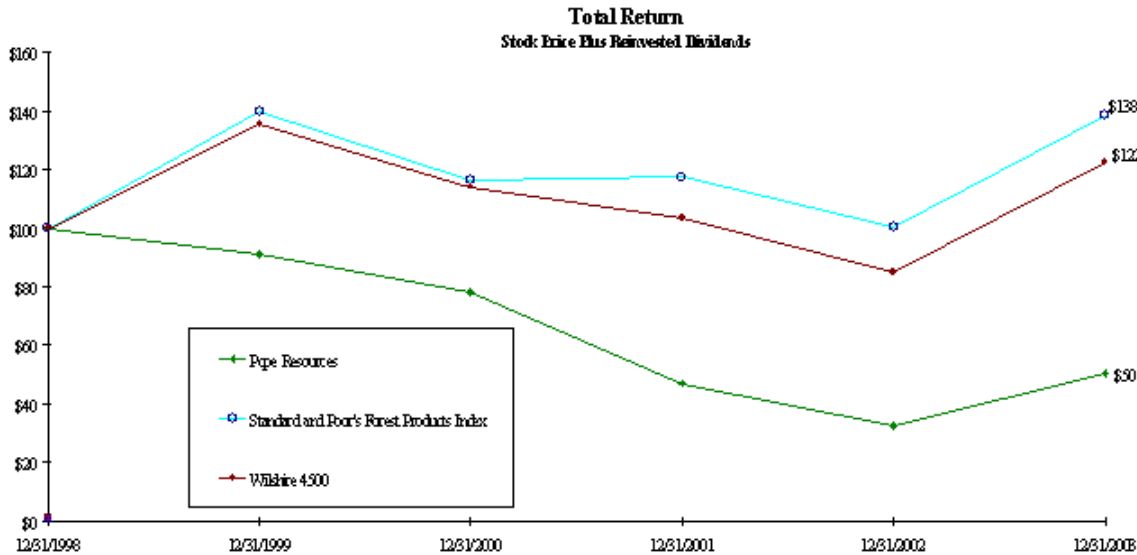
The HR Committee believes that for 2003 the compensation terms for Mr. Nunes, as well as for the other executive officers, were clearly related to the realization of the goals and strategies established by the Partnership. Further, based on our consideration of all factors, bonuses were paid in February 2004 based on 2003 performance.

Douglas E. Norberg
 Peter T. Pope
 J. Thurston Roach
 Marco F. Vitulli

Performance Graph

The following graph shows a five-year comparison of cumulative total unitholder returns for the Partnership, the Standard and Poor's Forest Products Index, and the Wilshire 4500 for the five years ended December 31, 2003. The total unitholder return assumes \$100 invested at the beginning of the period in the Partnership's units the Standard and Poor's Forest Products Index, and the Wilshire 4500. The graph assumes distributions are reinvested.

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Total Unitholder Return for the previous 1 year

	12/31/1999	12/31/2000	12/31/2001	12/31/2002	12/31/2003
Pope Resources	-8.85%	-14.60%	-39.80%	-30.8%	55.6%
Standard and Poor's Forest Products Index	39.82%	-16.75%	0.82%	-14.44%	37.83%
Wilshire 4500	35.49%	-15.77%	-9.33%	-17.80%	43.84%

Indexed Total Return: Unit Price Plus Reinvested Dividends

	12/31/1998	12/31/1999	12/31/2000	12/31/2001	12/31/2002	12/31/2003
Pope Resources Standard and Poor's Forest	\$100.00	\$ 91.15	\$ 77.84	\$ 46.86	\$ 32.42	\$ 50.46
Products Index	\$100.00	\$139.82	\$116.40	\$117.35	\$100.40	\$138.38
Wilshire 4500	\$100.00	\$135.49	\$114.12	\$103.48	\$ 85.06	\$122.35

Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT**Principal Unit Holders**

As of February 13, 2004, the following persons were known or believed by the Partnership to be the beneficial owners of more than 5% of the outstanding Partnership units:

<u>Name and Address of Beneficial Owner</u>	<u>Number of Units(1)</u>	<u>Percent of Class</u>
Private Capital Management, Inc. 8889 Pelican Bay Blvd Suite 500 Naples, FL 34108	1,599,015(2)	35.4
Emily T. Andrews 600 Montgomery Street 35th Floor San Francisco, CA 94111	557,100(3)	12.3
Peter T. Pope 1500 S.W. 1st Avenue Portland, OR 97201	331,507(4)	7.3

(1) Each beneficial owner has sole voting and investment power unless otherwise indicated. Includes unit options exercisable within 60 days.

(2) Private Capital Management, Inc. is an investment adviser shown registered under the Investment Advisers Act of 1940. Units are held in various accounts managed by Private Capital Management, Inc. which shares dispositive powers as to those units.

(3) Includes 1,090 units owned by her husband, Adolphus Andrews, Jr. as to which she disclaims beneficial ownership. Also includes a total of 60,000 units held by Pope MGP, Inc. and Pope EGP, Inc., as to which she shares voting and investment power.

(4) Includes (a) 44,600 units held in trust for his children, and (b) 60,000 units held by Pope MGP, Inc. and Pope EGP, Inc., as to which he shares investment and voting power.

Management

As of February 27, 2004, the beneficial ownership of the Partnership units of (1) the general partners of the Partnership, (2) the directors of the Partnership's general partners, (3) the named executives, and (4) the Partnership's general partners, directors and officers as a group, was as follows. **

<u>Name</u>	<u>Position and Offices</u>	<u>Number of Units(1)</u>	<u>Percent of Class</u>
David L. Nunes	Chief Executive Officer and President, Pope MGP, Inc. and the Partnership; Director, Pope MGP, Inc.	49,253(2)	1.1
Thomas M. Ringo	Vice President and CFO, Pope MGP, Inc. and the Partnership	26,480(2)	*
Peter T. Pope	Director, Pope MGP, Inc. and Pope EGP, Inc.; President, Pope EGP, Inc.	331,507(3)	7.3
J. Thurston Roach	Director, Pope MGP, Inc.	—	*

Pope EGP, Inc.	Equity General Partner of the Partnership	54,000	1.2
Pope MGP, Inc.	Managing General Partner of the Partnership	6,000	*
Douglas Norberg	Director, Pope MGP, Inc.	53,575(4)	*
Marco Vitulli	Director, Pope MGP, Inc.	20,489(5)	*
All general partners, directors and officers of general partners, and officers of the Partnership as a group (6 individuals and 2 entities)		481,304(6)	10.6

* Less than 1%

** The address of each of these parties is C/O Pope Resources, 19245 Tenth Avenue NE, Poulsbo, WA 98370.

- (1) Each beneficial owner has sole voting and investment power unless otherwise indicated. Includes unit options that are exercisable within 60 days.
- (2) David L. Nunes number of units includes options to purchase 28,250 units and Thomas M. Ringo includes options to purchase 23,500 units that are exercisable within 60 days.
- (3) Includes (a) 65,400 units held in trust for his children, (b) 60,000 units held by Pope MGP, Inc. and Pope EGP, Inc., as to which he shares investment and voting power, and (c) currently exercisable options to purchase 25,982 units.
- (4) Includes currently exercisable options to purchase 42,975 units issued to Mr. Norberg.
- (5) Includes currently exercisable options to purchase 18,539 units issued to Mr. Vitulli.
- (6) For this computation, the 60,000 units held by Pope MGP, Inc. and Pope EGP, Inc. are excluded from units beneficially owned by Mr. Pope. Mr. Pope and Emily T. Andrews, own all of the outstanding stock of Pope MGP, Inc. and Pope EGP, Inc. Includes currently exercisable options to purchase 150,246 units.

Equity Compensation Plan Information

The following table presents certain information with respect to the Partnership's equity compensation plans and awards thereunder on December 31, 2003.

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Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders	—	—	—
Equity compensation plans not approved by security holders	354,740	\$ 16.52	1,136,635
Total	354,740	\$ 16.52	1,136,635

Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The Partnership Agreement provides that it is a complete defense to any challenge to an agreement or transaction between the Partnership and a general partner, or related person, due to a conflict of interest if, after full disclosure of the material facts as to the agreement or transaction and the interest of the general partner or related person, (1) the transaction is authorized, approved or ratified by a majority of the disinterested directors of the General Partner, or (2) the transaction is authorized by partners of record holding more than 50% of the units held by all partners.

General Partner Fee. Pope MGP, Inc. receives an annual fee of \$150,000, and reimbursement of administrative costs for its services as managing general partner of the Partnership, as stipulated in the Partnership Agreement.

Minority Interest Payments. The minority interest represents Pope MGP, Inc.'s interest in the IPMB. Net income from the IPMB is paid 80% to ORM, Inc. and 20% to Pope MGP, Inc. until net income from the IPMB reaches \$7.0 million in a fiscal year, at which time income will be allocated evenly between ORM, Inc. and Pope MGP, Inc.

P&T Lease Payments. Mr. Peter T. Pope, a director of Pope MGP, Inc., is also a director of P&T. In 2001, the Partnership received lease payments of \$75,000 from P&T for lease of a log sorting and storage site at Port Gamble, Washington. P&T also leased an art collection from the Partnership through October 2003. Revenue received from the art lease was \$15,000 annually for the two-year period ended December 31, 2002. Lease payments received in 2003 were \$12,239.

Art Collection Sale. In October 2003 the art collection that has been historically leased to P&T was sold to Mr. Pope for \$315,000. The price was based upon an independent appraisal.

Item 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The following table summarizes fees paid to the Partnership's principal accountants, KPMG LLP during 2003 and 2002.

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Description of services	2003	%	2002	%
Audit	\$ 103,183	63%	\$ 104,350	64%
Audit related	1,700	1%	—	0%
Tax	58,365	36%	59,560	36%
Total	\$ 163,248	100%	\$ 163,910	100%

The Audit Committee approved all services provided in 2003 by KPMG LLP. In 2002 KPMG provided \$20,000 of compliance related tax services (representing 18% of fees paid) that were expended prior to May 6, 2002 and were not pre-approved by the Audit Committee.

Prior to hiring KPMG to provide services to the Partnership, anticipated fees and a description of the services are presented to the Audit Committee. The Audit Committee then either agrees to hire KPMG to provide the services or directs management to find a different service provider.

PART IV

Item 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K.

<u>Financial Statements</u>	<u>Page</u>
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Notes to Consolidated Financial Statements	47-61

Financial Statement Schedules

Environmental Remediation

	Balances at the Beginning of the Period	Additions to Accrual	Expenditures for Remediation	Balances at the End of the Period
Year Ended December 31, 2001	\$ 1,870,000	\$ —	\$ 461,000	\$1,409,000
Year Ended December 31, 2002	1,409,000	730,000	1,510,000	629,000
Year Ended December 31, 2003	629,000	—	337,000	292,000

Reports on Form 8-K

On December 23, 2003 the registrant filed two Current Reports on Form 8-K:

- 1) Disclosing the signing of a definitive purchase and sale agreement with Costco Wholesale Corporation to sell up to 20 acres of the Partnership's 320-acre project in North Gig Harbor

Washington.

2) Disclosing the signing of a definitive purchase and sale agreement with Plum Creek Timber Company to acquire approximately 3,300 acres of timberland in southwest Washington for \$8.5 million.

On January 30, 2004 the registrant filed a Current Report on Form 8-K with the Partnership's earnings release for the quarter and year ended December 31, 2003.

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Exhibits.

No.	Document
3.1	Certificate of Limited Partnership. (1)
3.2	Limited Partnership Agreement, dated as of November 7, 1985. (1)
3.3	Amendment to Limited Partnership Agreement dated December 16, 1986. (2)
3.4	Amendment to Limited Partnership Agreement dated March 14, 1997. (4)
3.5	Certificate of Incorporation of Pope MGP, Inc. (1)
3.6	Amendment to Certificate of Incorporation of Pope MGP, Inc. (3)
3.7	Bylaws of Pope MGP, Inc. (1)
3.8	Certificate of Incorporation of Pope EGP, Inc. (1)
3.9	Amendment to Certificate of Incorporation of Pope EGP, Inc. (3)
3.10	Bylaws of Pope EGP, Inc. (1)
4.1	Specimen Depositary Receipt of Registrant. (1)
4.2	Limited Partnership Agreement dated as of November 7, 1985, as amended December 16, 1986 and March 14, 1997 (see Exhibits 3.2, 3.3 and 3.4).
9.1	Shareholders Agreement entered into by and among Pope MGP, Inc., Pope EGP, Inc., Peter T. Pope, Emily T. Andrews, P&T, present and future directors of Pope MGP, Inc. and the Partnership, dated as of November 7, 1985 included as Appendix C to the P&T Notice and Proxy Statement filed with the Securities and Exchange Commission on November 12, 1985, a copy of which was filed as Exhibit 28.1 to the Partnership's registration on Form 10 identified in footnote (1) below. (1)
10.1	Transfer and Indemnity Agreement between the Partnership and P&T dated as of December 5, 1985. (1)
10.3	Environmental Remediation Agreement (11)
10.4	1997 Unit Option Plan Summary. (5)
10.5	Audit Committee Charter. (12)
10.6	Employment Agreement between the Partnership and Allen E. Symington, dated August 31, 2000. (9)
10.17	Management Agreement, dated as of March 22, 2000, by and between Pioneer Resources I, LLC and Olympic Resource Management LLC. (6)
10.18	First Amendment to Management Agreement between Pioneer Resources I, LLC and Olympic Resource Management LLC, dated September 7, 2000. (10)
10.19	Second Amendment Management Agreement between Pioneer Resources I, LLC and Olympic Resource Management LLC, dated June 29, 2001. (10)

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No.	Document
10.20	Deed of Trust, Fixture Filing and Security Agreement with Assignment of Rents between Pioneer Resources I, LLC, Olympic Resource Management LLC, and Oregon Title Insurance Company, dated April 7, 2000. (6)
10.21	Timberland Deed of Trust and Security Agreement with Assignment of Rents between Pope Resources, Jefferson Title Company and John Hancock Mutual Life Insurance Company, dated April 29, 1992. (10)
10.22	Amendment to Timberland Deed of Trust and Security Agreement with Assignment of Rents between Pope Resources, Jefferson Title Company and John Hancock Mutual Life Insurance Company, dated May 13, 1992. (10)
10.23	Second Amendment to Timberland Deed of Trust and Security Agreement with Assignment of Rents between Pope Resources, Jefferson Title Company and John Hancock Mutual Life Insurance Company, dated May 25 1993. (10)
10.24	Third Amendment to Timberland Deed of Trust and Security Agreement with Assignment of Rents between Pope Resources, Jefferson Title Company and John Hancock Mutual Life Insurance Company, dated December 19, 1995. (10)
10.25	Fourth Amendment to Timberland Deed of Trust and Security Agreement with Assignment of Rents between Pope Resources, Jefferson Title Company and John Hancock Mutual Life Insurance Company, dated December 20, 1999. (10)
10.26	Amended and Restated Timberland Deed of Trust and Security Agreement with Assignment of Rents and Fixture Filing between Pope Resources and John Hancock Life Insurance Company, dated March 29, 2001. (10)
10.27	Promissory Note from Pope Resources to John Hancock Mutual Life Insurance Company, dated April 29, 1992. (10)
10.28	Amendment to Promissory Note from Pope Resources to John Hancock Mutual Life Insurance Company, dated May 25, 1993. (10)
10.29	Second Amendment to Promissory Note from Pope Resources to John Hancock Mutual Life Insurance Company, dated December 19, 1995. (10)
10.30	Third Amendment to Promissory Note from Pope Resources to John Hancock Mutual Life Insurance Company, dated December 20, 1999. (10)
10.31	Fourth Amendment to Promissory Note from Pope Resources to John Hancock Mutual Life Insurance Company, dated March 29, 2001. (10)
10.32	Timberland Purchase and Sale Agreement for the Southwest Washington Timberlands by and among Plum Creek Timberlands, L.P. and Plum Creek Marketing, Inc., as Seller and Pope Resources, a Delaware Limited Partnership as Purchaser, dated February 12, 2001. (7)
10.33	Note Purchase Agreement between Pope Resources, John Hancock Life Insurance Company and John Hancock Variable Life Insurance Company, dated March 29, 2001. (10)
10.34	Class A Fixed Rate Senior Secured Note from Pope Resources to John Hancock Life Insurance Company, dated March 29, 2001, in the principal amount of \$23,500,000. (10)

No.	Document
10.35	Class A Fixed Rate Senior Secured Note from Pope Resources to John Hancock Life Insurance Company, dated March 29, 2001 in the principal amount of \$4,500,000. (10)
10.36	Class A Fixed Rate Senior Secured Note from Pope Resources to John Hancock Variable Life Insurance Company, dated March 29, 2001, in the principal amount of \$2,000,000. (10)
10.37	Timberland Deed of Trust and Security Agreement With Assignment of Rents and Fixture Filing between Pope Resources, Jefferson Title Company and John Hancock Life Insurance Company, dated March 29, 2001. (10)

10.61	Promissory Note from Port Ludlow Associates LLC to Pope Resources, dated August, 2001. (8)
10.62	Deed of Trust from Port Ludlow Associates LLC to Pope Resources, dated August, 2001. (8)
10.63	Subordination and Release Agreement between Port Ludlow Associates LLC and Pope Resources, dated August, 2001. (8)
10.67	Third Amendment to Management Agreement between Pioneer Resources I, LLC and Olympic Resource Management LLC. (11)
10.68	Amendment to Subordination and Release Agreement between Port Ludlow Associates LLC and Pope Resources, dated April 25, 2002. (11)
10.69	Purchase and sale agreement with Plum Creek dated December 23, 2003 (12)
10.70	Purchase and sale agreement with Costco Wholesale Corp dated December 22, 2003 (12)
10.71	Employment agreement with Mr. Thomas M. Ringo dated December 10, 2003 (12)
10.72	Employment agreement with Mr. John T. Shea dated December 10, 2003(12)
22	Subsidiaries of the Partnership (11)
23.1	Consent of KPMG LLP (12)
23.2	Consent of Deloitte & Touche LLP (12)
31.1	Certificate of Chief Executive Officer (12)
31.2	Certificate of Chief Financial Officer (12)
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (12)
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (12)
99.1	Press release of the Registrant dated December 23, 2003 disclosing the signing of a definitive purchase and sale agreement with Costco Wholesale Corporation to sell nearly 20 acres of the Partnership's 320-acre project in North Gig Harbor Washington.

No.	Document
99.2	Press release of the Registrant dated December 23, 2003 signing of a definitive purchase and sale agreement with Plum Creek Timber Company to acquire approximately 3,200 acres of timberland in southwest Washington for \$8.5 million.
99.3	Press Release of the Registrant dated January 30, 2004, incorporated by reference to the Current Report on Form 8-K filed by the Registrant on January 30, 2004.
99.4	Pope Resources Code of Ethics (11)
(1)	Incorporated by reference from the Partnership's registration on Form 10 filed under File No. 1-9035 and declared effective on December 5, 1985.
(2)	Incorporated by reference from the Partnership's annual report on Form 10-K for the fiscal year ended December 31, 1987.
(3)	Incorporated by reference from the Partnership's annual report on Form 10-K for the fiscal year ended December 31, 1988.
(4)	Incorporated by reference from the Partnership's Proxy Statement filed on February 11, 1997.
(5)	Incorporated by reference to the Company's Form S-8 Registration Statement filed with the Commission on February 11, 1997.
(6)	Incorporated by reference from the Partnership's quarterly report on Form 10-Q for the quarter ended March 31, 2000. Subject to a request for confidential treatment filed with the SEC on May 12, 2000.

- (7) Incorporated by reference to the Company's Current Report filed on Form 8-K filed with the Commission on March 19, 2001.
- (8) Incorporated by reference to the Company's Current Report filed on Form 8-K filed with the Commission on August 20, 2001.
- (9) Incorporated by reference from the Partnership's annual report on Form 10-K for the fiscal year ended December 31, 2000.
- (10) Incorporated by reference to the Partnership's annual report on Form 10-K for the fiscal year ended December 31, 2001.
- (11) Incorporated by reference to the Partnership's annual report on Form 10-K for the fiscal year ended December 31, 2002.
- (12) Filed with this annual report on Form 10-K for the fiscal year ended December 31, 2003.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Partnership has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

POPE RESOURCES, A Delaware
Limited Partnership

By POPE MGP, INC.
Managing General Partner

Date: March 19, 2004

BY /s/ David L. Nunes

DAVID L. NUNES,
President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Partnership and in the capacities and on the date indicated.

Date: March 19, 2004

By /s/ David L. Nunes

DAVID L. NUNES,
President and Chief Executive Officer (principal
executive officer), Partnership and Pope MGP, Inc.;
Director, Pope MGP, Inc.

Date: March 19, 2004

By /s/ Thomas M. Ringo

THOMAS M. RINGO
Vice President & CFO (principal financial and
accounting officer), Partnership and Pope MGP, Inc.

Date: March 12, 2004

By /s/ J. Thurston Roach

J. Thurston Roach
Director, Pope MGP, Inc.

Date: March 12, 2004

By /s/ Peter T. Pope

PETER T. POPE
Director, Pope MGP, Inc.

Date: March 12, 2004

By /s/ Marco F. Vitulli

MARCO F. VITULLI
Director, Pope MGP, Inc.

Date: March 12, 2004

By /s/ Douglas E. Norberg

DOUGLAS E. NORBERG
Director, Pope MGP, Inc.

AUDIT COMMITTEE CHARTER

POPE MGP, Inc.

As revised October 2003

I. PURPOSE

The primary **function** of the Audit Committee (“Committee”) is to assist the Board of Directors of Pope MGP, Inc. in fulfilling its oversight responsibilities for Pope Resources and its subsidiaries (the “Partnership”) with respect to the following:

- Accounting and financial reporting,
- Assessment and management of risk and the related internal control environment,
- Compliance with laws and regulations, and
- Internal and external audit processes.

In fulfilling its **responsibilities**, the Committee will:

- Serve as an independent and objective party to monitor the Partnership’s financial reporting process and internal control system,
- Have sole authority for appointment, retention, and firing of independent accountants,
- Approve all audit and non-audit services provided to the Partnership by the independent accountants,
- Review and evaluate the audit efforts of the independent accountants and the Partnership’s internal audit activities,
- Facilitate an open avenue of communication among the independent accountants, internal audit, and the Board of Directors,
- Establish procedures for receiving and treating concerns (including anonymous ones from Partnership employees) regarding accounting, internal accounting controls and auditing and ensure that such concerns are treated confidentially with no threat of retaliation to the party surfacing the concern.

The Committee will have the complete and unrestricted **authority** and funding to conduct investigations into any matters within the Committee’s scope of responsibilities. The Committee shall be empowered to retain independent counsel and other professionals to assist in the conduct of any investigation.

The Committee will primarily fulfill these responsibilities by carrying out the activities enumerated in Section III of this Charter.

Audit Committee Charter
Pope MGP, Inc.
Revised October 2003

II. COMPOSITION, MEETINGS AND ADMINISTRATIVE MATTERS

Number of Directors: The Committee shall be comprised of three or more directors as determined by the Board.

Independence of Directors: Each member of the Committee shall be an independent director. A director shall be considered “independent” if he or she is free from any relationship that may interfere with the exercise of his or her independence from management and the Partnership or independent judgement as a member of the Committee.

Committee Member Qualifications: All members of the Committee shall have a working familiarity with basic finance and accounting practices and be able to read and understand financial statements at the time of their appointment.

Designation of “Financial Expert”: The Committee will designate at least one of its members in the Partnership’s annual Form 10-K as a “financial expert” so defined under SEC rules.

Appointment of Committee Members: The Members of the Committee shall be elected by the Board at the annual meeting of the Board and shall serve until their resignation, removal, or replacement. A Chair shall be elected by the full Board.

Meeting Frequency: The Committee shall meet at least three times annually in regularly scheduled meetings. The Committee shall also meet at other times as necessary to discharge its responsibilities and as circumstances dictate. Meetings of the Committee may be in person or telephonically.

Meeting Attendees: In addition to Committee Members, the Committee may ask that members of Partnership management or the Partnership’s independent accountants be present at Committee meetings. [Note: At present the Partnership does not have a formally established internal audit function. On occasion, financial management personnel perform reviews or procedures that emulate this function. As such, the Committee may ask that personnel performing such internal audit functions be present at Committee meetings. “Internal audit” as used herein is understood to cover that function in broad terms, whether formally or informally established.]

Private Communications: Regularly at Committee meetings, there will be an opportunity for Committee members to have private communications with each of management, the financial officers, internal audit, and the independent accountants. As part of its job to foster open communication, the Committee should meet at least annually with the independent accountants in separate executive session to discuss any matters that the Committee or the independent accountants believe should be discussed privately.

Minutes: The Committee Chair shall appoint an individual to prepare minutes for each meeting. Draft minutes shall be distributed to Committee members, for approval at the next meeting. Approved minutes shall be submitted to the Board of Directors for ratification and such minutes shall be retained with the permanent corporate records of the Partnership.

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Audit Committee Charter
Pope MGP, Inc.
Revised October 2003

Reporting to the Board: The Chair or his or her designee will report Committee actions to the Board of Directors with such recommendations, as the Committee may deem appropriate.

Committee Charter: Annually, the Committee shall review its Charter and, if appropriate, propose revisions to the Board of Directors for approval.

III. DUTIES AND RESPONSIBILITIES

To fulfill its duties and responsibilities the Committee shall:

Maintain its Independence

1. Adhere strictly to limitations on member compensation stipulated by SEC or Nasdaq rules.
2. Monitor rules defining "affiliated persons" so as to avoid independence issues.

Review of Documents and Reports

3. Review with management the Partnership's annual financial statements and the independent accountants' opinion with respect to such financial statements.
4. Review with the independent accountants the results of their audit of the annual financial statements, including all matters required to be communicated to audit committees under generally accepted auditing standards. Such communications should include significant audit adjustments, significant accounting policies and any related changes thereto, management judgments and accounting estimates, disagreements with management, and any other difficulties encountered during their audit.
5. Review the Form 10-Q prior to its filing. This review may take place at a scheduled meeting or it may take place as a result of dissemination of a draft 10-Q followed by individual responses to either management or the Committee Chair.
6. Review comments provided by the independent accountants relating to the Partnerships internal controls or other related matters, and management's response.
7. Review any internal reports (if applicable) to management prepared by internal auditors and management's response.

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Audit Committee Charter
Pope MGP, Inc.
Revised October 2003

Independent Accountants

8. Assume direct responsibility for appointment, compensation, and oversight of the independent accountant. The independent auditor reports directly to the Committee.
9. Review the independent accountants' plan and scope relating to their audit of the annual financial statements. Review with the independent accountants the coordination of audit effort to assure completeness of coverage, reduction of redundant efforts, and the effective use of audit resources.
10. On an annual basis, review and discuss with the accountants all significant relationships the accountants have with the Partnership to determine and confirm the accountants' independence. Obtain

a formal written statement from the outside auditors delineating all relationships with the Partnership. Ensure that the CEO, CFO, Controller (or persons in equivalent positions) have not been employed by the company's audit firm during the 1-year period preceding the current year audit.

11. Ensure that the independent accountants will not provide any non-audit services including: a) bookkeeping or other services related to the accounting records or financial statements of the audit client; b) financial information systems design and implementation; c) appraisal or valuation services, fairness opinions, or contribution-in-kind reports; d) actuarial services; e) internal audit outsourcing services; f) management functions or human resources; g) broker or dealer, investment adviser, or investment banking services; h) legal services and expert services unrelated to the audit; i) any other service that the Committee determines is impermissible. The independent auditor may engage in any non-audit service, including tax services, that is not listed above, only if the activity is pre-approved by the Audit Committee.
12. Ensure that the lead audit or coordinating partner and the reviewing partner must rotate off of the audit every 5 years.

Financial Reporting Processes and Internal Controls

13. Review with financial management the Partnership's significant accounting and reporting policies and any changes thereto.

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Audit Committee Charter
Pope MGP, Inc.
Revised October 2003

14. Review with financial management the accounting treatment of individual events or transactions that may have a significant impact on financial reporting.
15. Consider, through periodic discussions, the independent accountants' judgments about the quality and appropriateness of the Partnership's accounting principles as applied in its financial reporting.
16. Determine that management has implemented policies and procedures ensuring that the Partnership's risks are identified and that controls are adequate, in place, and functioning properly.
17. Consider and review with management and the independent accountants:

The adequacy of the Partnership's internal controls including computerized information system controls and security. Any related significant findings and recommendations of the independent accountants regarding internal controls together with management's responses thereto.

18. Evaluate whether management is setting the appropriate tone at the top by communicating the importance of internal controls and ensuring all individuals possess an understanding of their roles and responsibilities.
19. Require the independent accountant to keep the Committee timely informed about fraud, illegal acts, and deficiencies in internal control.

Ethical and Legal Compliance

20. Confirm that management has the proper review system in place to ensure that the Partnership's financial statements, reports and other financial information (disseminated to governmental organizations and the public) satisfy legal requirements.
21. Evaluate the need for and related activities (if applicable) of the Partnership's internal audit activities. If applicable, review such activities, organizational structure, and qualifications of internal audit resources.
22. Review, with management and Partnership counsel, the Partnership's policies and procedures to minimize and monitor risks and exposures from noncompliance with laws and regulations. Specifically consider compliance matters pertaining to corporate securities trading policies.

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Audit Committee Charter
Pope MGP, Inc.
Revised October 2003

23. Review and approve any extension of credit by the Partnership to a director or officer of the Partnership or its general partners.
24. Approve a code of ethics for senior financial officers and review it annually for potential improvement. Obtain annually an assurance in writing from each senior financial officer that they have complied.
25. Establish and maintain procedures to receive, retain, and treat complaints from employees and others about accounting, internal accounting controls, or auditing matters. The procedures established must address “whistleblower complaints” by establishing for the confidential, anonymous submission by employees of concerns regarding questionable accounting or auditing matters.
26. Review, with management and Partnership counsel, the process for determining risks and exposures from litigation, claims and assessments, including counsel’s assessment of specific significant matters.
27. Perform any other activities consistent with this Charter, the Partnership Agreement and governing law, as the Committee or the Board deems necessary or appropriate.

TIMBERLAND

PURCHASE AND SALE AGREEMENT

FOR THE MORTON, LEWIS COUNTY, WASHINGTON TIMBERLANDS

by and between

PLUM CREEK TIMBERLANDS, L.P.,

As Seller

and

POPE RESOURCES, A Delaware Limited Partnership,

As Purchaser

Dated the — day of December, 2003

TIMBERLAND

PURCHASE AND SALE AGREEMENT

FOR THE MORTON, LEWIS COUNTY, WASHINGTON TIMBERLANDS

THIS AGREEMENT is made and entered into this ___ day of December, 2003, by and among PLUM CREEK TIMBERLANDS, L.P., a Delaware limited partnership, as successor by merger to Plum Creek Timber Company, L.P., a Delaware limited partnership (“Seller”) whose address is 999 Third Avenue, Suite 4300, Seattle, Washington 98104, and POPE RESOURCES, A Delaware Limited Partnership whose address is 19245 Tenth Avenue Northeast, Poulsbo, Washington 98370-0239 (“Purchaser”).

Purchaser desires to purchase from Seller and Seller desires to sell to Purchaser approximately 3,297 acres of timberland and associated property and assets located in the State of Washington, known as the Morton, Lewis County, Washington Timberlands. In consideration of the mutual covenants set forth in this Agreement, the receipt and sufficiency of which are acknowledged, and subject to all terms of this Agreement, the parties agree as follows:

1. Purchase and Sale of Assets. Subject to the contingencies and other terms and conditions contained herein, Seller agrees to sell and Purchaser agrees to purchase the Assets (as defined in Paragraph 1.6), as follows:

1.1 Timberlands. All of Seller’s right, title and interest in and to certain real property owned by Seller in Lewis County, Washington, as further described on Exhibit “A” attached hereto and incorporated herein by this reference (“Real Property”), together with all other rights and interests related or appurtenant thereto, including but not limited to all of Seller’s right, title, and interest (i) in and to the merchantable and unmerchantable timber, growing, lying, standing or felled, timber interests and timber rights located on or appurtenant to the Real Property; (ii) in and to any mineral, sand, oil, gas, hydrocarbon substances and gravel and other hard rock rights on and under the Real Property not previously severed by Seller’s predecessors in interest; and (iii) in and to any development rights, air rights, water, water rights, ditch and ditch rights appurtenant to the Real Property (collectively, all property described in this Paragraph 1.1 is herein called the “Timberlands”).

1.2 Access Rights and Easements. All rights and interests of Seller in and to any access rights, rights-of-way and easements appurtenant to or benefiting the Timberlands and listed in **Schedule 1.2** (“Access Rights and Easements”).

1.3 Maps and Records. All records and information in Seller’s possession or control used in connection with or pertaining to the Timberlands, including, without limitation, Seller’s records and information relating to timber inventories, timber management and operations reports, records relating to title matters, current agreements, roads, current easements and access rights, and environmental conditions, maps, Road Maintenance and Abandonment Plan, wildlife survey results, biological studies, open Forest Practice Applications (including any FPAs where any reforestation or other continuing forestland obligations remain uncompleted), aerial photos, plans, drawings, specifications, renderings, engineering studies, surveys, and electronic timber inventory data solely concerning the Timberlands (collectively, the “Maps and Records”). The term “Maps and Records” shall include all information, documents, records, maps, reports, due diligence materials, including, without limitation, surveys, forest management records, and wildlife and fisheries reports, received by Seller from the State Department of Natural Resources (“DNR”) in connection with Seller’s acquisition of the Timberlands from the DNR in 2001.

1.4 Assets. The Timberlands, Access Rights and Easements and Maps and Records are sometimes collectively referred to as the "Assets."

1.7 Possession. Purchaser shall be entitled to possession of the Assets upon Closing.

2. Purchase Price and Terms.

2.1 Purchase Price. The purchase price for the Assets is Eight Million Five Hundred Five Thousand Dollars (US\$8,505,000) ("Purchase Price").

2.2 Earnest Money. Upon full execution hereof, Purchaser shall place into the escrow with the Escrow Agent (defined below) the amount of Two Hundred Fifty Thousand Dollars (US\$250,000), in cash or by wire transfer or otherwise immediately available federal funds paid or delivered as earnest money (the "Earnest Money") in part payment of the Purchase Price for the Assets. The Earnest Money shall be invested by Escrow Agent in an interest-bearing account mutually acceptable to the parties, with all interest earned thereon being for the account of Purchaser. The Earnest Money shall be refunded to Purchaser if this Agreement terminates for any reason other than Purchaser's failure to close without legal excuse. The Earnest Money shall constitute Seller's sole and exclusive remedy in the event Purchaser fails to close this transaction without legal excuse.

2.3 Payment of Purchase Price. At Closing, Purchaser shall pay Seller in cash or by wire transfer or otherwise immediately available federal funds the entire Purchase Price, of which the Earnest Money received herein is a part. The value of the Access Rights and Easements and Maps and Records is included in the value allocated to the Timberlands, which is 100% of the Purchase Price.

3. Closing. Subject to the provisions of Paragraph 14.1(h), Closing ("Closing") shall occur at the offices of Transnation Title Insurance Company, 1200 Sixth Avenue, Seattle, Washington 98101 ("Escrow Agent") on or before January 9, 2004, unless such date is extended by written agreement of the parties.

4. Representations and Warranties of Seller. Seller represents and warrants to Purchaser that except as disclosed in a Schedule or Schedules hereinafter described:

4.1 Organization. Seller is a limited partnership duly organized and validly existing under the laws of the State of Delaware.

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4.2 Good Standing. Seller is qualified to do business in the State of Washington.

4.3 Power and Authority for Transaction. Seller has the power and authority to execute, deliver and perform this Agreement and the transactions contemplated herein in accordance with the terms hereof.

4.4 Authorization. The execution and delivery by Seller of this Agreement and the due consummation of the transactions contemplated herein have been duly and validly authorized by all necessary partnership actions on the part of Seller and this Agreement constitutes a valid and legally binding agreement of Seller.

4.5 No Violation or Conflicts. Neither the execution and delivery of this Agreement by Seller nor the consummation by Seller of the transactions contemplated herein (i) constitute a violation of Seller's certificate of limited partnership or limited partnership agreement, or (ii) result in the breach of or the imposition of any lien on any Assets pursuant to, or constitute a material default under, any indenture or bank loan or credit agreement or other agreement or instrument to which Seller is a party or by which it or its property may be bound or affected. Except for consents or approvals which will have been obtained or actions which will have been taken on or prior to the Closing Date, and except for consents, approvals, authorizations or actions described in Paragraph 16.2, no consent, approval, authorization or action by any governmental authority, or any person or entity having legal rights against or jurisdiction over Seller, is required in connection with the execution and delivery by Seller of this Agreement or the consummation by Seller of the transactions contemplated herein.

4.6 No Defaults. To Seller's knowledge, the Access Rights and Easements are valid and in full force and effect, and no event has occurred or is claimed to have occurred which may render unenforceable or permit the termination of any of the Access Rights and Easements. To Seller's knowledge, neither Seller nor, to Seller's knowledge, any other party thereto has breached or violated or is claiming Seller has breached or violated any provision of, or is in default or is claiming Seller is in default in any respect under, the terms or conditions of any Access Right or Easement. Except as disclosed on **Schedule 1.2**, the Access Rights and Easements are assignable to Purchaser without consent.

4.7 Condemnation Proceedings. Subject to Paragraph 14.1(e), no condemnation proceeding is pending or, to the knowledge of Seller, threatened which affects or could reasonably be expected to affect the Timberlands.

4.8 Environmental Matters. To Seller's knowledge, Seller warrants that:

(a) the Timberlands are not nor have they at any time been used for or suffered the generation,

transportation, management, handling, treatment, storage, manufacture, emission disposal, release or deposit of any hazardous substances or fill or other material containing hazardous substances in material violation of applicable laws;

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(b) there are no underground storage tanks on the Timberlands;

(c) Seller has not received written notification from any third party, including, but not limited to, any governmental agency, alleging that Seller, with respect to the management and operations of the Timberlands, and/or the Timberlands are not materially in compliance with, may require remediation under, or be subject to liability under applicable environmental laws; and

(d) there are no hazardous substances in, on or under the Timberlands or any part thereof that are in violation of applicable environmental laws except for such violations as would not (individually or in the aggregate) be material.

Except as to matters covered by Seller's warranty set forth in this Paragraph 4.8, Purchaser releases Seller from all costs, losses, liabilities, obligations and claims, of any nature whatsoever, known and unknown, that Purchaser may have against Seller or that may arise after the date of Closing based in whole or in part upon (i) Seller's failure to comply with any environmental laws applicable to the Timberlands; or (ii) the presence, release or disposal of any hazardous substance, solid waste, or any other environmental contamination on, within, or from the Timberlands before, as of, or after the Closing Date. The above-referenced release does not cover or apply to any statutory or common law claim for contribution or indemnity that may arise to the extent Purchaser suffers any liabilities or obligations from future claims of any governmental agency arising out of (i) or (ii) above, or any claims, costs, losses, liabilities, or obligations arising out of the activities of Seller or its agents, contractors or employees on, in, under or about the Timberlands after the Closing Date. As used herein, the term "environmental laws" shall mean all applicable federal, state or local laws, rules, regulations, governmental permits or other binding determinations of any governmental authority relating to or addressing the environment, including, without limitation, the Comprehensive Environmental Response, Compensation and Liability Act, as amended ("CERCLA"), and the Resource Conservation and Recovery Act, as amended ("RCRA"), the Toxic Substances Control Act, as amended ("TSCA"), the Clean Water Act, as amended ("CWA"), the Clean Air Act, as amended ("CAA"), and the Oil Pollution Control Act of 1990, as amended ("OPA"). As used herein, the terms "hazardous substance" and "release" (as it relates to the release of hazardous substances as opposed to the release of claims) have the meanings specified in CERCLA and the terms "solid waste" and "disposal" (or "disposed") have the meanings specified in RCRA. If either CERCLA or RCRA is amended to broaden the meaning of any term defined thereby, the broader meaning shall apply to this Paragraph 4.8 after the effective date of the amendment. Moreover, to the extent that Washington law establishes a meaning for "hazardous substance," "release," "solid waste," or "disposal" that is broader than that specified in either CERCLA or RCRA, the broader meaning shall apply.

4.9 Suits, Actions or Proceedings. There is (i) no court or administrative decision, permit, moratorium, judgment or order against Seller or specifically involving the Timberlands which materially and adversely affects the value of the Timberlands or the operations of the Timberlands as they are currently being operated; and (ii) no legal, administrative or other suit, action, proceeding or arbitration, or governmental investigation pending or, to the knowledge of Seller, threatened against Seller or specifically involving the Timberlands which would reasonably be expected to materially and adversely affect the value of the Timberlands or the operations of the Timberlands as they are currently being operated. There is no suit, action, claim, arbitration or other proceeding pending, or to the knowledge of Seller, threatened before any court or governmental agency, which may result in the restraint or prohibition of the consummation of the transactions contemplated by this Agreement.

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4.10 Broker Fees. Seller has engaged Forestland Marketing /Troy Dana/Mike Flanagan (collectively, "Broker") as its broker, agent or finder with respect to this transaction, and Seller shall pay Broker at Closing all brokerage fees, agents' commissions and/or finders' fees owed to Broker in connection with the transaction contemplated herein. Purchaser shall have no liability or obligation to pay Broker any commissions or fees. Purchaser and Seller each represent and warrant to the other that no other broker, agent or finder, licensed or otherwise has been engaged by it, respectively, in connection with the transaction contemplated by this Agreement. In the event of any such claim for broker's, agent's or finder's fee or commission for any broker, agent or finder other than the Broker in connection with the negotiation, execution or consummation of this transaction, the party upon whose alleged statement, representation or agreement such claim or liability arises shall indemnify, hold harmless and defend the other party from and against such claim and liability, including without limitation, reasonable attorney's fees and court costs. Purchaser and Seller acknowledge that the representations and warranties contained in this Paragraph shall survive the Closing.

4.11 Compliance. Seller has not received written notification from any governmental agency alleging that the Timberlands or the use or condition thereof are not presently in compliance with applicable laws and Seller has no knowledge of any such violations relating to the Timberlands or the use or condition thereof. To Seller's knowledge, Seller maintains the Assets in material compliance with all applicable laws, ordinances, codes,

permits, approved Forest Practices Applications, and regulations. Seller has not engaged in any timber harvest operations on the Timberlands since September 29, 2003.

4.12 Marketable Title. Seller has good and marketable title to the Assets and at Closing such Assets will be free and clear of all liens, security interests, charges and encumbrances except, in the case of the Timberlands, Permitted Exceptions defined in Paragraph 7(c).

4.13 Unrecorded Encumbrances; Ongoing Rights. There is currently and shall prior to Closing be no timber cutting or harvesting activity on or removal of any timber from the Timberlands. Except for the Forest Practice Application disclosed in **Schedule 4.13**, the Timberlands are not subject to any contracts, leases, cutting rights, logging, stumpage or other agreements, timber contracts or deeds, licenses, restrictive covenants, Forest Practice Applications, permits, tenancies, easements or reservations except those encumbrances of public record. Seller warrants that it shall not sell, mortgage or otherwise transfer the Assets or any portion thereof or interest therein, or modify, waive any rights under or terminate any Access Rights and Easements, breach or violate any terms or conditions in any Access Rights and Easements, or enter into any agreements, create any liens, claims, restrictions or encumbrances, or grant any rights or interests in or pertaining to the Assets or release or terminate any existing rights benefiting the Assets without the prior written consent of Purchaser, which shall not be unreasonably withheld. Seller has provided Purchaser with a copy of the FPA listed on **Schedule 4.13**.

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4.14 No Adverse Claims. Except as to matters of public record, to Seller's knowledge, the Timberlands are not subject to any rights of persons in possession or persons making use thereof which would reasonably be expected to have a material adverse effect on the value of the Timberlands, nor has Seller received any notice that that the Timberlands are subject to any claim of adverse possession or prescriptive easement.

4.15 ESA. To Seller's knowledge, there are no (i) endangered or threatened species (as defined or listed under federal law) nor any nesting site(s) or habitat of or waterways containing any such species located on or proximate to the Timberlands, or (ii) areas of the Timberlands within any "owl circles," which would materially and adversely affect the harvesting of the timber on the Timberlands.

4.16 Tribal Rights. Seller has not received written notice from any aboriginal or Native American tribe (or representative thereof) of any rights or claims of such tribe that relate to the Timberlands.

4.17 Timber Harvest Obligations. Except for approximately 65 acres located within the Timberlands in the area shown on the map attached hereto as Exhibit "B" for which an obligation remains to plant, (i) all timber harvest excise taxes, costs and liabilities associated with any prior harvesting and removal of timber or other natural resources from the Timberlands have been fully paid, and (ii) all other liabilities and obligations arising out of the use, ownership or possession of the Timberlands (including, without limitation, the removal of timber or other natural resources) prior to Closing will be fully paid and performed by Seller on or before Closing.

5. Representations and Warranties of Purchaser. Purchaser represents and warrants to Seller that:

5.1 Organization. Purchaser is a limited partnership duly organized and validly existing under the laws of the State of Delaware, and has the partnership power to enter into this Agreement and to carry out the transactions contemplated herein in accordance with the terms hereof.

5.2. Authorization; No Violation or Conflicts. The execution and delivery of this Agreement by Purchaser and the due consummation of the transactions contemplated herein have been duly and validly authorized by all necessary partnership action on the part of Purchaser, and this Agreement constitutes a valid and legally binding agreement of Purchaser. Neither the execution and delivery of this Agreement by Purchaser nor the consummation by Purchaser of the transactions contemplated herein constitute a violation of Purchaser's agreement of limited partnership or other organizational documentation or agreements or result in the breach of, or the imposition of any lien on any assets of Purchaser pursuant to, or constitute a default under, any indenture or bank loan or credit agreement, or other agreement or instrument to which Purchaser is a party or by which it or any of its properties may be bound or affected. Except for consents, approvals, or authorizations which will have been obtained or actions which will have been taken on or prior to the Closing Date, no consent, approval, authorization or action by any governmental authority or any person or entity having legal rights against or jurisdiction over Purchaser is required in connection with the execution and delivery by Purchaser of this Agreement or for consummation by Purchaser of the transactions contemplated herein.

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5.3 Broker Fees. Purchaser has not employed any broker, agent or finder, or incurred any liability for any brokerage fees, agents' commissions or finders' fees, in connection with the transactions contemplated herein.

5.4 Suits, Actions or Proceedings. Purchaser has no knowledge of any suit, action, arbitration or other proceeding pending before any court or governmental agency, which may result in the restraint or prohibition of the consummation of the transactions contemplated by this Agreement.

6. Survival; Cushion Against Claims; Knowledge; Materiality.

6.1 Survival. The respective representations and warranties of Seller and Purchaser contained herein or in any Schedule, certificate or other instrument delivered by or on behalf of such party pursuant to this Agreement, including the environmental matters set forth in Paragraph 4.8, shall survive the Closing for a period of twelve (12) months and thereafter shall expire and terminate, and each party shall be forever released from liability to the other based upon such representations and warranties except as to matters for which notice has been given by a party of the inaccuracy or breach of any representation or warranty on or prior to such termination date. The representations and warranties of Seller contained in Paragraph 4.12 and in any deeds or assignment instruments transferring the Assets shall not be subject to the terms of this Paragraph 6.1.

6.2 Seller's Knowledge Defined. "Knowledge" as used in this Agreement with respect to the Seller shall mean actual current knowledge (as opposed to constructive or imputed knowledge) of the fact or matter in question by any officer of the Seller or by David Crooker; Michael Yeager, Director Land Management, Lee Spencer, Resources Manager, and Gregg Lewis, Forester.

6.3 Materiality Defined. "Material" or "materiality" or "materially" or "materially and adversely affect" as used in this Agreement with respect to Seller shall mean a claim, encumbrance or occurrence (including without limitation a breach of warranty or violation by Seller) that could lessen the value of the Assets by, or cause damages of, at least \$25,000.00.

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7. Condition of Title and Title Insurance.

(a) As of the date of closing, title to the Timberlands is to be free of all encumbrances or defects except those listed in the preliminary commitments for title insurance deemed to be Permitted Exceptions as described below. Monetary encumbrances and any encumbrances arising after the date of this Agreement not caused by or approved in writing by Purchaser shall not be deemed to be Permitted Exceptions and shall be discharged by Seller and be paid from Seller's funds at Closing. The following shall not be deemed encumbrances or defects and shall be deemed to be Permitted Exceptions: rights reserved in federal patents or state deeds, building or use restrictions consistent with current zoning, and rights previously reserved for minerals, metals and ores of every kind and nature (excluding sand, rock and gravel), and previously reserved rights for oil, gas and other hydrocarbons.

(b) At closing, Seller shall, at Seller's expense, cause the Transnation Title Insurance Company to furnish to Purchaser a standard form ALTA Owner's or Purchaser's Policy of Title Insurance (policy form 1970-B or other available form approved by Purchaser) in the amount of the Purchase Price for the Timberlands insuring the title to the Timberlands in Purchaser, subject only to the Permitted Exceptions and any liens or encumbrances suffered or incurred by Purchaser ("Title Policy"). Purchaser shall be entitled to obtain at closing, at Purchaser's cost, such special endorsements to the Title Policy as Purchaser may reasonably request.

(c) Seller has provided a copy of the preliminary commitments for title insurance for the Timberlands, together with copies of the exception documents referenced therein. Purchaser shall have until close of business on the date that is ten (10) business days after the date of mutual execution and delivery of this Agreement to notify Seller of any objections Purchaser has to any matters shown or referred to in the title commitments. Any title encumbrances or exceptions that are set forth in the title commitments to which Purchaser does not object during the period specified, except the encumbrances that Seller is required to remove under Paragraph 7(a) above, shall be deemed to be permitted exceptions to the status of Seller's title (the "Permitted Exceptions"). With regard to items to which Purchaser does object within the period specified, Seller shall attempt to cure and remove such items prior to Closing. If Seller is unable or fails to cure or remove such items by the date that is five (5) days after the date Purchaser gives notice of such objection, Seller shall notify Purchaser thereof by the expiration of such 5-day period, and Purchaser may either waive its objection and proceed with closing, or terminate this Agreement by written notice to Seller no later than the date that is five (5) days after the date Purchaser receives such notice from Seller (or if Seller is unable or fails to timely cure or remove such items or give such notice to Purchaser, no later than ten (10) days after Purchaser gives its notice of objection). If Purchaser fails to give such notice to Seller within the time specified, the objection(s) shall be deemed waived by the Purchaser. If any supplements to any of the title commitments are issued after the date of this Agreement, Purchaser shall have until the later of (i) the expiration of the initial ten (10) business day title review period, or (ii) five (5) business days after receipt of such supplement, to notify Seller of Purchaser's objection to any such matters shown therein, and if such notice is not given within such period, Purchaser shall be deemed to have accepted such matters, except the encumbrances that Seller is required to remove under Paragraph 7(a) above, as Permitted Exceptions. If Seller is unable or fails to cure or remove such items by the required date for Closing, Seller shall notify Purchaser thereof at least two (2) business days prior to such required date for Closing, and Purchaser may either waive its objection thereto and proceed with closing, or terminate this Agreement by written notice to Seller no later than the required date for Closing.

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8. Condition of Property; Subsequent Acts.

8.1 Limitation on Representations. Purchaser agrees that neither Seller nor its agents, officers, employees or assigns shall be held to any covenant or representation respecting the condition of the Timberlands or

any improvements thereon, nor shall Purchaser or Seller or the assigns of either be held to any covenant or agreement for alterations, improvements or repairs unless the covenant, representation or agreement relied on is contained herein or expressly or impliedly in the deeds or instruments transferring any of the Assets or is in writing and attached to and made a part of this Agreement.

8.2 Limitation of Warranties. Except for the representations and warranties made in this Agreement or contained, expressly or impliedly, in the deeds or instruments transferring any of the Assets, Purchaser specifically acknowledges and agrees that (i) Seller does not make any representations or warranties of any kind whatsoever, either express or implied, with respect to the Timberlands; and (ii) the Timberlands are sold to Purchaser in an “AS IS” and “WITH ALL FAULTS” condition as of the Closing Date, including without limitation the stability of soils, suitability for any construction or development, encroachment or boundary questions, drainage, availability of utilities, zoning, quantity, quality, acreage, access and similar matters. Purchaser assumes the risk that adverse physical conditions may not have been revealed by its investigation. The limitations and “AS IS” provisions of this Paragraph 8.2 specifically do not apply to the express exceptions to the release granted to Seller in Paragraph 4.8 hereof.

9. Liabilities Not Assumed. Except for obligations under the Access Rights and Easements arising from and after Closing, and as otherwise expressly set forth in this Agreement, Purchaser shall not assume or be responsible for any liabilities of Seller.

10. Access Rights and Easements.

At Closing, Seller shall assign, to the extent assignable, and, subject to the terms of Paragraph 16.2 below, Purchaser shall assume the Access Rights and Easements listed on **Schedule 1.2** pursuant to an executed blanket assignment in the form of **Schedule 10** hereto. Seller has provided copies of the Access Rights and Easements to Purchaser.

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11. Access to Information. Upon full execution hereof, Seller will permit Purchaser to have reasonable access to the Timberlands and to the Maps and Records, whether located in Seller’s Seattle office or elsewhere, provided, however, that any such access must be coordinated through Michael Yeager in Seller’s Seattle office. Seller shall provide Purchaser with access to all other materials reasonably requested by Purchaser. Purchaser and its employees, agents and consultants shall have the right, at Purchaser’s sole cost and expense, to enter onto the Timberlands prior to Closing to conduct such inspections of the Assets, document reviews, and tests as Purchaser deems reasonable; provided, however, that such access must be coordinated through Michael Yeager in Seller’s Seattle office.

12. Confidentiality; Public Announcements; Return of Information. Subject to the provisions of Paragraph 12.3 below:

12.1 Neither Seller nor Purchaser shall disclose the content or substance of this Agreement to any individual, firm, partnership, corporation, entity, governmental authority, or other party except advisors, agents, lenders and representatives assisting each respective party in connection with this transaction, and except government agencies and other third parties to whom notice must be given or from whom consent must be obtained in order to complete the transactions described herein, until such disclosure is agreed upon in writing and then only to accomplish the consents and approvals required hereunder.

12.2 No press releases or other public statements concerning this Agreement or the transactions contemplated hereby shall be made by either party without the prior written approval of the other, provided such approval shall not be unreasonably withheld or delayed; provided further that the parties shall cooperate in good faith with respect to issuing a joint press release at or prior to Closing. Seller acknowledges that this transaction constitutes a “material transaction” for Purchaser with respect to disclosure requirements and Purchaser’s press release will include disclosure of the Purchase Price. Seller agrees that upon the full execution of this Agreement, Purchaser may issue a press release regarding this transaction so long as the Purchase Price is not disclosed, and upon Closing Purchaser may issue a press release regarding this transaction including disclosure of the Purchase Price; provided, however, that Seller must approve the form and content of any such press release prior to its issuance, such approval not to be unreasonably withheld

12.3 Each party hereto, its representatives, agents and employees shall hold in strict confidence and shall not use or disclose to any person or organization any information or data concerning this Agreement or the transaction contemplated hereby except to the extent that (i) said information has been published or constitutes a matter of public knowledge or record; (ii) such disclosure is reasonably necessary for communications with and reporting to the Board of Directors or other governing body of either party or reasonably appears to be required by a governmental agency having jurisdiction over the parties; (iii) such information is necessary in connection with any suit brought to enforce the obligations of any party hereunder; or (iv) if based upon the legal opinion of counsel for the disclosing party, that such counsel reasonably believes that disclosure is necessary or desirable to avoid conflict with or violation of any applicable law, rule, or regulation.

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12.4 In the event of termination of this Agreement for whatever reason, Purchaser will return all originals and copies of documents, work papers and other material obtained hereunder, whether obtained before or after the execution hereof (subject to retention of true copies for litigation purposes as applicable), and Purchaser agrees that it will not disclose or divulge any such information to any other person without Seller's written consent, and will use its best efforts to keep any information so obtained confidential; provided, however, that (i) Purchaser may disclose this information to its employees, attorneys, accountants and prospective lenders who need to know such information in connection with this transaction and who have been informed of Purchaser's obligation to maintain the information as confidential; and (ii) Purchaser shall not be obligated to treat as confidential any information which was known to it at the time of disclosure or which becomes publicly known or available thereafter or is rightfully received by Purchaser from a third party.

13. **Exchange.** Seller may wish to complete this transaction as part of a Section 1031 tax-deferred exchange. Purchaser agrees to cooperate with Seller in documenting and completing such exchange by agreeing that Seller may transfer Seller's rights and obligations under this Agreement to Seller's Qualified Intermediary, in Seller's sole discretion, provided that such assignment, if made, shall not release Seller from its obligations under this Agreement. Purchaser agrees to accept Seller's Qualified Intermediary as the assigned Seller of the Property described in this Agreement. Purchaser shall incur no additional expense or liability by such cooperation. Purchaser may wish to complete this transaction (or portion thereof) as part of a Section 1031 tax-deferred exchange. Seller agrees to cooperate with Purchaser in documenting and completing such exchange by agreeing that Purchaser may transfer all or any portion of Purchaser's rights and obligations under this Agreement to Purchaser's Qualified Intermediary or Exchange Accommodation Titleholder (as defined in Rev. Proc. 2000-37), in Purchaser's sole discretion, provided that such assignment, if made, shall not release Purchaser from its obligations under this Agreement. Seller agrees to accept Purchaser's Qualified Intermediary or Exchange Accommodation Titleholder as the assigned Purchaser of the Property described in this Agreement. Seller shall incur no additional expense or liability by such cooperation.

14. **Closing.**

14.1 **Conditions to Purchaser's Obligations.** The obligations of Purchaser to perform this Agreement are subject to the satisfaction, in all material respects on or before the Closing Date or the date indicated for any such contingency listed below (whichever is earlier), of each of the following conditions and any other conditions to Purchaser's obligations hereunder specified elsewhere in this Agreement, unless waived in writing by Purchaser in its sole discretion:

(a) **Material Inaccuracies.** Seller's representations and warranties shall be true and correct in all material respects on and as of the Closing Date as though made on and as of the Closing Date and Seller shall deliver a certificate to that effect at Closing.

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(b) **Performance of Obligations.** Seller shall have performed all obligations required to be performed by it prior to or on the Closing Date under this Agreement.

(c) **Title Insurance Commitment.** At Seller's expense, Purchaser shall have received a binding commitment from Transnation Title Insurance Company for the issuance of the Title Policy, and any special endorsements thereto reasonably required by Purchaser (which special endorsements shall be at Purchaser's expense), subject only to the Permitted Exceptions. It shall be reasonable for Purchaser to require a special endorsement to the Title Policy which insures that the Declaration (as defined in Section 14.1(h) below) and the Murray Pacific Habitat Conservation Plan ("HCP"), Amended HCP, Implementation Agreement and Amended Implementation Agreement, as described in the Declaration, do not affect or bind the Timberlands or any portion thereof.

(d) **Suits, Actions or Proceedings.** No suit, action, arbitration or other proceeding shall be pending before any court or governmental agency, which may result in the restraint or prohibition of the consummation of the transactions contemplated by this Agreement, or which could reasonably be expected to have a material adverse effect on the value of the Assets or the use of the Timberlands as commercial timberlands, and all governmental and regulatory approvals and clearances which are required to consummate such transactions, if any, shall have been obtained.

(e) **Casualty, Loss or Condemnation.** The Timberlands shall not have become subject, subsequent to the date of this Agreement and prior to the Closing Date, to physical damage by fire, flood, windstorm, earthquake or other similar occurrence, or to any condemnation proceeding, which causes or may result in a diminution in the value of the Timberlands by at least \$800,000. If Purchaser elects to waive the condition set forth in this Paragraph 14.1(e), or if any material casualty or condemnation loss diminishes the value of the Timberlands by less than \$800,000, the Purchase Price shall be reduced to reflect the diminution in value resulting or expected to result from the casualty or condemnation, in which event Seller shall be entitled to retain any compensation awards, insurance proceeds or other payment or relief resulting from such casualty or condemnation. If the parties cannot agree upon the extent of the diminution in value, the determination shall be made by an independent expert mutually agreed upon by the parties. The foregoing notwithstanding, if the amount of the casualty or condemnation loss diminishes or is expected to diminish the value of the Timberlands, by \$25,000 or less, there shall be no adjustment to the Purchase Price; provided, however, that in such event Purchaser shall be entitled to receipt and assignment of any compensation awards, insurance proceeds or other payment or relief resulting from such casualty or condemnation.

(f) Due Diligence Review. Purchaser may, at Purchaser's sole cost and expense, conduct a due diligence review of the Maps and Records, Access Rights and Easements, and the following conditions affecting or pertaining to the Timberlands: environmental, title, access, endangered or threatened species and any nesting site(s) or habitat thereof or waterways containing any such species, and "owl circles," such due diligence review to be completed not later than the date that is ten (10) business days after the date of mutual execution and delivery of this Agreement. Purchaser's due diligence review may include review and analysis of all documentation, determinations, reports, files and studies of any state or other governmental agency relating to endangered or threatened species, or any nesting site(s) or habitat thereof or waterways containing any such species, or any "owl circles" on or affecting the Timberlands. Purchaser's obligations to consummate the transactions described herein are subject to and conditioned upon Purchaser's acceptance of the findings of such due diligence review in Purchaser's sole good faith discretion. In the event Purchaser fails to give notice to Seller of Purchaser's nonacceptance of its due diligence review by the expiration of the 10 business day due diligence contingency period, Purchaser shall be deemed to have waived this condition to Closing.

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(g) Approval of Continuance Request. Purchaser's request for continuance of the forestland or timberland designation or classification of the Timberlands shall have been granted by the Lewis County Assessor at or prior to Closing.

(h) Removal of Declaration of Covenant from Timberlands. Prior to Closing, the Declaration of Covenant recorded under Lewis County Rec. No. 9313627, as amended by Amendment recorded under Lewis County Rec. No. 9512060 (the "Declaration"), relating to the Murray Pacific HCP, Amended HCP, Implementation Agreement, and Amended Implementation Agreement, shall be removed from title with respect to the Timberlands and all portions thereof by a recorded release or other documentation reasonably satisfactory to Purchaser and the underwriters for Transnation Title Insurance Company ("Release"). Purchaser shall be deemed to have a reasonable basis to disapprove such release or other documentation if it is revocable, conditional, effective on a date later than the date of its recordation, or is not signed by all necessary parties. If this condition to Closing has not been satisfied by January 9, 2004, the Closing Date shall be automatically extended to allow said contingency to be satisfied, provided that the Closing Date shall not be extended beyond January 30, 2004. Seller shall use its reasonable efforts to cause the Release to be timely signed and recorded. Seller agrees to be a party to the Release. If this condition to Closing is satisfied, the Declaration shall not show as an exception on Purchaser's title policy.

In the event any of the above conditions to Purchaser's obligations hereunder are not satisfied or waived by Closing or the earlier dates indicated above, Purchaser will have the right, exercisable at Purchaser's sole election, to terminate this Agreement, whereupon the Earnest Money will be refunded to Purchaser and no party hereto will have any further rights, duties or obligations hereunder other than those which expressly survive a termination hereof.

14.2. Conditions to Seller's Obligations. The obligations of Seller to perform this Agreement are subject to the satisfaction, in all material respects on or before the Closing Date, of each of the following conditions and any other conditions to Seller's obligations hereunder specified elsewhere in this Agreement, unless waived in writing by Seller in its sole discretion:

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(a) Material Inaccuracies. Purchaser's representations and warranties shall be true and correct in all material respects on and as of the Closing Date and Purchaser shall have delivered a certificate to that effect at Closing.

(b) Performance of Obligations. Purchaser shall have performed all obligations required to be performed by it prior to or on the Closing Date under this Agreement.

(c) Suits, Actions or Proceedings. No suit, action, arbitration or other proceedings shall be pending before any court or governmental agency which may result in the restraint or prohibition of the consummation of the transactions contemplated by this Agreement, and all governmental and regulatory approvals and clearances which are required to consummate such transactions, if any shall have been received.

In the event any of the above conditions to Seller's obligations hereunder are not satisfied or waived by Closing, Seller will have the right, exercisable at Seller's sole election, to terminate this Agreement, whereupon the Earnest Money will be refunded to Purchaser and no party hereto will have any further rights, duties or obligations hereunder other than those which expressly survive a termination hereof.

14.3 Prorations. All real property taxes shall be prorated to the Closing Date.

14.4 Closing Costs.

(a) At Closing Seller shall pay the following costs and expenses associated with the closing of the transactions contemplated hereunder:

(i) The cost of the standard owner's policy or policies of title insurance;

(ii) One-half of escrow fees;

(iii) All transfer, excise, and recording taxes or fees due on the transfer or conveyance of the Assets, including without limitation real estate excise tax on the conveyance of the Timberlands; and

(iv) Seller's Broker's fees and commissions and Seller's attorney's fees.

(v) Any and all compensating or "roll-back" taxes that may become due or assessable as a result of the removal of the Timberlands or any portion thereof from its present property tax classification or designation as "timberlands" or "forestland" prior to Closing or as a result of the inability of Purchaser to obtain a requested continuance of such classification or designation at Closing based upon any prior act or omission of Seller.

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(b) Purchaser shall pay:

(i) One-half of the escrow fees;

(ii) Title insurance premium attributable to extended coverage, if any, or any endorsements;

(iii) Recording fees for deeds; and

(iv) Purchaser's attorneys' fees.

(v) Any and all compensating or "roll-back" taxes that may become due or assessable as a result of the removal of the Timberlands or any portion thereof from its present property tax classification or designation as "timberlands" or "forestland" as of or after Closing, unless caused by action or failure to act on the part of Seller.

Except as otherwise provided in this Agreement, each party shall be responsible for the payment of costs incurred by said party in connection with the transaction contemplated by this Agreement.

14.5 Closing. At Closing:

(a) Seller shall deliver to Purchaser the following:

(i) Special Warranty Deed for the Timberlands in the form attached as **Schedule 14.5(a)(i)**.

(ii) Nonforeign Affidavit to the effect that Seller is not a foreign person as that term is used in Section 1445 of the Internal Revenue Code;

(iii) An Assignment and Assumption Agreement for the Access Rights and Easements to be recorded in Lewis County in substantially the form attached hereto as **Schedule 10**;

(iv) A prepaid binding commitment for a standard coverage Policy of Title Insurance; and

(v) An Officer's Certificate regarding representations and warranties.

(b) Purchaser shall deliver to Seller the following:

(i) Executed copy of the Assignment and Assumption Agreement of the Access Rights and Easements in substantially the form attached hereto as **Schedule 10**;

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(ii) An Officer's Certificate regarding representations and warranties; and

(iii) The Purchase Price.

At least ten (10) business days prior to Closing, Seller and Purchaser shall complete and sign appropriate Real Estate Excise Tax Affidavit with respect to the conveyance of the Timberlands in which Purchaser covenants that it will request continuance of the present "timberlands" or "forestland" property tax classification of the Timberlands, and Purchaser may then, prior to Closing, submit such Real Estate Excise Tax Affidavits to the County Assessor to obtain approval of the continuance request.

At Closing Seller and Purchaser shall sign and deliver into escrow notices to the State Department of Natural Resources (“DNR”), on DNR approved forms, wherein notice is given by Seller to the DNR of the assignment to Purchaser of the approved Forest Practices Application to be assigned to Purchaser under this Agreement, and Purchaser affirms, as the new landowner, timber owner and operator, that it agrees to be bound by all conditions on such approved Forest Practices Application. Upon Closing, such notices shall be transmitted to the DNR.

15. Indemnification. Seller shall defend and indemnify Purchaser and hold it harmless from any claim, damage, liability, loss, cost, deficiency, judgment or expense (reference to “expense” shall include, without limitation, reasonable attorneys’ fees and other costs and expenses incident to any actions, suits, proceedings or investigations or the defense of any claims, whether prior to or at trial or in appellate proceedings) (i) arising out of, resulting from or relating to claims by third parties arising out of any acts or omissions of Seller prior to Closing or any injuries, accidents, occurrences, activities or events occurring on the Timberlands prior to Closing, and (ii) for obligations or liabilities arising or accruing with respect to the Assets prior to the Date of Closing. Purchaser shall defend and indemnify Seller and hold it harmless from any claim, damage, liability, loss, cost, deficiency, judgment or expense (reference to “expense” shall include, without limitation, reasonable attorneys’ fees and other costs and expenses incident to any actions, suits, proceedings or investigations or the defense of any claims, whether prior to or at trial or in appellate proceedings) (i) arising out of, resulting from or relating to claims by third parties arising out of any acts or omissions of Purchaser for activities conducted by Purchaser or its employees, agents or contractors inspecting the Timberlands prior to Closing or any injuries, accidents, occurrences, activities or events occurring on the Timberlands after Closing (except to the extent caused by Seller or its agents, contractors or employees), and (ii) for obligations or liabilities arising or accruing with respect to the Assets after the Date of Closing. Purchaser’s and Seller’s respective defense and indemnity obligations under this Paragraph 18 shall survive Closing.

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16. Closing and Post-Closing Adjustments and Post-Closing Matters.

16.1 Reforestation Obligations. Seller shall complete prior to Closing all statutory reforestation obligations it may have with respect to the Timberlands, except as expressly provided in the following sentence. Seller and Purchaser acknowledge and agree that approximately 65 acres of the Timberlands located in the area shown on the map attached hereto as Exhibit “B” are subject to reforestation obligations that Seller will not complete prior to Closing. Purchaser agrees to assume this reforestation obligation as to said approximate 65 acres; provided, however, Seller agrees to provide to Purchaser, at Seller’s sole cost and expense, 26,000 suitable planting stock elevation and geographic zone Douglas-fir seedlings to fulfill such reforestation obligations; and provided, further, that Purchaser shall receive a credit at closing in the amount of \$6,000 which the parties approximate is the cost of planting such seedlings.

16.2 Third Party Consents. Notwithstanding anything to the contrary in this Agreement, the Access Rights and Easements identified on **Schedule 16.2** require the consent or approval of a third party, and if such consent is not obtained prior to Closing, such Access Rights and Easements for which required consent has not been obtained shall be assigned to Purchaser at Closing on the following basis, terms and conditions: (1) Seller shall assign such Access Rights and Easements subject to and effective only at such time as such consent is obtained; (2) Seller shall continue to use reasonable and diligent efforts, at its cost and expense, to obtain any such consent or approval after the Closing Date; (3) until such time as such consent has been obtained, Seller will cooperate in all reasonable respects with the Purchaser in any lawful and economically feasible arrangement to provide that the Purchaser shall receive the interest of the Seller in the benefits under any such Access Rights and Easements (except that any such arrangement shall not require performance by Seller as agent) provided that the Purchaser shall undertake to and shall pay or satisfy the corresponding liabilities for the enjoyment of such benefit to the extent Purchaser would have been responsible therefor if such consent or approval had been obtained; and (4) Purchaser shall have no obligations or liabilities under or with respect to such Access Rights and Easements until the earlier of (i) the date such consent is obtained and (ii) the date that Purchaser receives the benefits thereunder, and then only for obligations or liabilities arising thereunder or with respect thereto after such date. If this transaction closes on the foregoing basis, the Assignment and Assumption Agreement pertaining to any such Access Rights and Easements where such required consent has not been obtained as of Closing, shall contain appropriate provisions consistent with the provisions of this Paragraph 16.2.

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17. Miscellaneous.

17.1 Further Assurances. If, at any time after the Closing Date, either party shall consider or be advised that any further instruments or assurance or any other things are necessary or desirable to carry out the terms of this Agreement, the other party shall execute and deliver all such instruments and assurances and do all things reasonably necessary and proper to carry out the terms of this Agreement.

17.2 Integration. This Agreement and the documents delivered pursuant hereto contain the entire agreement among the parties with respect to the subject matter hereof and supersede all prior negotiations. None of the parties shall be bound by nor shall be deemed to have made any representations, warranties or commitments except those required to be made by the terms of this Agreement, or those which are contained herein or in the documents delivered pursuant hereto.

17.3 Counterparts. This Agreement may be executed in any number of counterparts, each of which shall be deemed to be an original instrument, and all such counterparts together shall constitute one Agreement.

17.4 Severability. Any term or provision of this Agreement that is invalid or unenforceable in any jurisdiction shall, as to that jurisdiction, be ineffective to the extent of such invalidity or unenforceability without rendering invalid or unenforceable the remaining terms and provisions of this Agreement or affecting the validity or enforceability of any of the terms or provisions of this Agreement in any other jurisdiction. If any term or provision of this Agreement is so broad as to be invalid or unenforceable, the provision shall be interpreted to be only so broad as is valid or enforceable. Subject to the foregoing provisions of this Paragraph 20.4, if any term or provision of this Agreement is invalid or unenforceable for any reason, such circumstances shall not have the effect of rendering such term or provision invalid or unenforceable in any other case or circumstance.

17.5 Successors and Assigns. This Agreement shall be binding upon and shall inure to the benefit of the parties hereto and their respective successors and permitted assigns.

17.6 Governing Law. This Agreement shall be governed by and construed in accordance with the internal laws of the State of Washington.

17.7 Assignment. Except as expressly permitted pursuant to Paragraph 13, neither party may assign its rights hereunder prior to the Closing without the prior written consent of the other, which may be withheld for any reason.

17.8 Captions and Paragraph Headings. The headings used in this Agreement are for convenience only and shall not affect the construction of any of the terms of this Agreement.

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17.9 Notices. Notices under this Agreement shall be in writing and shall be effective when actually delivered or, if mailed, on the earlier of receipt (or refusal of receipt) or three (3) business days after being deposited, postage prepaid, in the United States' mails as certified mail, return receipt requested, directed to the other party at the address set forth below, or, if sent via facsimile transmission, on the date such facsimile transmission to the facsimile number of the other party set forth below is confirmed by machine-printed confirmation of the sender's facsimile machine. The address or facsimile numbers for notices to a party hereunder may be changed by such party by written notice to the other party.

If to Seller: Plum Creek Timberlands, L.P.
999 Third Avenue, Suite 4300
Seattle, WA 98104
Attention: Sheri L. Ward, Director Law
Facsimile: (206) 467-3799

If to Purchaser: Pope Resources, L.P.
19245 Tenth Avenue Northeast
Poulsbo, WA 98370-0239
Attn: John Shea, Director of Business Development
Facsimile: (360) 697-1156

With a Copy to: Warren Koons, Esq.
Davis Wright Tremaine LLP
777 - 108th Ave. NE, Suite 2300
Bellevue, Washington 98004-5149
Facsimile: (425) 646-6199

17.10 Time is of the Essence. Time is of the essence of this Agreement.

17.12. Default. If either party defaults (that is, fails to perform the acts required of it) in its contractual performance herein or breaches any of its representations or warranties contained herein, the non-defaulting party, subject to the following paragraph, shall be entitled to exercise all rights and remedies available to it at law or equity, including but not limited to specific performance pursuant to the terms of this Agreement, damages or rescission. If the non-defaulting party seeking damages or rescission is the Purchaser, the Earnest Money, together with any interest thereon, shall be refunded.

Purchaser acknowledges that if Purchaser fails to purchase the Assets so as to constitute a default by Purchaser hereunder, for any reason other than the breach of Seller, Seller shall be entitled to forfeit the Earnest Money as compensation for the detriment resulting from the removal of the Property from the market, and entering into this Agreement rather than selling to other potential purchasers. Therefore, in the event of Purchaser's failure to purchase the Assets so as to constitute Purchaser's default hereunder, Seller shall have, as Seller's sole and exclusive remedy, the right to receive the Earnest Money, together with any interest thereon, which sum shall represent liquidated damages for breach and not a penalty therefor. The parties acknowledge and agree that the Earnest Money is presently a reasonable estimate of Seller's damages, considering all of the circumstances existing on the date of this Agreement, including the relationship of the sum to the range of harm to Seller that reasonably could be anticipated and the expectation that proof of actual damages would be impractical or extremely difficult. Factors taken into consideration by the parties include Seller's loss of opportunity during the pendency of this

Agreement to sell the Assets to others on better terms, or at a higher price; Seller's risk of loss of a bargain if the market turns negative; Seller's damages related to its continuing obligations for the payment of taxes and insurance; and Seller's loss of earnings on the amount of the purchase price resulting from a delay in closing. Purchaser hereby waives all rights or benefits of any law, rule or regulation, now or hereafter existing, which would allow Purchaser, following Purchaser's failure to purchase the Assets so as to constitute Purchaser's default, to claim a refund of the Earnest Money, together with any interest thereon, as unearned earnest money, a penalty or for any other purpose. Seller hereby waives all rights, remedies and claims, other than forfeiture of the Earnest Money that Seller may otherwise have for Purchaser's failure to purchase the Assets so as to constitute a default by Purchaser under this Agreement.

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17.13 Schedules Incorporated. The schedules attached to this Agreement ("Schedules") are incorporated herein by reference:

<u>Schedule</u>	<u>Description</u>
1.2	Access Rights and Easements
4.13	Unrecorded Contracts, Agreements, FPAs, etc.
14.5(a)(i)	Form of Special Warranty Deed for Washington
10	Assignment of Access Rights and Assumption Agreement
16.2	Third Party Consents for Assignment of Access Rights and Easements

17.14 Costs and Expenses. Except as otherwise expressly provided in this Agreement, each party to this Agreement shall pay its own costs and expenses (including, without limitation, the fees and expenses of its agents, representatives, counsel and accountants) incurred in connection with the closing of the transactions contemplated under this Agreement.

17.15 Attorneys Fees and Other Costs. If either party initiates any proceeding in law, equity or arbitration concerning this Agreement or any of its provisions, the party that substantially prevails in such proceeding shall be paid by the party not so prevailing therein all costs and expenses incurred in such proceeding, including reasonable attorneys' fees at the pretrial, trial and appellate levels as determined by the court or courts considering the matter.

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17.16 No Third Party Beneficiaries. This Agreement is made and entered into for the sole protection and legal benefit of the parties and, subject to the restrictions on assignment set forth herein, their respective successors and assigns, and no other person or entity shall be a direct or indirect legal beneficiary of, or have any direct or indirect cause of action or claim in connection with, this Agreement.

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IN WITNESS WHEREOF, the parties hereto have executed this instrument the day and year first above written.

PLUM CREEK TIMBERLANDS, L.P.

By Plum Creek Timber I, L.L.C.,
Its General Partner

Attest:

By _____
James A. Kraft
Senior Vice President, General Counsel
and Secretary

By: _____
Sheri L. Ward, Assistant Secretary

POPE RESOURCES, A Delaware Limited Partnership

By: _____
David L. Nunes
CEO

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EXHIBIT "A"

That certain real property located in Lewis County, Washington described as follows:

Township 12 North, Range 4 East, W.M.

Section 36: ALL; Except that portion of the S1/2 lying Southerly of the following described line:

BEGINNING at a point on the West line of said Section 36, which is 657.4 feet South of the West quarter corner thereof; thence Southeasterly to the South quarter corner of said Section; thence Northeasterly to a point on the East line of said Section which is 662.34 feet South of the East quarter corner thereof and the terminus of said line.

Township 13 North, Range 4 East, W.M.

Section 36: NE1/4, SW1/4 and SE1/4.

Township 13 North, Range 5 East, W.M.

Section 16: ALL

Section 18: That portion of the SE1/4NE1/4 lying within a 50 foot wide strip of land, the centerline of which is described as follows:

BEGINNING at a point on the East line of said subdivision which is 1109 feet North of the Southeast corner thereof; thence South 80°30' West a distance of 67 feet; thence on a curve to the left having a radius of 146.2 feet a distance of 141.2 feet; thence South 24° West a distance of 89 feet; thence on a curve to the right having a radius of 287.9 feet a distance of 370 feet; thence North 82° West a distance of 116 feet to the Southerly line of the right of way of the Tacoma and Eastern Railway and the terminus of said centerline.

ALSO that portion of the E1/2SE1/4NE1/4 lying Southerly of the Tacoma and Eastern Railway right of way and Northerly of the above described property.

Section 22: S1/2SW1/4 and S1/2SE1/4

Section 26: ALL

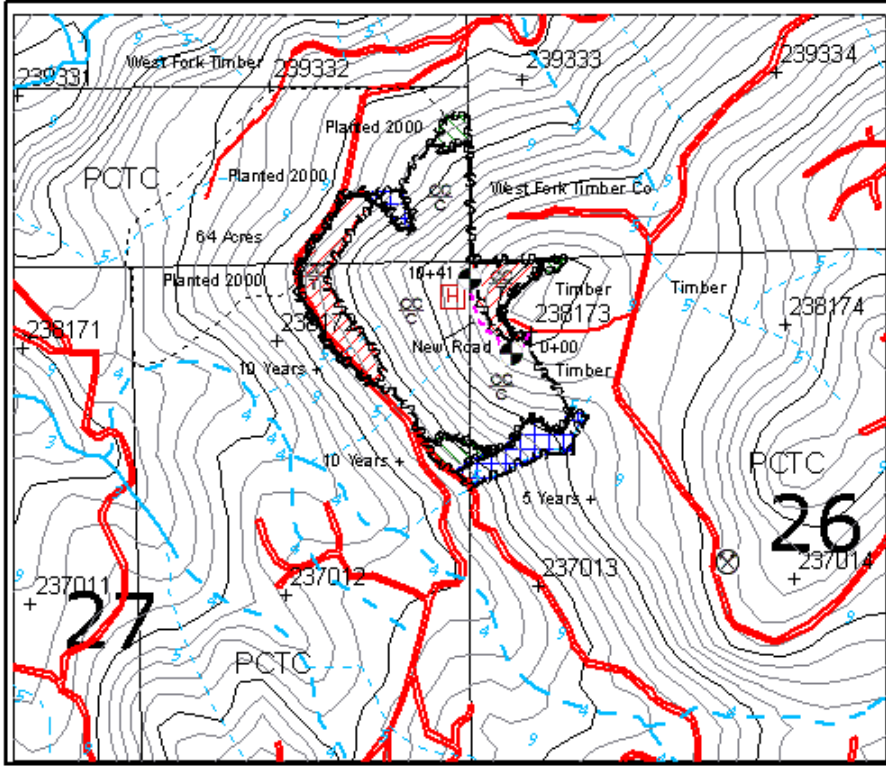
Section 27: E1/2

Section 29: That portion of the NW1/4 lying Northerly of the St. Regis Paper Company Logging Road as described in deed recorded April 15, 1959 under Auditor's File No. 598947.

Section 34: NE1/4, N1/2NW1/4, S1/2SW1/4, NE1/4SE1/4 and S1/2SE1/4.

Section 35: N1/2NW1/4 and NW1/4NE1/4.

Sections 22,26,27 T13N, R5E



	Landing		Harv_Sym_CC_Cable
	Helispot		WEIGRI Path
	EMZ Boundary		Harv_Sym_CC_Insects
	Harvest Boundary		

Helispot Location: **-122:09:30.0902, 46:35:20.1913**

Lon, Lat(d:ms), Hgt(m)

Prepared By: g lewis Created for: stovick

Shovel C 12000
9/12/02

12/22/03

EXHIBIT "B"

Reforestation Map

SCHEDULE 1.2

Access Rights and Easements

Grantor	Grantee	Date	Recording Info.
State of Washington, DNR	Plum Creek Timber Company, L.P.	11/28/1990	Rec. 12/13/90 AF# 9013191, Vol.459, Pg. 557, subsequently amended under Easement No. 50-51161, AF#3127415, recorded 12/12/2001
Burlington Northern Railroad Company	State of Washington, DNR	4/10/84	AF#922072, Rec. 4/16/84, Vol. 283, Pg. 824
Northern Pacific Railway Company	State of Washington, DNR	6/30/66	AF#697932. Rec. 7/14/66, Vol.446, Pg. 837
Murray Pacific	State of Washington,	11/3/93	AF#9316199, Rec. 11/3/93

Corporation	DNR		Vol.574, Pg. 744
Milwaukee Land Company; Northern Pacific Railway Company; West Tacoma Newsprint Company; United States Plywood Corporation	State of Washington, DNR	2/14/67	AF#715221, Rec. 9/7/1967 Vol. 454, Pg. 532
Boise Cascade Corporation	State of Washington, DNR	1/12/77	AF#825376, Rec. 1/19/77 Vol. 134, Pg. 374
Murray Pacific Corporation	State of Washington, DNR	8/8/79	AF#867261, Rec. 8/21/79 Vol. 194, Pg. 810

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Chicago, Milwaukee, St. Paul and Pacific Railroad Company	State of Washington, DNR	10/8/79	Rec. 3/17/80 Vol. 205, Pg. 787
St. Regis Paper Company	Northern Pacific Railway Company	6/30/64	AF#669471 Vol. 435, Pg. 472
St. Regis Paper Company	Northern Pacific Railway Co.	8/19/60	Rec. 9/30/60 Vol. 33, Pg. 589 AF#617389
United States Plywood Corp.	Northern Pacific Railway Co.	5/24/65	Recorded 6/4/65 Vol.439/Pg. 727 AF#680424

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SCHEDULE 4.13

Unrecorded Contracts, Agreements, FPAs

1. Forest Practices Application/Notification No. 2510283 dated November 5, 2002

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SCHEDULE 14.5(a)(i)

Form of Special Warranty Deed

After recording return to:

TRANSNATION TITLE INSURANCE COMPANY

1200 Sixth Avenue, Suite 1910

Seattle, WA 98101

Attn: Kim Azure

File No. _____ (slw)

SPECIAL WARRANTY DEED

Grantor: PLUM CREEK TIMBERLANDS, L.P., a Delaware limited partnership

Grantee: POPE RESOURCES, A DELAWARE LIMITED PARTNERSHIP

Legal Description (abbreviated): _____

Assessor's Tax Parcel ID #: _____

KNOW ALL PERSONS BY THESE PRESENTS: That PLUM CREEK TIMBERLANDS, L.P. a Delaware limited partnership, successor by merger to Plum Creek Timber Company, L.P., a Delaware limited partnership, qualified to do business and to own property in the State of Washington with its principal place of business located in Seattle, Washington, GRANTOR, in consideration of the sum of Ten and 00/100 Dollars (\$10.00) and other good and valuable consideration, the receipt of which is hereby admitted, does hereby grant, bargain, sell, convey

and confirm unto POPE RESOURCES, A DELAWARE LIMITED PARTNERSHIP, whose address is 19245 10th Avenue NE, Poulsbo, Washington 98370-0239, hereinafter referred to as GRANTEE, and to its successors and assigns, FOREVER, the real property situated in the County of Lewis, State of Washington, described on Exhibit "A" attached hereto and incorporated herein by this reference as though fully set forth.

SUBJECT TO only those encumbrances listed on the attached Exhibit "B" [Exhibit "B" would be the recorded Permitted Exceptions.]]

TOGETHER, with all and singular the tenements, hereditaments and appurtenances thereto belonging or in anywise appertaining.

And the said GRANTOR, for itself and its successors, further hereby covenants that it will forever WARRANT and DEFEND all right, title, and interest in and to said premises, and the quiet and peaceable possession thereof, unto the said GRANTEE, its successors and assigns, against the acts and deeds of said GRANTOR, and all and every person and persons whomsoever lawfully claiming or to claim by, through or under GRANTOR .

IN WITNESS WHEREOF, said GRANTOR has caused its limited partnership name to be subscribed and its seal to be affixed, by its proper officers, thereunto duly authorized, on this _____ day of January, 2004.

PLUM CREEK TIMBERLANDS, L.P.

Attest: By Plum Creek Timber I, L.L.C.,
General Partner

By _____ By _____
Sheri L. Ward, Assistant Secretary Rick R. Holley, President and Chief Executive Officer

ACKNOWLEDGMENT

STATE OF WASHINGTON)
)ss
COUNTY OF KING)

On this _____ day of _____, 200__, before me personally appeared Rick R. Holley and Sheri L. Ward, to me known to be the President and Chief Executive Officer and the Assistant Secretary, respectively, of Plum Creek Timber I, L.L.C., general partner of Plum Creek Timberlands, L.P., the limited partnership that executed the within and foregoing instrument, and acknowledged the said instrument to be the free and voluntary act and deed of said limited partnership for the uses and purposes therein mentioned, and on oath stated that they were authorized to execute said instrument on behalf of the limited partnership and that the seal affixed is the seal of said limited partnership.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my official seal the day and year last above written.

Notary Public in and for the
State of Washington
Residing at _____
My Commission Expires _____
Printed Name: _____

SCHEDULE 10

Form of Assignment of Access Rights and Easements

After Filing Return To:
Warren Koons
Davis Wright Tremaine LLP

Assignment of Access Rights and Easements and Assumption Agreement

Assignor: PLUM CREEK TIMBERLANDS, L.P., a Delaware limited partnership
Assignee: POPE RESOURCES, A DELAWARE LIMITED PARTNERSHIP
Ref. Nos. of Documents Assigned: _____

This Assignment of Access Rights and Easements and Assumption Agreement (this "Assignment"), is made the ____ day of January, 2004, between PLUM CREEK TIMBERLANDS, L.P., a Delaware limited partnership (the "Assignor"), whose address is 999 Third Avenue, Suite 2300, Seattle, Washington 98104, and POPE RESOURCES, A DELAWARE LIMITED PARTNERSHIP (the "Assignee"), whose address is 19245 Tenth Avenue Northeast, Poulsbo, Washington 98370-0239;

WHEREAS, by Timberland Purchase and Sale Agreement for the Morton, Washington Timberlands between the Assignor and the Assignee, dated December __, 2003 (the "Purchase and Sale Agreement") and subsequent documents conveying the Assets described therein, Assignee purchased certain real property, and all rights and appurtenances associated therewith located in Lewis County, Washington; and

WHEREAS, Assignor and Assignee desire that Assignor's right, title and interest in, to and under certain access rights and easements located in Lewis County, Washington, be assigned to Assignee, as part of the transfer and conveyance of the Assets to Assignee pursuant to the Purchase and Sale Agreement.

NOW, THEREFORE, the parties hereto, for good and valuable consideration and in accordance with the terms of the Purchase and Sale Agreement, hereby agree as follows:

1. Assignor assigns, transfers, and sets over to Assignee all of Assignor's right, title and interest in, to and under the rights-of-way, easements, use agreements and other access rights appurtenant to, relating to or benefiting the Timberlands (as hereinafter defined), as such rights-of-way, easements, use agreements and other access rights were granted to or reserved by Assignor or its predecessors in interest and as are further described on Exhibit "A" attached hereto and incorporated herein by this reference as though fully set forth (the "Access Easements"). Assignee may, at its option, record this Assignment in the real property records of Lewis County, Washington.

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2. Assignor assigns, transfers, and sets over to Assignee all of Assignor's right, title and interest in, to and under any and all other rights-of-way, easements, use agreements and other access rights presently held or claimed by Assignor in Lewis County, Washington, which are appurtenant and provide access to or otherwise benefit the real property being concurrently conveyed by Assignor to Assignee and legally described on the attached Exhibit B (the "Timberlands").

3. Assignee hereby accepts this Assignment of the Access Easements and assumes and agrees to be bound by and perform all of the Assignor's obligations and liabilities arising under the Access Easements after the date of this Assignment.

4. Notwithstanding anything to the contrary in this Assignment, (1) this Assignment (including Assignee's obligations and liabilities) shall automatically be effective as to any such Access Easement for which third party consent to this assignment is required and has not yet been obtained (the "Unconsented To Access Easements") at such time, and only at such time, as the required third party consent to its assignment is obtained; (2) Assignor shall use reasonable and diligent efforts, at its cost and expense, to obtain any such required consent or approval for this assignment of any Unconsented To Access Easement; (3) until such time as such consent has been obtained, Assignor will cooperate in all reasonable respects with the Assignee in any lawful and economically feasible arrangement to provide the Assignee with the benefits of the Assignor's interest in or under any such Unconsented To Access Easement (except that any such arrangement shall not require performance by Assignor as agent) provided that the Assignee shall undertake to and shall pay or satisfy the corresponding liabilities for the enjoyment of such benefits to the extent Assignee would have been responsible therefor if such consent or approval had been obtained; and (4) Assignee shall have no obligations or liabilities under or with respect to any such Unconsented To Access Easement until the earlier of (i) the date such consent is obtained and (ii) the date that Assignee receives the benefits under such Unconsented To Access Easement, and then only for obligations or liabilities arising thereunder or with respect thereto after such date.

5. Assignee hereby agrees to indemnify and hold harmless Assignor from and against any and all claims, liabilities, obligations, penalties, causes of action or damages (including attorney's fees, expenses of litigation and costs of appeal), if any, arising or accruing under the Access Easements after the date of this Assignment, or for any claim, loss, damage, cost or expense resulting from Assignee's failure to fulfill and perform the same after the date of this Assignment, or arising out of Assignee's use and enjoyment of the Access Easements, or to enforce this indemnification provision. Assignor hereby agrees to indemnify and hold harmless Assignee from and against any and all claims, liabilities, obligations, penalties, causes of action or damages (including attorney's fees, expenses of litigation and costs of appeal), if any, arising or accruing under the Access Easements prior to the date of this Assignment, or for any claim, loss, damage, cost or expense resulting from Assignor's failure to fulfill and perform the same prior to the date of this Assignment, or arising out of Assignor's use and enjoyment of the Access Easements, or to enforce this indemnification.

IN WITNESS WHEREOF, the parties hereto have executed this Assignment of Access Rights and Easements and Assumption Agreement the day and year first above written.

Assignor: PLUM CREEK TIMBERLANDS, L.P.

Attest: By Plum Creek Timber I, L.L.C., General Partner

By _____
Sheri L. Ward
Assistant Secretary

By _____
Rick R. Holley, President
and Chief Executive Officer

Assignee: POPE RESOURCES, A DELAWARE LIMITED PARTNERSHIP

By: _____
Name: _____
Title: _____

STATE OF WASHINGTON)
)ss
COUNTY OF KING)

On this ___ day of _____, 2004, before me personally appeared RICK R. HOLLEY and SHERI L. WARD, to me known to be the President and Chief Executive Officer and Assistant Secretary, respectively, of Plum Creek Timber I, L.L.C., the general partner of Plum Creek Timberlands, L.P., the partnership that executed the within and foregoing instrument, and acknowledged the said instrument to be the free and voluntary act and deed of said partnership for the uses and purposes therein mentioned, and on oath stated that they are authorized to execute said instrument on behalf of the partnership and that the seal affixed is the seal of said partnership.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my official seal the day and year last above written.

Notary Public in and for the
State of _____
Residing at _____
My Commission Expires _____
Printed Name: _____

STATE OF WASHINGTON)
)ss
COUNTY OF KING)

On this ___ day of _____, 2004, before me personally appeared _____, to me known to be the _____ of Pope Resources, A Delaware Limited Partnership, the limited partnership that executed the within and foregoing instrument, and acknowledged the said instrument to be the free and voluntary act and deed of said limited partnership for the uses and purposes therein mentioned, and on oath stated that he is authorized to execute said instrument on behalf of the limited partnership.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my official seal the day and year last above written.

Notary Public in and for the
State of _____
Residing at _____
My Commission Expires _____
Printed Name: _____

SCHEDULE 16.2

Required Consents

1. Private Road Crossing Agreement between Richard B. Ogilvie, Trustee of Chicago, Milwaukee, St. Paul & Pacific Railroad Company and Burlington Northern, Inc., Menasha Corporation and the State of Washington dated October 8, 1979 and recorded in the records of Lewis County, Washington in Volume 205, Page 787.

PROPERTY PURCHASE AGREEMENT
OPG to Costco
Peacock Hill, Gig Harbor, Washington

THIS PROPERTY PURCHASE AGREEMENT (“Agreement”), dated for reference purposes only as of December 22, 2003, is made by and between **OPG PROPERTIES LLC**, a Washington limited liability company (“Seller”), and **COSTCO WHOLESALE CORPORATION**, a Washington corporation (“Purchaser”), and is effective as of the Effective Date (see Section 26 below).

To provide for the purchase and sale of the property herein described, for good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, Purchaser and Seller agree as follows:

1. PROPERTY TO BE CONVEYED.

a. **Purchase and Sale.** Seller shall sell to Purchaser, and Purchaser shall purchase from Seller, upon the terms and conditions hereinafter set forth, that certain parcel of unimproved land (the “**Property**”), consisting of approximately 18.28 acres, located in the City of Gig Harbor, Pierce County, Washington, legally described on **Exhibit A** attached hereto and as shown generally on the site plan attached hereto as **Exhibit B** (the “**Approved Site Plan**”). The parties acknowledge and agree that the description of the Property is subject to change after the Effective Date throughout the site planning process, subject to the mutual agreement of Seller and Purchaser.

b. **Property Included.** The Property shall include the real property legally described on **Exhibit A** and shown generally on the Approved Site Plan, and all rights, privileges and easements appurtenant to the real property, including, without limitation, all minerals, oil, gas and other hydrocarbon substances on and under the real property, as well as all development rights, air rights, water, water rights, riparian rights, and water stock relating to the real property and any rights-of-way or other appurtenances used in connection with the beneficial use and enjoyment of the real property, and all of Seller’s right, title and interest in and to all roads and alleys adjoining or servicing the real property.

c. **Property Excluded.** The Property is part of a shopping center, consisting of approximately 23.42 acres (the “**Shopping Center**”). The Shopping Center is legally described on **Exhibit C** attached hereto and is depicted generally on the Approved Site Plan. The Shopping Center is part of a 320-acre commercial and residential mixed-use development owned by Seller and known as “**Peacock Hill.**” The Shopping Center comprises both the Property and that portion of the Shopping Center to be retained by Seller (the “**Residual Parcels**”). The Residual Parcels are legally described on **Exhibit D** attached hereto and are depicted generally on the Approved Site Plan. The Property does not include the Residual Parcels. The parties acknowledge and agree that the descriptions of the Shopping Center, the Residual Parcels, and the Property, are subject to change after the Effective Date throughout the site planning process, subject to the mutual agreement of Seller and Purchaser.

-1-

2. PURCHASE PRICE.

a. **Purchase Price.** The purchase price for the Property shall be Ten Dollars (US\$10.00) per gross square foot of Property, payable at Closing in cash, or by certified, cashier’s or bank check or by wired funds, subject to the adjustments and pro-rations as provided for herein (“Purchase Price”). It is estimated that the Property contains 796,211 gross square feet and that the Purchase Price will be US\$7,962,110. The amount of square footage of the Property and the total amount of the Purchase Price shall be determined pursuant to the Survey (as defined below).

b. **Earnest Money.** Upon full execution of this Agreement by Purchaser and Seller, Seller shall open an escrow with the Seattle National Accounts office of First American Title Insurance Company (“**Title Company**”) and, within ten (10) days thereafter, Purchaser shall wire transfer Two Hundred Fifty Thousand Dollars (US\$250,000.00) to Title Company (“**Earnest Money**”). If Purchaser terminates this Agreement prior to the satisfaction or waiver of the conditions set forth in Sections 4, 5, 6, 7, or 17 of this Agreement, then the Earnest Money shall promptly be returned to Purchaser. Title Company shall place the Earnest Money in an interest-bearing escrow account as directed by Purchaser, with the interest to accrue to Purchaser. If this transaction closes as provided herein, the Earnest Money shall apply towards the Purchase Price at Closing. If this transaction does not close as a result of any reason other than default by Purchaser, the Title Company shall, upon demand by Purchaser, promptly return the Earnest Money to Purchaser. In the event that Purchaser fails, without legal excuse, to complete the purchase of the Property, then the Earnest Money shall be forfeited by Title Company to Seller as the sole and exclusive remedy available to Seller for such failure, as more particularly set forth in Section 21 hereof.

3. TITLE TO PROPERTY.

a. **Condition of Title.** Seller represents that title to the Property or any portion thereof shall be free of monetary encumbrances or defects at Closing except for the lien for ad valorem real property taxes with respect to the fiscal year of Closing not yet due and payable, which shall be prorated as of the Closing Date as provided hereinbelow. Seller shall satisfy or cause to be satisfied prior to Closing or at Closing from the Purchase Price all monetary encumbrances or defects except for prorated taxes as described hereinabove.

b. Monetary Encumbrances. The phrase “monetary encumbrances or defects” as used herein means encumbrances or defects to title which by their terms require the payment of money, whether in installments or at a fixed time or otherwise, including, but not limited to, mortgages, deeds of trust, mechanic’s or materialmen’s liens, liens associated with public improvement districts and special assessments.

c. Nonmonetary Encumbrances. Nonmonetary encumbrances or defects in title (e.g., easements or restrictive covenants) shall be subject to Purchaser’s approval as provided in this Agreement.

d. Conveyance of Title. Title to the Property shall be conveyed as provided in Section 16.

4. PURCHASER’S CONTINGENCIES AND FEASIBILITY PERIOD. Purchaser’s obligation to purchase the Property is contingent upon the conditions set forth below being waived or satisfied on or before the dates provided for below. Purchaser may terminate this Agreement by written notice to Seller if Purchaser determines, in Purchaser’s sole and absolute discretion, that any of the conditions set forth in this Section 4 will not be satisfied by the date provided for herein for the satisfaction of such condition. In the event of such determination, the Earnest Money shall be promptly returned to Purchaser. The conditions provided for in this Section 4 shall be deemed not to be satisfied unless Purchaser, by the date by which the particular condition is required to be satisfied, notifies Seller in writing that such condition has been satisfied or waived. In the event any condition is deemed not satisfied, this Agreement shall automatically terminate and the Earnest Money shall be promptly returned to Purchaser.

a. Project Approvals. By 5 p.m. (Pacific) on the date that is the later of: (1) the date that is fourteen (14) days after the date Purchaser receives Seller’s Project Approval Notice (as hereinafter defined), and (2) Friday, August 13, 2004 (“**Purchaser’s Approvals Deadline**,” subject to extension as provided below), Purchaser shall have obtained all discretionary zoning approvals, use permits, site plan approvals, environmental approvals and any other discretionary governmental approvals necessary or desirable to develop, construct and operate a membership warehouse club, a related tire, battery and automobile accessories sales and installation center, and a fueling facility on the Property (the “**Project**”) for Purchaser’s intended use in accordance with Purchaser’s requirements, including, but not limited to, conditional use permits, zoning approvals, site plan approvals, and environmental approvals, including any required pursuant to any federal, state or local environmental laws or regulations, but specifically excluding building permits, grading permits, and other similar nondiscretionary development permits (collectively “**Purchaser’s Project Approvals**”), all of which shall be in final and unappealable form. If Purchaser has not obtained the approvals described in this subsection 4(a) by Purchaser’s Approvals Deadline (or the extended Purchaser’s Approvals Deadline, as applicable), and if Purchaser is proceeding diligently and in good faith to obtain Purchaser’s Project Approvals, then Purchaser shall have the option to extend Purchaser’s Approvals Deadline (or the extended Purchaser’s Approvals Deadline, as applicable) for six (6) consecutive terms of two (2) months each (an “**Extension Term**”) by prior written notice to Seller accompanied by payment directly to Seller outside of escrow in the amount of Fifty Thousand Dollars (US\$50,000.00) (an “**Extension Fee**”) for each two (2) month Extension Term. Each Extension Term shall end at 5 p.m. (Pacific) on the 13th of the month. All Extension Fees shall be nonrefundable to Purchaser (except in the case of Seller’s default hereunder), shall be deemed fully earned by Seller when paid, and shall apply to the Purchase Price at closing. For the purposes of this subsection, Purchaser’s Project Approvals shall not be deemed to have been “obtained” until each of the same has become final and non-appealable and any periods for challenge to the same (or other conditions to final effectiveness) shall have expired. Any conditions, requirements for on-site and off-site improvements or services, in-lieu fees or payments, dedication or reservation requirements, water rights acquisition costs, local improvement district costs, connection charges, assessments, mitigation fees, impact fees, permit fees and any other similar fees or charges imposed on the Project by any governmental entity or utility service provider shall be acceptable to Purchaser and shall be subject to Purchaser’s approval in its sole and absolute discretion.

b. Studies. By 5 p.m. (Pacific) on the date that is three months after the date Purchaser receives Seller’s Board Approval Notice (as hereinafter defined) (the “**Feasibility Deadline**”), Purchaser shall have approved, in its sole and absolute discretion, all soils, engineering, hazardous waste, geotechnical, wetlands and other studies in connection with the Property and Purchaser’s proposed project. Purchaser hereby acknowledges receipt (from Seller) of one copy of the items listed on **Exhibit E** attached hereto (“**Seller’s Reports**”). Seller represents and warrants to Purchaser that the Seller’s Reports constitute all topographical and boundary surveys, environmental reports, engineering studies, soil-bearing test data, and any similar reports and studies, except Property valuations, income projections, and other documents containing confidential financial analysis with respect to the Property that Seller, or any affiliate of Seller, has in its possession, or to which Seller, or any affiliate of Seller, has access, through the exercise of commercially reasonable efforts. Upon Purchaser’s receipt of Seller’s Reports, Purchaser shall have the unrestricted right to use such reports and studies in connection with Purchaser’s review of the Property and Purchaser’s efforts to obtain its permits and approvals; provided, however, that Purchaser agrees to indemnify, defend and hold Seller harmless from and against any and all liability, loss, cost, damage or expense (including reasonable attorney’s fees) arising out of the use or reliance upon Seller’s Reports by Purchaser or by any person who obtains Seller’s Reports directly or indirectly from Purchaser. In the event Purchaser fails (for any reason) to purchase the Property, Purchaser shall promptly return Seller’s Reports to Seller and also shall furnish to Seller (without representation or warranty of any kind) a copy of all written inspections, studies, surveys and

reports pertaining to the Property prepared by or for Purchaser, except Property valuations, income projections, and other documents containing confidential financial analysis (“**Purchaser’s Reports**”) at no expense to Seller; provided, however, that Seller agrees to indemnify, defend and hold Purchaser harmless from and against any and all liability, loss, cost, damage or expense (including reasonable attorney’s fees) arising out of the use or reliance upon Purchaser’s Reports by Seller or by any person who obtains Purchaser’s Reports directly or indirectly from Seller. The indemnification provisions set forth in this subsection shall survive the termination of this Agreement.

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In addition, Purchaser shall furnish to Seller immediately upon receipt by Purchaser copies of any topographic data relating to the Property obtained by Purchaser; at no expense to Seller; provided, however, that Seller agrees to indemnify, defend and hold Purchaser harmless from and against any and all liability, loss, cost, damage or expense (including reasonable attorney’s fees) arising out of the use or reliance upon such data by Seller or by any person who obtains such data directly or indirectly from Seller.

c. **Feasibility.** By the Feasibility Deadline, Purchaser shall have determined in Purchaser’s sole and absolute discretion, that the site plan, parking plan and access plan for the Property are acceptable, that utilities are of adequate capacity to serve the Property, that construction of the improvements contemplated by Purchaser will not require extraordinary, excessive or unusually costly design elements or construction techniques, that drainage of both surface and subsurface water can be accomplished by ordinary construction techniques not involving unusual or excessive costs, that the Property will satisfy Purchaser’s financial and competitive objectives in the trade area, and that the Property is economically and otherwise feasible for Purchaser’s intended use.

d. **Title.** By the Feasibility Deadline, Purchaser shall have approved, in its sole and absolute discretion, the condition of title based on a preliminary title commitment relating to the Property (the “**Title Commitment**”) obtained by Purchaser from the Title Company. If Purchaser gives Seller written notice of any objections to the title of the Property on or prior to the Feasibility Deadline, then Seller shall have ten (10) days after the receipt of Purchaser’s objections to give Purchaser written notice either that (i) Seller shall remove all objectionable exceptions from title prior to Closing at no cost to Purchaser, in which case Seller shall promptly provide Purchaser with evidence satisfactory to Purchaser of Seller’s ability to so remove such exceptions; or (ii) Seller elects not to cause such exceptions to be removed. If within such ten (10) day period Seller fails to give Seller written notice that Seller shall remove all objectionable exceptions from title prior to Closing at no cost to Purchaser and to provide Purchaser with evidence satisfactory to Purchaser of Seller’s ability to so remove such exceptions, then Purchaser shall have an additional ten (10) days (that is, until the date twenty (20) days after the date of delivery of Purchaser’s notice of title objections) to terminate this Agreement by written notice to Seller. If Purchaser shall fail to deliver timely written notice of termination, then Purchaser shall be deemed to have waived its objections, in which event this Agreement shall continue in full force and effect. Notwithstanding anything herein to the contrary, Seller shall remove monetary encumbrances or defects on or prior to Closing. In the event Purchaser terminates this Agreement pursuant to this subsection or any other provision of this Agreement, any cancellation fee or other costs of the Title Company shall be borne by Seller. Within 10 days after Seller’s written request, Purchaser shall provide copies of all preliminary title commitments (including exception documents) prepared by or for Purchaser relating to the Property, the Shopping Center, and Peacock Hill.

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e. **Survey.** By the Feasibility Deadline, Purchaser shall have approved, in its sole and absolute discretion, a current ALTA survey of the Property and Residual Parcels (the “**Survey**”) to be obtained by Purchaser, at Purchaser’s cost, subject to reimbursement from Seller upon closing or earlier termination of the Purchase Agreement. The Survey shall be prepared by a surveyor licensed by the State of Washington selected by Purchaser (“**Surveyor**”), showing the location (by courses and distances) and the dimensions of the Property and Residual Parcels, the surface and subsurface structures and improvements, and the location and dimensions of all defects and encumbrances shown in the Title Commitment. The Survey shall bear a certification in the form of the certification attached hereto as **Exhibit F** and shall be in form and substance sufficient to permit Title Company to issue the Title Policy without boundary, encroachment or survey exceptions, and to delete from the Title Policy the standard exceptions as to unrecorded easements, visible and apparent easements, and other matters that would be disclosed by an inspection of the Property. The Surveyor shall certify to Purchaser and Seller the gross number of square feet of the Property, the Residual Parcels, and the Shopping Center. The number of square feet certified shall conclusively establish the basis for determining the Purchase Price absent a showing by either party of perceptible mistake or fraud on the part of the Surveyor. Within 10 days after Seller’s written request, Purchaser shall provide copies of all surveys prepared by or for Purchaser relating to the Property, the Shopping Center, and Peacock Hill.

5. **SELLER’S BOARD APPROVAL CONTINGENCY.** It shall be a condition precedent to the obligations of Seller under this Agreement that by 5 p.m. (Pacific) on the date that is fourteen (14) days after the Effective Date (“**Seller’s Board Approval Deadline**”), Seller shall have notified Purchaser in writing that the Board of Directors of Pope MGP, Inc., the managing general partner of Pope Resources, the manager and sole member of Seller, shall have approved the execution and delivery of this Agreement and the performance by Seller of the transactions contemplated herein (“**Seller’s Board Approval Notice**”). Purchaser acknowledges and agrees that Seller’s Board Approval Notice shall not be interpreted to mean that the Board of Directors has approved the Reciprocal Easement Agreement, Site Development Agreement, Declaration of Restrictive Covenant, Off-Site Storm Water Facility Maintenance Agreement, Off-Site Storm Water Facility Easement Agreement, or any material amendments to this Agreement, each of which by their terms shall be subject to such Board’s approval. The

condition set forth in this section is intended solely for the benefit of Seller, and if it is not satisfied or waived by Seller in writing on or before Seller's Board Approval Deadline, then this Agreement shall terminate automatically, and if Purchaser is not then in default under this Agreement, the Earnest Money shall be returned to Purchaser and neither Purchaser nor Seller shall have any further rights or obligations hereunder.

6. SELLER'S PROJECT APPROVALS CONTINGENCY. By 5 p.m. (Pacific) on **Friday, July 31, 2004** ("**Seller's Approval Deadline**", subject to extension as provided below), Seller shall have obtained all zoning approvals, use permits, site plan approvals, environmental approvals and any other governmental approvals necessary or desirable to develop and construct Seller's Required Improvements (as hereinafter defined) in accordance with Seller's requirements, including, but not limited to, building permits, conditional use permits, zoning approvals, site plan approvals, and environmental approvals, including any required pursuant to any federal, state or local environmental laws or regulations (collectively "**Seller's Project Approvals**"), all of which shall be in final and unappealable form. If Seller has not obtained the approvals described in this Section 6 by Seller's Approvals Deadline (or the extended Seller's Approvals Deadline, as applicable), and if Seller is proceeding diligently and in good faith to obtain Seller's Project Approvals, then Seller shall have the option to extend Seller's Approvals Deadline (or the extended Seller's Approvals Deadline, as applicable) for six consecutive terms of thirty days each (an "Extension Term") by prior written notice to Purchaser. For the purposes of this subsection, Seller's Project Approvals shall not be deemed to have been "obtained" until the governmental decision to approve each of the same has become final and non-appealable and Seller has approved the same, including without limitation any conditions, requirements for on-site and off-site improvements or services, in-lieu fees or payments, dedication or reservation requirements, water rights acquisition costs, local improvement district costs, connection charges, assessments, mitigation fees, impact fees, permit fees and any other similar fees or charges imposed on the Project by any governmental entity or utility service provider in connection with Seller's Project Approvals, in Seller's sole and absolute discretion. Upon the satisfaction or waiver (by Seller) of the contingency set forth in this Section 6, Seller shall deliver written notice of such satisfaction or waiver to Purchaser ("**Seller's Project Approvals Notice**"). The condition precedent described in this Section 6 shall be deemed not satisfied or waived unless Seller, by the date by which the condition is required to be satisfied or waived, notifies Purchaser in writing that such condition has been satisfied or waived. In the event that the condition precedent is deemed not satisfied or waived, then this Agreement shall automatically terminate and the Earnest Money shall be promptly returned to Purchaser.

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7. MUTUAL CONTINGENCIES; ADDITIONAL AGREEMENTS. It shall be a condition precedent to the obligations of both Purchaser and Seller under this Agreement that by the Feasibility Deadline, Purchaser and Seller shall have negotiated and agreed in writing upon the forms of the agreements described in this section:

a. Reciprocal Easement Agreement. By the Feasibility Deadline, Purchaser and Seller shall have agreed upon the form and substance of a reciprocal easement agreement (the "**REA**") to be entered into at Closing, covering the Property and Residual Parcels. The REA shall provide for, among other things, reciprocal easements for parking and pedestrian and vehicular access, use restrictions, and minimum parking ratios as described generally on **Exhibit G** hereto. On or prior to Closing, the parties shall execute and record the REA in the real property records of Pierce County, Washington.

b. Site Development Agreement. By the Feasibility Deadline, Purchaser and Seller shall have agreed upon the form and substance of a site development agreement ("**SDA**") to be entered into at Closing, covering the Property, the Residual Parcels, and related off-site improvements. The SDA shall provide for, among other things: (i) the obligations of Purchaser and of Seller to construct the "**Required Improvements**" (to be agreed upon by the parties during the feasibility period); (ii) a schedule for the completion by the applicable party of the Required Improvements; (iii) the conditions precedent to the obligations of each party to complete their Required Improvements; (iv) the establishment of mutually acceptable security for the performance of the applicable party's obligation to construct the Required Improvements; (v) appropriate remedies for the parties in the event the other fails to timely complete the construction of the applicable Required Improvements, including without limitation, self-help remedies; (vi) an arbitration mechanism for the resolution of disputes between the parties; and (vii) the respective obligations of the parties to satisfy the conditions of any discretionary land use approvals affecting the Property after Closing. The Required Improvements, and the responsibilities for performance and costs with respect to such improvements, are described generally on **Exhibit H**. The parties acknowledge that **Exhibit H** is not an exclusive list of the Required Improvements, and that the list of Required Improvements is subject to change after the Effective Date during the SDA negotiation process. As used herein, "**Seller's Required Improvements**" shall mean those Required Improvements for which Seller is responsible, and "**Purchaser's Required Improvements**" shall mean those Required Improvements for which Purchaser is responsible.

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c. Declaration of Restrictive Covenant. By the Feasibility Deadline, Purchaser and Seller shall have agreed upon the form and substance of a declaration of restrictive covenant ("**Restrictive Covenant**") to be entered into at Closing, covering the Property, Residual Parcels, and that portion of Peacock Hill designated for commercial development on the City of Gig Harbor's current official comprehensive plan and zoning maps (the "**Commercial Area**"). The Restrictive Covenant shall provide, among other things, that for a period of five years following the earlier to occur of (1) the date Purchaser opens the Project for business to the public, or (2) the date that is one year after the Closing, neither Seller, nor any subsidiary, affiliate, parent or other entity that controls, is controlled by, or is under common control with Seller (collectively "**Seller's Entities**") shall allow any portion of

the Commercial Area to be used or operated (A) as a wholesale or retail general merchandise facility which has a merchandising concept based upon a relatively limited number of stock keeping units in a large number of product categories (the “**Merchandising Concept**”), (B) to support a facility operating as a Merchandising Concept (i.e., for parking or other necessary improvements for such a facility), (C) as any business which operates as a warehouse club (other than a Costco Facility, as defined below), (D) as any business operated under the trade names of Sam’s, BJ’s, Jetro, or Price Smart, (E) as any business (other than a Costco Facility, as defined below) similar to those operated under the trade names Costco, Sam’s, BJ’s, Jetro, or Price Smart, or (F) as a “Wal-Mart” store or “Wal-Mart Supercenter” or any other store operated under the “Wal-Mart” brand; provided, however, that in no event shall any of the foregoing prohibitions preclude the Property from being used for or as a Costco Wholesale warehouse club or any other facility then operated by Costco or by any successor to Costco (collectively, a “Costco Facility”). Seller and Purchaser shall agree in the Restrictive Covenant on the applicable terms and conditions pertaining to the foregoing matters, including (without limitation) any conflict with matters of record. The Restrictive Covenant also shall provide (G) for a perpetual fifty (50) foot wide buffer of native vegetation shall be established along Borgen Boulevard, and (H) for a period of twenty (20) years after the date of Closing, the Property shall not be used for adult entertainment, heavy industrial uses, or noxious or offensive uses. On or prior to Closing, the parties shall execute and record the Restrictive Covenant in the real property records of Pierce County, Washington.

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d. Off-Site Storm Water Facility Maintenance Agreement. By the Feasibility Deadline, Purchaser and Seller shall have agreed upon the form and substance of the Off-Site Storm Water Facility Maintenance Agreement described at Section 11(d). On or prior to Closing, the parties shall execute, and record the Off-Site Storm Water Facility Maintenance Agreement in the real property records of Pierce County, Washington.

e. Off-Site Storm Water Facility Easement Agreement. By the Feasibility Deadline, Purchaser and Seller shall have agreed upon the form and substance of the Off-Site Storm Water Facility Easement Agreement described at Section 11(e). On or prior to Closing, the parties shall execute and record the Off-Site Storm Water Facility Easement Agreement in the real property records of Pierce County, Washington.

f. Land Use Process. By the Feasibility Deadline, Purchaser and Seller shall have agreed in a written amendment to this Agreement upon a process, allocation of responsibilities and costs, and schedule to obtain (a) a zoning map amendment of the Property and Residual Parcels from PCD Business Park Zone to PCD Commercial Zone (the “**Rezone**”), (b) site plan approval of the Project (“**Site Plan Approval**”), and (c) any other discretionary land use approvals required by the City of Gig Harbor in connection with the Project (“**Other Approvals**”).

8. SUBDIVISION PROCESS. Purchaser and Seller hereby acknowledge and agree that they have reviewed and approved the Approved Site Plan for the Shopping Center attached hereto as **Exhibit B**, which generally depicts the current size and configuration of the Property and the Residual Parcels. Notwithstanding the foregoing, Purchaser and Seller shall reasonably cooperate in good faith after the Effective Date to make mutually acceptable adjustments from time to time in the precise size and configuration of the Property and the Residual Parcels. Promptly following the delivery of Seller’s Board Approval Notice, Seller shall, at Seller’s expense, but with the cooperation of Purchaser (at no additional material expense), apply for and use commercially reasonable efforts to obtain a lot line adjustment (or other acceptable subdivision process) that creates the Shopping Center as a single legal lot or parcel prior to the Feasibility Deadline. Following such lot line adjustment (or other acceptable subdivision process), Purchaser shall, at Purchaser’s expense, but with the cooperation of Seller (at no additional material expense), apply for and use commercially reasonable efforts to obtain the City of Gig Harbor’s final approval of a binding site plan or short subdivision sufficient to establish the Property as a single lot or parcel and the Residual Parcels as additional lots or parcels, the precise number of which shall be determined by Seller in its sole discretion prior to the date Purchaser makes its submittal for the initial binding site plan. Purchaser and Seller shall reasonably cooperate with each other in seeking and obtaining the foregoing approvals.

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9. [Intentionally Omitted]

10. UTILITIES. Prior to Closing, Seller shall construct and install domestic water and sanitary sewer pipelines from City of Gig Harbor facilities to the Property boundary, of sufficient capacity to serve the Project and the retail or other commercial projects planned by Seller to be located on the Residual Parcels. Seller shall coordinate with Purchaser and local utility service providers for the extension of electric power, telephone, natural gas, and cable television utility lines to the Property boundary by and at the expense of the local utility service providers. Purchaser shall be solely liable for the construction and installation of all utility lines within the Property and for the payment of all utility connection, hook-up, and similar charges and fees levied by the City of Gig Harbor and other utility service providers, whether relating to domestic water, sanitary sewer, or other utility services.

11. STORM WATER FACILITIES.

a. Generally. Generally, and subject to the terms and conditions described hereinbelow, (i) Purchaser will construct storm water facilities within the Property, (ii) Seller will construct storm water facilities within the Residual Parcels and off-site to serve the Shopping Center and other real property, (iii) storm water collected on the Residual Parcels will pass through the Property to off-site storm water facilities via storm water facilities

constructed by Purchaser within the Property and via storm water facilities constructed by Seller outside the Property, and (iv) Purchaser and Seller will share off-site construction and maintenance costs as described hereinbelow.

b. On-Site. On or prior to the date Purchaser opens the Project for business to the public, Purchaser shall design, obtain any required governmental approvals and permits, construct, install, and obtain any required governmental acceptances, of pipelines, ditches, and other storm water management facilities within the Property but not within the Residual Parcels ("**On-Site Storm Water Facilities**") sufficient to provide storm water conveyance, filtration, and other storm water management functions in perpetuity in connection with land development and use and in compliance with all applicable storm water management regulations. The On-Site Storm Water Facilities shall accommodate the complete build-out of the Property and shall accommodate the discharge of storm water from the Residual Parcels at or along the common boundary of the Property and Residual Parcels. Purchaser shall provide stub connections to the On-Site Storm Water Facilities at one or more collection points along the common boundaries of the Property and each of the Residual Parcels (that is, at least one stub shall be provided for each of the Residual Parcels). The design of the On-Site Storm Water Facilities shall be subject to Seller's prior written approval, which shall not be unreasonably conditioned, delayed, or withheld. Purchaser shall bear the expense of designing, obtaining governmental approvals, constructing, and installing the On-Site Storm Water Facilities. Purchaser shall maintain the On-Site Storm Water Facilities in perpetuity.

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c. Off-Site. On or prior to the date Purchaser opens the Project for business to the public, Seller shall design, obtain any required governmental approvals and permits, construct, install, and obtain any required governmental acceptances and approvals, of (i) pipelines, ditches, and other storm water conveyance facilities outside the Shopping Center ("**Off-Site Storm Water Conveyance Facilities**"), and (ii) ditches, ponds, and other storm water management facilities outside the Shopping Center ("**Off-Site Storm Water Management Facilities**"), sufficient to provide storm water conveyance, storage, filtration, evaporation, and other storm water management functions in perpetuity in connection with land development and use of the Shopping Center and other real property identified by Seller to be accommodated by the Off-Site Storm Water Facilities, in compliance with all applicable storm water management regulations. The Off-Site Storm Water Conveyance Facilities and the Off-Site Storm Water Management Facilities are collectively referred to herein as the "**Off-Site Storm Water Facilities**". The Off-Site Storm Water Facilities shall accommodate the complete build-out of the Property, Residual Parcels, and other real property identified by Seller in its discretion. The design of the Off-Site Storm Water Facilities shall be subject to Purchaser's prior written approval, which shall not be unreasonably conditioned, delayed, or withheld. Seller shall bear the expense of designing, obtaining governmental approvals, constructing, and installing the Off-Site Storm Water Facilities, provided, however, that Purchaser shall reimburse Seller Purchaser's Share of the total actual labor and materials expense of constructing and installing the Off-Site Storm Water Management Facilities (but not the Off-Site Storm Water Conveyance Facilities). As used herein, "**Purchaser's Share**" shall mean a fraction, the numerator of which shall be the gross square footage of the Property and the denominator of which shall be the gross square footage of the Shopping Center and the other real property identified by Seller to be accommodated by the Off-Site Storm Water Facilities. Seller shall maintain the Off-Site Storm Water Facilities until the City of Gig Harbor or other governmental authority accepts liability for such maintenance, provided, however, that as long as Seller maintains and Purchaser shares in the use of the Off-Site Storm Water Facilities, then Purchaser shall contribute to Seller Purchaser's Share of the cost of maintaining the Off-Site Storm Water Facilities (including both the Off-Site Storm Water Conveyance Facilities and Off-Site Storm Water Management Facilities). For example, if the Property comprises 803,750 square feet, the Residual Parcels comprise 231,335 square feet, and other real property identified by Seller to be served by the Storm Water Facilities comprises 1,653,865 square feet, then Purchaser shall bear 29.89 percent, the owners of the Residual Parcels shall bear 8.60 percent, and the owners of the other real property identified by Seller to be accommodated by the Off-Site Storm Water Facilities shall bear 61.50 percent of the cost of maintaining the Off-Site Storm Water Facilities until the City of Gig Harbor or other governmental authority accepts liability for such maintenance. The Off-Site Storm Water Facilities will be constructed on off-site lands owned by Seller as of the date of Closing, and off-site lands over which Seller will hold a storm water facilities easement for the benefit of the Shopping Center and other real property as of the date of Closing (collectively, the "**Off-Site Storm Water Parcels**"). The Off-Site Storm Water Parcels are legally described on **Exhibit I**.

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d. Recorded Maintenance Agreement. On or prior to Closing, the parties shall execute and record in the real property records of Pierce County, Washington, a perpetual "**Storm Water Facility Maintenance Agreement**" to implement and give public notice of the provisions of this Section 11, in the form negotiated under subsection 7.d.

e. Recorded Easement. On or prior to Closing, the parties shall execute and record in the real property records of Pierce County, Washington, a perpetual "**Off-Site Storm Water Facility Easement Agreement**" in which Seller shall convey and quit claim to Purchaser a perpetual easement for storm water conveyance and storm water facility maintenance to and within the Off-Site Storm Water Parcels, in the form negotiated under subsection 7.e.

f. Dedication. Seller shall have the option, which may be exercised at any time before or after Closing, to dedicate fee ownership of all or any portion of the Off-Site Storm Water Parcels to the City of Gig Harbor or any other governmental authority that accepts liability for the maintenance of the Off-Site Storm Water Facilities.

12. TRAFFIC IMPACT FEES. Purchaser and Seller acknowledge that Seller has made and will continue to make significant financial contributions to the construction of Borgen Boulevard (a/k/a East West Road) under a local improvement district to which Seller is obligated to contribute. Seller understands that its local improvement district obligation may be reduced by the amount of traffic impact fees paid by Seller, Purchaser, and others in connection with the development of lots and parcels within Peacock Hill. The parties acknowledge and agree that any traffic impact fees paid by Purchaser or others in connection with the development of the Property shall be used to reduce the obligation of Seller under its local improvement district obligations to the City of Gig Harbor in connection with the development of Borgen Boulevard, but only to the extent that (a) such reduction is permitted by the City of Gig Harbor, and (b) Purchaser is not materially disadvantaged by such cooperation with Seller.

13. SELLER'S REPRESENTATIONS AND WARRANTIES. All representations and warranties of Seller given in this Agreement are based upon the actual current knowledge of Jon Rose, who is Seller's President, and John Chadwell, who is Seller's Project Manager. Seller represents and warrants to Purchaser that Mr. Rose and Mr. Chadwell are Seller's employees most familiar with the condition, use, operation, and development of the Property. Mr. Rose, Mr. Chadwell, and Seller have no obligation under this Agreement to take any action to acquire any knowledge regarding the Property. The information contained in Seller's Reports and Purchaser's Reports shall not be imputed to Mr. Rose, Mr. Chadwell, or Seller except to the extent that Mr. Rose or Mr. Chadwell has actual knowledge of such information. Subject to the foregoing limitations, Seller represents, warrants and covenants to Purchaser:

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a. Power and Authority. Except for the approval of this Agreement and the other agreements between the parties described herein by the Board of Directors of Pope MGP, Inc., the managing general partner of Pope Resources, the manager and sole member of Seller, as described hereinabove, Seller has the authority and power to enter into this Agreement and to consummate the transaction provided for herein, and this Agreement and all other documents executed and delivered by Seller constitute legal, valid, binding and enforceable obligations of Seller, and there are no claims or defenses, personal or otherwise, or offsets whatsoever to the enforceability or validity of this Agreement.

b. No Violations and Actions. The execution, delivery and performance by Seller of its obligations under this Agreement will not conflict with or result in a breach of any law, governmental rule, regulations, judgment, decree or order by which the Seller or the Property is bound, or by any of the provisions of any contract to which Seller is a party or by which Seller or the Property is bound or, if Seller is not an individual, by Seller's declaration of trust, certificate of incorporation, bylaws or partnership agreement, as the case may be. There is no action, suit, proceeding or investigation pending, or to Seller's knowledge threatened, before any agency, court or other governmental authority which relates to the Property or the use thereof.

c. Condemnation. There is no condemnation proceeding affecting the Property or any portion thereof currently pending nor, to Seller's knowledge, is any such proceeding threatened.

d. Compliance. The Property complies with all applicable governmental requirements in respect of the use, occupation and construction thereof, including but not limited to environmental, zoning, platting and other land use requirements, and Seller has received no notice of and has no knowledge of any violations or investigations relating thereto, and any violations thereof that occur before Closing, whether now noted or issued, shall be complied with by Seller, so that the Property shall be conveyed free of the same at Closing.

e. Default, Breach, Access and Utilities. There is no default or breach by Seller under any covenants, conditions, restrictions, rights-of-way, or easements which may affect the Property or any portion thereof.

f. Work. No work has been performed or is in progress at, and no materials have been furnished to, the Property which have not been paid for or will not be paid for in full by Seller prior to the Closing Date.

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g. Assessments. No special or general assessments have been levied, other than as shown in the Title Commitment, or to Seller's knowledge are threatened against all or any part of the Property.

h. Street Dedication. A perpetual easement for Borgen Boulevard, which adjoins the northerly boundary of the Shopping Center, has been dedicated to and accepted by the City of Gig Harbor, and a perpetual easement for the North South Road, which will adjoin the westerly boundary of the Shopping Center, will be dedicated to and accepted by the City of Gig Harbor (or the completion of construction of such roadway shall be bonded by Seller) prior to the date Purchaser opens the Project for business to the public, and the City of Gig Harbor has the responsibility to maintain such streets, roads, highways and avenues, except as may be disclosed otherwise by the Title Commitment or Survey.

i. Leases. There are no leases affecting all or any part of the Property.

j. Hazardous Substances. The Property has not been affected by the presence of, and there is not present, oil, hazardous waste, toxic substances or other pollutants or materials that could be a detriment to the Property or

in violation of any local, state or federal law or regulation, and there are no potentially hazardous environmental conditions which would affect the Property, except as may be disclosed in Seller's Reports. Without in any way limiting the generality of the foregoing provision, Seller specifically warrants that all prior uses of the Property or any part the Property known to Seller are listed on **Exhibit J** hereto; neither Seller nor any other user or occupant of any part of the Property known to Seller has ever been cited for violating any federal, state or local environmental law or regulation with respect to operations or activities on or about the Property; and all reports, test results, and other documents relating to the presence or absence of hazardous materials on or about the Property are being delivered to Purchaser concurrently herewith.

k. Foreign Person or Entity. Seller is not a foreign person, nonresident alien, foreign corporation, foreign partnership, foreign trust, or foreign estate, as those terms are defined in the Internal Revenue Code and the Income Tax Regulations promulgated thereunder. At Closing, Seller shall deliver to Purchaser a certificate of nonforeign status in form required by the Income Tax Regulations and reasonably acceptable to Purchaser. In the event Seller shall not deliver such certificate to Purchaser at Closing, or shall not otherwise sufficiently evidence Seller's exemption from withholding requirements, Purchaser may withhold such amounts as may be required under applicable law in order for Purchaser to avoid any liability for Seller's tax obligations.

l. Agreements and Contracts. There are no management agreements, service contracts or other agreements affecting the Property or the operation or maintenance thereof.

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m. Soil Conditions; Flood and Mud Slide Hazard; Wetlands. There is not any soils condition adversely affecting the Property except as may be disclosed in Seller's Reports.

n. Legally Subdivided Lot. As of Closing, the Property shall be a legally subdivided lot.

o. Buried Tanks. There are no underground storage tanks on the Property, nor have underground storage tanks been removed from the Property, except as may be disclosed in Seller's Reports.

p. Bankruptcy Matters. Seller has not made a general assignment for the benefit of creditors, filed any voluntary petition in bankruptcy or suffered the filing of an involuntary petition by its creditors, suffered the appointment of a receiver to take possession of substantially all of its assets, suffered the attachment or other judicial seizure of substantially all of its assets, admitted its inability to pay its debts as they come due, or made an offer of settlement, extension or composition to its creditors generally.

q. Misrepresentation and Adverse Facts. Seller has made no untrue statements or representations in connection with this Agreement, and all items transferred to Purchaser on or before Closing are true and correct copies of what they purport to be. Said items have not been amended or modified, other than as also transferred to Purchaser, and no items that should have been set forth as exhibits hereto or transferred to Purchaser on or before Closing have not been so set forth or transferred. Seller has not failed to state or disclose any material fact in connection with the transaction contemplated by this Agreement. Seller knows of no facts, nor has Seller failed to disclose any fact, which would prevent Purchaser from using and operating the Property after Closing in the manner in which it is intended to be operated by Purchaser.

r. Marketable Title. Seller has, as of the Effective Date, and will have as of the date of Closing, good, marketable and indefeasible title to the Property subject only to the matters set forth in the Survey and Title Commitment that Seller has not agreed in writing to remove at or prior to Closing. Without in any way limiting the generality of the foregoing representation, Seller further represents and warrants to Purchaser (i) that no understanding, agreement (either express or implied), or reasonable expectancy of agreement with respect to sale, lease or other transfer of the Property exists between Seller and any third party, and (ii) that Seller is in no way restricted from negotiating and entering into an agreement with Purchaser and selling the Property to Purchaser.

s. Obligations. There are no obligations in connection with the Property which will be binding upon Purchaser after Closing, except for those matters set forth in the Title Commitment that Seller has not agreed in writing to remove at or prior to Closing.

t. Absence of Moratorium. No moratorium, statute, order, regulation, ordinance, legislation, judgment, ruling or decree of any court or governmental agency has been enacted, adopted, issued, entered, or is pending or in effect, that could materially and adversely affect the Property, Purchaser's ability to develop and operate its Project, or both.

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u. Storm Water Facilities. As of the date Purchaser opens the Project for business to the public, the Property will be benefited by fully-operational Off-Site Storm Water Facilities with adequate capacity sufficient to allow the construction, use, and maintenance of the proposed development of the Property, the Residual Parcels, and other real property owned and identified by Seller as provided hereinabove.

All of the representations, warranties, and covenants of the Seller contained in this Agreement (i) shall be true and correct as of the Effective Date and as of the Closing Date; and (ii) Purchaser's rights to enforce such

representations and warranties and covenants shall survive the Closing and such rights to enforce shall not be merged into any documents delivered by Seller at Closing. Seller shall indemnify, defend and hold Purchaser harmless from and against any cause, claim, loss, damage or expense, including attorneys fees, which Purchaser suffers as a result of a breach of the representations, warranties and covenants contained in this Agreement.

Notwithstanding the foregoing, Seller shall be liable for damages caused by or relating to Seller's breach of any covenant, representation, or warranty given under this Agreement only if and to the extent that (x) the damages are actually incurred by Purchaser, (y) the damages are incurred by Purchaser within two (2) years after Closing, and (z) Purchaser asserts a claim for damages against Seller by the commencement of a civil judicial action against Seller within two (2) years after Closing. The foregoing limitations shall not apply to damages caused by or relating to Seller's breach of any covenant, representation, or warranty given under the Statutory Warranty Deed delivered by Seller to Purchaser at Closing.

14. RELEASE AND DISCLAIMER. Purchaser acknowledges that Seller makes no covenant, representation, or warranty as to the suitability of the Property for any purpose or as to the condition of the Property except as otherwise expressly set forth in this Agreement. Purchaser hereby waives all objections and complaints regarding the condition of the Property, including without limitation objections and complaints relating to surface and subsurface conditions, except as provided in any covenant, agreement, representation, or warranty in this Agreement. Purchaser agrees that it is purchasing the Property in its present condition, AS IS, subject only to the covenants, agreements, representations, and warranties expressly provided by Seller in this Agreement. Purchaser assumes the risk that adverse conditions may not have been revealed by its own investigation or by the Seller's Reports. Except for and with respect to Seller's express covenants, agreements, representations, and warranties in this Agreement, Purchaser hereby waives, releases, acquits, and forever discharges Seller of and from any and all claims, actions, demands, rights, damages, costs of response or remedial action, or expenses whatsoever, direct or indirect, known or unknown, foreseen or unforeseen, including claims of third parties, that now exist or that may arise in the future on account of or in connection with the condition of the Property, including without limitation any surface or subsurface contamination, but excluding claims for statutory right of contribution toward third party claims under any state or federal hazardous substance law or regulation.

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EXCEPT AS EXPRESSLY PROVIDED IN THIS AGREEMENT, SELLER MAKES NO COVENANTS, REPRESENTATIONS, OR WARRANTIES WITH RESPECT TO: (A) THE CONDITION OF THE REAL OR PERSONAL PROPERTY OR ANY BUILDINGS, STRUCTURES, OR IMPROVEMENTS ON THE REAL PROPERTY OR THE SUITABILITY OF THE REAL PROPERTY FOR HABITATION OR FOR PURCHASER'S INTENDED USE OR FOR ANY USE WHATSOEVER; (B) ANY APPLICABLE BUILDING, ZONING, OR FIRE LAWS OR REGULATIONS, OR WITH RESPECT TO COMPLIANCE THEREWITH, OR WITH RESPECT TO THE EXISTENCE OF OR COMPLIANCE WITH ANY REQUIRED PERMITS, IF ANY, OF ANY GOVERNMENTAL AGENCY; (C) THE AVAILABILITY OR EXISTENCE OF ANY WATER, SEWER, OR OTHER UTILITIES OR UTILITY RIGHTS; (D) THE EXISTENCE OF ANY WATER, SEWER OR OTHER UTILITY DISTRICT; OR (E) THE PRESENCE OF ANY HAZARDOUS SUBSTANCES; (F) THE PRESENCE OF ANY UNDERGROUND STORAGE TANKS OR ASBESTOS; OR (G) COMPLIANCE OF THE PROPERTY WITH THE TERMS OF THE AMERICANS WITH DISABILITIES ACT. PURCHASER ASSUMES THE RISK OF ALL DEFECTS AND CONDITIONS IN THE PROPERTY, INCLUDING SUCH DEFECTS AND CONDITIONS, IF ANY, THAT CANNOT BE OBSERVED BY CASUAL INSPECTION; PROVIDING, THAT NOTHING HEREIN LIMITS OR IMPAIRS SELLER'S COVENANTS, AGREEMENTS, REPRESENTATIONS, AND WARRANTIES HEREIN. PURCHASER ACKNOWLEDGES THAT PURCHASER WILL HAVE THE OPPORTUNITY TO INSPECT THE PROPERTY AND, EXCEPT FOR THE COVENANTS, AGREEMENTS, REPRESENTATIONS, AND WARRANTIES OF SELLER HEREIN, IS RELYING ENTIRELY THEREON.

15. SELLER'S OBLIGATIONS PENDING CLOSING. During the continuance of this Agreement, until Closing or termination of this Agreement as herein provided, Seller covenants to perform in accordance with the following obligations:

a. Sell or Encumber Property. Seller shall not sell, assign, or convey any right, title, or interest whatever in or to the Property to any third party or create or permit to exist any lien, encumbrance, or charge thereon which will not be paid in full at Closing.

b. Representations and Warranties. Seller shall not take any action, or omit to take any action, which action or omission would have the effect of violating or rendering untrue any of its representations, warranties, covenants, and agreements contained herein.

c. Existing Financing. Seller shall continue to make all payments required under the terms of any existing financing on the Property and shall not suffer or permit a default to arise thereunder.

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d. Governmental Orders. Seller shall not violate any lawful order or directive of a governmental agency with respect to the Property.

e. Legally Subdivided Lot. Prior to Closing, Seller at Seller's sole cost and expense shall take any action required to confirm that the Property is, or to cause the Property to be, established as a legally subdivided lot.

f. Cooperation with Purchaser. Seller shall confer, coordinate and cooperate with Purchaser in every reasonable respect in connection with the satisfaction of the contingencies and approvals specified herein, including, without limitation, Purchaser's efforts to obtain the Project Approvals, and Seller shall promptly execute all reasonably necessary documents in connection therewith upon request by Purchaser.

g. Payments. Seller shall make any and all payments due and owing with respect to the Property, including without limitation, real estate taxes, assessments, insurance premiums, service contracts, management fees, and payments for materials and materialmen, prior to the due date for such payment and will, upon Purchaser's request, deliver to Purchaser evidence reasonably satisfactory to Purchaser of payment thereof.

16. ITEMS TO BE DELIVERED AT CLOSING. At Closing Seller shall deliver the following items to Purchaser or to the Title Company. Drafts of all documents to be executed and delivered at Closing shall be prepared by Purchaser's counsel and submitted to Seller's counsel for review prior to the date of Closing.

a. Statutory Warranty Deed. A duly executed and acknowledged statutory warranty deed conveying to Purchaser fee title to the Property subject to no encumbrances or defects except for the lien of real property taxes for the current year prorated to the Closing Date and such encumbrances or defects disclosed in the Title Commitment and Survey and approved or waived by Purchaser as set forth hereinabove.

b. Title Policy. The Title Company shall provide an ALTA owner's extended coverage policy of title insurance, Form B 1970 (revised 10/17/70), with survey and legal lot endorsements (the "**Title Policy**"), insuring that fee title to the Property (together with any access easements) is vested in Purchaser, subject to no defects or encumbrances except for the lien of real property taxes for the current year and such matters as approved or waived by Purchaser as set forth hereinabove. The policy of title insurance shall be written in the amount of the Purchase Price.

c. Legally Subdivided Lot. Evidence satisfactory to Purchaser that the Property has been established as a legally subdivided lot.

d. Other Documents. All other documents or instruments that may be necessary or desirable to render this Agreement and the transaction contemplated herein legally and practically effective, including without limitation the Reciprocal Easement Agreement, Site Development Agreement, Declaration of Restrictive Covenant, Off-Site Storm Water Facility Maintenance Agreement, and Off-Site Storm Water Facility Easement Agreement.

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17. PURCHASER'S CONDITIONS TO CLOSING. The obligation of Purchaser hereunder shall be subject to the fulfillment of the following conditions on or prior to the Closing Date, each of which shall continue as conditions until Closing unless waived by Purchaser. Purchaser may, in Purchaser's reasonable discretion, terminate this Agreement at any time by written notice to Seller if any of the conditions set forth in this section is not satisfied by the Closing Date. In the event of such termination, the Earnest Money shall be promptly returned to Purchaser.

a. Representations and Warranties. The representations and warranties of Seller contained herein shall be true and correct as of the Closing.

b. Performance by Seller. Seller shall have performed all agreements, undertakings and obligations and complied with all conditions required by this Agreement to be performed and/or complied with by Seller. The SDA may provide remedies, including without limitation the creation of one or more holdback escrow accounts at Closing, available to Purchaser in the event that Seller has not completed any of Seller's Required Improvements due on or prior to Closing.

c. No Change to Property. As of the date of Closing there shall have been no material adverse change in the condition of the Property.

d. Contingencies Satisfied. The contingencies set forth here shall have been fulfilled or waived on or before the dates provided.

e. Absence of Moratorium. That no litigation, referendum, moratorium, statute, order, regulation, ordinance, legislation, judgment, ruling or decree has been enacted, adopted, issued or entered or shall be pending or in effect, that could adversely affect the Property, the Project Approvals or Purchaser's ability to develop and operate its Project.

18. TIME AND PLACE OF CLOSING.

a. Closing Date. Subject to Section 17 above, the Closing shall take place on or before the date that is ten (10) business days after all the conditions precedent described herein have been satisfied or waived in writing by the party or parties to whose obligations such conditions relate (the "Closing Date" or "Closing"). If Closing does

not occur by the Closing Date for any reason other than default by Purchaser, the Earnest Money shall be returned to Purchaser.

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b. Closing Procedure. Closing shall occur at the Seattle, Washington, office of the Title Company. All documents and instruments required for Closing shall be delivered to the Title Company at least one day prior to the Closing Date. Funds required for Closing shall be delivered to the Title Company by 10:00 a.m. on the morning of the Closing Date. Each party agrees to execute and deliver to the Title Company closing escrow instructions to implement and coordinate the Closing as set forth in this Agreement.

c. Closing Date Extension. Notwithstanding any provision of this Agreement to the contrary except subsection 18.d, in the event that Purchaser is prepared to close this transaction pursuant to the terms of this Agreement, and if Seller has not fully performed its obligations hereunder and deposited all documents with Title Company necessary for Closing to timely occur, then Purchaser, in its sole and absolute discretion, and in addition to all other rights and remedies it may have, may, from time to time, notify Seller that Purchaser extends the Closing Date to such date or dates as Purchaser may elect to provide Seller with the additional time necessary for Seller to fully perform its obligations hereunder, and Purchaser may defer deposit of the balance of the Purchase Price pending Seller's performance, provided, however, that the Closing Date shall not be extended more than thirty (30) days under this subsection. Seller's failure to fully perform by such extended Closing Date(s) without legal excuse shall constitute a default by Seller under this Agreement.

d. Termination Date. Notwithstanding any provision of this Agreement to the contrary, if this transaction has not closed on or before December 31, 2005, because any condition precedent to closing has not been satisfied or waived in writing by the party or parties to whose obligations such conditions relate, then this Agreement shall terminate automatically, the Earnest Money shall be returned to Purchaser, and neither Purchaser nor Seller shall have any further obligations or rights under this Agreement except those obligations and rights intended to survive the termination of this Agreement.

19. APPORTIONMENTS AND CLOSING COSTS.

a. Proration of Income and Expenses. The following items shall be adjusted or prorated between Seller and Purchaser at the Closing, as of the Closing Date:

(i) Ad valorem and similar taxes (excluding assessments) for the then current tax year relating to the Property shall be prorated. If the Closing occurs before the tax rate is fixed for the then current tax year, the apportionment of taxes shall be made on the basis of the tax rate for the preceding tax year applied to the latest assessed valuation of the Property, and when the tax rate is fixed for the tax year in which the Closing occurs, Seller and Purchaser shall adjust the proration of taxes and, if necessary, refund or pay such sums to the other party as shall be necessary to affect such adjustment. If, at the time of Closing, the tax classification applicable to the Property is changed from a category that receives preferential tax treatment (e.g., open space), to a category that does not receive preferential tax treatment (e.g., commercial), then Seller (not Purchaser) shall be responsible for any and all 'recapture' taxes payable in connection with the change of the tax classification.

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(ii) All unpaid assessments, if any, existing as of the Closing Date, whether due and payable before or after such date and whether or not otherwise payable in installments, shall be paid by Seller in cash at the Closing to the assessing entity.

(iii) All other income and operating expenses for or pertaining to the Property, including, but not limited to, public utility charges, shall be prorated between Purchaser and Seller as of the Closing Date.

b. Post-Closing Adjustments. To the extent items are prorated or adjusted at the Closing on the basis of estimates, or are not prorated or adjusted at the Closing pending actual receipt of information upon which such pro-rations or adjustments are to be based, Purchaser and Seller will, upon a proper accounting, pay to the other such amounts as may be necessary such that Seller will pay all expenses of the Property prior to the Closing Date and Purchaser will pay all expenses of the Property after the Closing Date to the extent required by subsection 19(a). If Purchaser receives any bill or invoice which relates to periods prior to the Closing, Purchaser will refer such bill to Seller and Seller agrees to pay, promptly upon receipt, such a portion of the bill or invoice as relates to the period prior to the Closing Date for which it is responsible. If Seller does not pay such bill in a timely manner, Purchaser may, at his option, pay such bill or invoice and Seller shall become liable to Purchaser for the full amount of such payment, together with interest at the lesser of: (i) two percent (2%) per annum in excess of the "Prime Rate," and (ii) the highest lawful rate. The "Prime Rate" shall be the rate announced as such from time to time by Bank of America (Seattle office) or its successor. If there shall be no such announced rate of such bank or its successor, then the "Prime Rate" shall be such equivalent rate as is charged from time to time by major money-center banks.

c. Closing Costs. At Closing, Seller shall reimburse Purchaser the cost of the Survey and pay all conveyance and transfer taxes, the title insurance premium for a standard coverage policy of title insurance, and one-half of the escrow fee. Purchaser will pay one-half of the escrow fee, the additional premium for an extended

coverage policy of title insurance, and the cost of any title insurance endorsements. Notwithstanding the foregoing, Purchaser and Seller shall each pay their own attorneys', accountants' and other professional fees.

20. CASUALTY LOSS AND CONDEMNATION.

a Casualty or Condemnation. If prior to the Closing the Property is damaged as the result of fire or other casualty or there is a loss of the Property by condemnation, Purchaser shall have the option to (i) accept title to the Property without any abatement of the Purchase Price, in which event at the Closing all of the insurance proceeds or condemnation awards shall be assigned by Seller to Purchaser and any moneys theretofore received by Seller in connection with such loss, fire or other casualty shall be paid over to Purchaser; or (ii) terminate this Agreement, in which event the Earnest Money shall be returned to Purchaser, and thereupon neither party shall have any further liability to the other.

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b Settlement. During the existence of this Agreement, Seller shall not settle any fire or casualty loss claims or agree to any award or payment in condemnation or eminent domain or any award or payment in connection with the change in grade of any street, road, highway or avenue in respect of or in connection with the Property without obtaining Purchaser's prior consent in each case.

21. **SELLER'S REMEDY. SELLER AND PURCHASER HEREBY AGREE THAT THE DAMAGES THAT WOULD BE SUFFERED BY SELLER IN THE EVENT OF A DEFAULT BY PURCHASER HEREUNDER IN PURCHASING THE PROPERTY WOULD BE EXTREMELY DIFFICULT AND IMPRACTICABLE TO ASCERTAIN, AND THAT THE EARNEST MONEY REPRESENTS THE REASONABLE ESTIMATE BY THE PARTIES OF THE AMOUNT OF THE DAMAGES THAT SELLER WOULD SUFFER BY REASON OF PURCHASER'S DEFAULT. PURCHASER AND SELLER UNDERSTAND AND AGREE THAT THE VALUE OF PROPERTY IS SUBJECT TO CHANGE BY REASON OF GENERAL ECONOMIC CONDITIONS, THE LOCAL REAL ESTATE MARKET, THE AVAILABILITY OF MORTGAGE FINANCING, AND OTHER FACTORS BEYOND THE CONTROL OF PURCHASER AND SELLER, AND THAT THE EARNEST MONEY IS A REASONABLE LIQUIDATED DAMAGE AMOUNT UNDER THE EXISTING CIRCUMSTANCES. ACCORDINGLY, IN THE EVENT ESCROW DOES NOT CLOSE BECAUSE OF A DEFAULT BY PURCHASER HEREUNDER, AND PROVIDED THAT ALL CONDITIONS TO PURCHASER'S OBLIGATIONS HAVE BEEN SATISFIED AND SELLER HAS COMPLIED WITH ALL OF ITS OBLIGATIONS HEREUNDER AND IS READY, WILLING AND ABLE TO CLOSE ESCROW, SELLER SHALL BE ENTITLED TO RECEIVE AND RETAIN THE EARNEST MONEY THEN HELD BY THE TITLE COMPANY AS LIQUIDATED DAMAGES, AND NOT AS A PENALTY OR FORFEITURE, AS SELLER'S SOLE AND EXCLUSIVE REMEDY FOR PURCHASER'S DEFAULT AT LAW OR IN EQUITY, AND UPON RECEIPT OF SUCH AMOUNT BY SELLER, PURCHASER AND SELLER SHALL BE RELIEVED OF ANY FURTHER OBLIGATIONS OR LIABILITY HEREUNDER. PURCHASER AND SELLER SHALL SIGN BELOW THIS PARAGRAPH INDICATING THEIR AGREEMENT TO THE LIQUIDATED DAMAGE CLAUSE HEREIN CONTAINED.**

SELLER

PURCHASER

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22. PURCHASER'S REMEDIES.

a. Seller's Failure to Close. In the event of Seller's failure to execute and deliver any Closing document when due or to take any other action that is required of Seller to complete the Closing contemplated by this Agreement, then Purchaser shall have the right to pursue all rights and remedies now or hereafter available at law or in equity or by statute, including, but not limited to, enforcing specific performance of this Agreement and bringing suit for monetary damages, provided, however, that in the event Purchaser elects to sue for monetary damages, Purchaser's recovery shall be limited to the actual out-of-pocket costs incurred by Buyer in connection with the acquisition of the Property contemplated by this Agreement, and in no event shall Purchaser be entitled to recover damages based on lost profits or other consequential damages. Additionally, in the event of any material breach by Seller and without waiving any other rights or remedies, Purchaser shall have the right to terminate this Agreement by notice to Seller, and upon such notice of termination the Earnest Money and any Extension Fees previously paid by Purchaser to Seller shall be returned to Purchaser. Each remedy available to Purchaser shall be cumulative and shall be in addition to any other remedy given hereunder or now or hereafter existing at law or in equity or by statute. Purchaser, at its option, may elect to waive the performance of any condition, contingency or provision in Purchaser's favor set forth in this Agreement. If any condition to Closing shall not be satisfied, Purchaser, at its option, may terminate this Agreement. In the event of such termination, the Earnest Money shall be returned to Purchaser.

b. Seller's Other Defaults. In the event of Seller's failure to perform any other obligation, or breach of any other provision, under this Agreement except as described in the foregoing subsection, including without limitation Seller's breach of any representation or warranty given under this Agreement, then Purchaser shall have the right to pursue all rights and remedies now or hereafter available at law or in equity or by statute, including, but

not limited to, enforcing specific performance of this Agreement and bringing suit for monetary damages, provided, however, that monetary damages shall not include lost profits or other consequential damages and shall not exceed the sum of One Million Dollars (US\$1,000,000). Seller's liability for breach of any covenant, representation, or warranty shall be further limited as provided under Section 13 hereof. Additionally, in the event of such breach by Seller and without waiving any other rights or remedies, Purchaser shall have the right to terminate this Agreement by notice to Seller, and upon such notice of termination the Earnest Money and any Extension Fees previously paid by Purchaser to Seller shall be returned to Purchaser. Purchaser, at its option, may elect to waive the performance of any condition, contingency or provision in Purchaser's favor set forth in this Agreement. If any condition to Closing shall not be satisfied, Purchaser, at its option, may terminate this Agreement. In the event of such termination, the Earnest Money shall be returned to Purchaser.

23. NOTICES. All notices, demands, consents, approvals and other communications which are required or desired to be given by either party to the other hereunder shall be in writing and shall be hand delivered, transmitted via telephonic facsimile, or sent by United States registered or certified mail, postage prepaid, return receipt requested, addressed to the appropriate party at its address set forth below, or at such other address as such party shall have last designated by notice to the other. Notices, demands, consents, approvals, and other communications shall be deemed given when delivered or three days after mailing; provided, however, that if any such notice or other communication shall be sent by telecopy or fax machine, such notice shall be deemed given at the time and on the date of machine transmittal if the sending party receives a written verification of delivery from its fax machine.

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To Seller: OPG Properties LLC
19245 Tenth Avenue N.E.
Poulsbo, Washington 98370-7456
Attention: Jon Rose, President
Fax No.: 360-697-1156

With a copy to: Marco de Sa e Silva
Davis Wright Tremaine LLP
2600 Century Square
1501 Fourth Avenue
Seattle, Washington 98101
Fax No.: 206-628-7699

To Purchaser: Costco Wholesale Corporation
999 Lake Drive
Issaquah, Washington 98027
Attention: Bruce Coffey
Fax No.: 425-313-8114

With a copy to: Joseph E. Delaney
Foster Pepper & Shefelman PLLC
1111 Third Avenue, Suite 3400
Seattle, Washington 98101
Fax No.: 206-447-9700

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24. ACCESS AND POSSESSION. Full possession of the Property shall be delivered to Purchaser by Seller at Closing. Prior to Closing, Purchaser and its agents, representatives and contractors shall have the right to enter upon the Property during normal business hours for the purpose of conducting surveys, structural measurements, wetland determinations, soil and environmental tests, architectural and engineering studies, and/or any other investigations related to determining the feasibility of the Property for Purchaser's purposes. Prior to the first entry onto the Property permitted hereunder, and prior to any instance of invasive testing, Purchaser shall provide to Seller a list (including contact person and telephone number) of the persons designated by Purchaser to have access to the Property, together with a description of the anticipated scope of work to be performed by such person(s). Further, as a convenience to Seller, Purchaser will instruct the persons designated by Purchaser to have access to the Property to contact Seller's employee John Chadwell (Telephone: 360-697-6626, or Fax: 360-697-1156) in advance of such person's entry onto the Property. All actions undertaken by Purchaser and its agents, representatives and contractors pursuant to this Agreement shall involve as little disruption of the Property as is reasonably possible. Invasive testing, such as soil borings and building material sampling, will involve the minimum sampling techniques reasonably calculated to provide Purchaser with the necessary information. Purchaser and its agents, representatives and contractors shall not conduct any invasive testing on the Property without obtaining Seller's prior written approval of the scope of work, which approval shall not unreasonably be conditioned, delayed, or withheld. As consideration for Seller's permission to enter upon the Property as described above, Purchaser agrees to restore the Property to substantially the same condition as existed prior to such entry and to defend, indemnify, and hold Seller, its affiliates, agents, contractors, directors, employees, managers, members, officers, owners, parents, and subsidiaries harmless from and against any and all liability, loss, cost, damage, or expense (including reasonable attorney fees) arising from or relating to the entry onto the Property by any agent, employee, associate, independent contractor, or anyone else entering at the request, direction or

invitation of Purchaser; provided, however, that (i) this indemnity shall not apply to the extent such liability arises in connection with the negligence or willful misconduct of the Seller; and (ii) Purchaser shall have no liability to Seller or to any other person or entity by reason of, nor shall Purchaser have any duty to indemnify, defend or hold any person or entity harmless from or against, any claim, demand, damage, loss, action, liability, cause of action or judgment, including, without limitation, any claim for diminution in value of the Property or for environmental remediation or clean-up costs, arising out of or in connection with the mere fact of having discovered and/or reported (as may be required by law) any adverse physical condition, title condition, or other defect with respect to the Property. The information obtained by Purchaser pursuant to this Agreement is intended to be used by Purchaser solely for its review of the Property and its efforts to obtain the necessary permits and approvals pertaining to Purchaser's proposed development of the Property (the "**Approved Uses**"). Neither Purchaser, nor its agents, representatives or contractors will make any disclosure to any third party, or any governmental agency for any purpose other than the Approved Uses, without the prior written consent of Seller, which consent will not be unreasonably withheld, conditioned, or delayed.

25. MISCELLANEOUS.

a Entire Agreement – No Oral Modifications. This Agreement and the exhibits hereto constitute the final and complete agreement, and supersede all prior correspondence, memoranda or agreements between the parties relating to the subject matter hereof. This Agreement cannot be changed or modified other than by a written agreement executed by both parties.

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b Successors Bound. Subject to the restrictions on assignment contained in the following subsection, the provisions of this Agreement shall extend to, bind and inure to the benefit of the parties hereto and their respective personal representatives, heirs, successors, and assigns.

c Assignment. Neither Seller nor Purchaser shall assign this Agreement without the prior written consent of the other; provided, however, that Purchaser shall be entitled to assign Purchaser's interest under this Agreement without Seller's consent to an affiliate of Purchaser that is owned by, or under common control with, Purchaser.

d Brokers. Seller and Purchaser each represent and warrant to the other that no real estate agent or broker was involved in negotiating the transaction contemplated herein except for HDR Investments, Inc. (d/b/a R-K Real Estate Services) ("**Seller's Broker**") and Northwest-Atlantic Partners, Inc. ("**Purchaser's Broker**"), whose commissions of Two and One Half Percent (2.5%) of the Purchase Price each shall be paid by Seller out of the Purchase Price at Closing. The total commission payable shall be five percent (5%) of the Purchase Price. The payment to Purchaser's Broker shall be by certified check or wire transfer payment, and Purchaser is hereby authorized to deduct such payment from the Purchase Price and pay same directly to Purchaser's Broker. In the event any other claims for real estate commissions, fees or compensation (collectively "**Compensation**") arise in connection with this transaction, the party so incurring or causing such claims shall indemnify, defend and hold harmless the other party from any loss or damage, including attorneys' fees, which said other party suffers because of said claims. Neither Purchaser nor Seller shall have any liability to Seller's Broker or Purchaser's Broker if this transaction should fail to close for any reason whatsoever. Seller's Broker and Purchaser's Broker (i) hereby waive any rights to any other Compensation from Purchaser or Seller in connection with the sale of the Property; and (ii) shall execute this Agreement in the place provided on the final pages solely to evidence their agreement to the terms of this subsection; provided, however, that this Agreement shall be binding upon Purchaser and Seller if either Seller's Broker or Purchaser's Broker, or both, fail to so execute this Agreement.

e Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of Washington.

f Counterparts. This Agreement may be executed in more than one counterpart, each of which shall be deemed an original, and all of which together shall constitute one and the same instrument.

g Attorneys' Fees. In the event that either party hereto brings an action or proceeding for a declaration of the rights of the parties under this Agreement, for injunctive relief, or for an alleged breach or default of this Agreement, or any other action arising out of this Agreement or the transactions contemplated hereby, the prevailing party in any such action shall be entitled to an award of reasonable attorneys' fees and any court costs incurred in such action or proceeding, in addition to any other damages or relief awarded, regardless of whether such action proceeds to final judgment.

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h Severability. If any term or provision of this Agreement shall, to any extent, be held invalid or unenforceable, the remaining terms and provisions of this Agreement shall not be affected thereby, but each remaining term and provision shall be valid and enforced to the fullest extent permitted by law.

i Captions. The captions of this Agreement are inserted solely for convenience of reference only and do not define, describe or limit the scope or intent of this Agreement or any term hereof.

j Exhibits. All exhibits attached hereto are hereby incorporated herein by reference and made a part

hereof.

k Construction. Seller and Purchaser acknowledge that each party and its counsel have reviewed and revised this Agreement and that the normal rule of construction to the effect that any ambiguities are to be resolved against the drafting party shall not be employed in the interpretation of this Agreement (including the exhibits) or any amendments thereto, and the same shall be construed neither for nor against Seller or Purchaser, but shall be given a reasonable interpretation in accordance with the plain meaning of its terms and the intent of the parties.

l. Computation of Time. If the time for performance of any provision of this Agreement ends on a Saturday, Sunday or federal, state or legal holiday, then such date shall automatically be extended until 5:00 p.m. Pacific Time on the next day which is not a Saturday, Sunday or federal, state or legal holiday.

m. Survival of Terms. The terms and provisions of this Agreement shall survive the Closing and shall remain in full force and effect thereafter except as limited by the express terms hereof or applicable law.

26. EFFECTIVE DATE. In the event the parties do not sign this Agreement simultaneously, this Agreement shall be considered an offer made by the party first executing and delivering this Agreement to the other party. In such event, said offer shall expire at **11:59 p.m. (Seattle time)** on the seventh (7th) day following execution by the offering party, unless prior to such deadline one copy of this Agreement, accepted (without change) and executed by the party to whom the offer has been made, shall have been delivered to the party making the offer. If the party receiving the offer changes the terms of an offer, such offer shall be deemed rejected and a new offer shall be deemed made by the party making such changes. The "Effective Date" shall be the date upon which this Agreement is accepted (without change), executed and delivered by the party to whom the offer is made.

IN WITNESS WHEREOF this Property Purchase Agreement is executed by the parties, intending to be legally bound, as of the date set forth beside their signatures.

SELLER:

OPG PROPERTIES LLC

By: _____

Name: _____

Title: _____

Date of execution by Seller:
_____, 2003

PURCHASER:

COSTCO WHOLESALE CORPORATION

By: _____

Name: _____

Title: _____

Date of execution by Purchaser:
_____, 2003

We hereby consent to the terms of Section 25(d):

SELLER'S BROKER:

HDR INVESTMENTS, INC. (D/B/A R-K REAL ESTATE SERVICES)

By: _____

Name: _____

Title: _____

By: _____
Name: _____
Title: _____

EXHIBITS:

- A - Legal Description of the Property
- B - Site Plan of the Property and Residual Parcels
- C - Legal Description of the Shopping Center
- D - Legal Description of the Residual Parcels
- E - Seller's Reports
- F - Form of Survey Certification
- G - Description of REA Matters
- H - Description of Required Improvements
- I - Legal Description of Off-Site Storm Water Parcels
- J - Historical Use of the Property

EXHIBIT A

Legal Description of the Property

THAT PORTION OF THE NORTHEAST QUARTER OF THE NORTHWEST QUARTER OF SECTION 31, TOWNSHIP 22 NORTH, RANGE 2 EAST, W.M., PIERCE COUNTY, WASHINGTON DESCRIBED AS FOLLOWS:

COMMENCING AT THE NORTHWEST CORNER OF SAID SECTION; THENCE ALONG THE NORTH LINE OF SAID SECTION SOUTH 88°29'18" EAST 1250.66 FEET TO THE NORTHWEST CORNER OF THE NORTHEAST QUARTER OF THE NORTHWEST QUARTER OF SAID SECTION; THENCE ALONG THE WEST LINE OF SAID NORTHEAST QUARTER SOUTH 01°19'55" WEST 273.27 FEET TO THE POINT OF BEGINNING; THENCE CONTINUING ALONG SAID WEST LINE SOUTH 01°19'55" WEST 1050.99 FEET TO THE SOUTH LINE OF SAID NORTHEAST QUARTER; THENCE ALONG SAID SOUTH LINE SOUTH 88°22'24" EAST 467.71 FEET; THENCE NORTH 17°17'40" EAST 188.05 FEET; THENCE SOUTH 88°22'24" EAST 83.15 FEET; THENCE NORTH 14°26'00" EAST 429.62 FEET; THENCE NORTH 65°18'14" EAST 159.94 FEET; THENCE SOUTH 34°41'01" EAST 325.45 FEET; THENCE SOUTH 88°22'24" EAST 170.63 FEET TO A NON-TANGENT INTERSECTION WITH AN ARC CONCAVE TO THE SOUTHWEST FROM WHENCE ITS CENTER BEARS SOUTH 64°07'12" WEST 760.00 FEET DISTANT; THENCE NORTHWESTERLY 70.62 FEET ALONG THE ARC OF SAID CURVE THROUGH A CENTRAL ANGLE OF 5°19'25"; THENCE NORTH 31°12'13" WEST 122.03 FEET; THENCE NORTH 40°00'55" WEST 16.04 FEET; THENCE NORTH 32°50'36" WEST 32.29 FEET; THENCE NORTH 33°57'52" WEST 76.44 FEET; THENCE NORTH 59°53'46" WEST 109.69 FEET; THENCE NORTH 02°56'32" WEST 35.72 FEET; THENCE NORTH 88°29'18" WEST 107.54 FEET; THENCE NORTH 01°19'55" EAST 231.49 FEET; THENCE SOUTH 88°29'18" EAST 113.02 FEET TO A NON-TANGENT INTERSECTION WITH AN ARC CONCAVE TO THE EAST FROM WHENCE ITS CENTER BEARS NORTH 82°18'06" EAST 1040.00 FEET DISTANT; THENCE NORTHERLY 40.41 FEET ALONG THE ARC OF SAID CURVE THROUGH A CENTRAL ANGLE OF 2°13'34"; THENCE NORTH 88°29'18" WEST 362.14 FEET; THENCE NORTH 01°19'55" EAST 235.50 FEET TO THE SOUTHERLY RIGHT-OF-WAY MARGIN OF BORGEN BOULEVARD; THENCE ALONG SAID SOUTHERLY MARGIN SOUTH 89°27'25" WEST 43.02 FEET; THENCE SOUTH 01°19'55" WEST 233.96 FEET; THENCE NORTH 88°29'18" WEST 218.82 FEET; THENCE NORTH 01°19'55" EAST 20.46 FEET; THENCE NORTH 88°29'18" WEST 309.11 FEET TO THE POINT OF BEGINNING;

CONTAINING 796,211 SQUARE FEET, OR 18.28 ACRES, MORE OR LESS.

EXHIBIT B

Approved Site Plan of the Property and Residual Parcels

- See the page following this page.

EXHIBIT C

Legal Description of the Shopping Center

THAT PORTION OF THE NORTHEAST QUARTER OF THE NORTHWEST QUARTER OF SECTION 31, TOWNSHIP 22 NORTH, RANGE 2 EAST, W.M., PIERCE COUNTY, WASHINGTON DESCRIBED AS FOLLOWS:

COMMENCING AT THE NORTHWEST CORNER OF SAID SECTION; THENCE ALONG THE NORTH LINE OF SAID SECTION SOUTH 88°29'18" EAST 1250.66 FEET TO THE NORTHWEST CORNER OF THE NORTHEAST QUARTER OF THE NORTHWEST QUARTER OF SAID SECTION; THENCE ALONG THE WEST LINE OF SAID NORTHEAST QUARTER SOUTH 01°19'55" WEST 98.64 FEET TO THE POINT OF BEGINNING; THENCE CONTINUING ALONG SAID WEST LINE SOUTH 01°19'55" WEST 1225.62 FEET TO THE SOUTH LINE OF SAID NORTHEAST QUARTER; THENCE ALONG SAID SOUTH LINE SOUTH 88°22'24" EAST 467.71 FEET; THENCE NORTH 17°17'40" EAST 188.05 FEET; THENCE SOUTH 88°22'24" EAST 83.15 FEET; THENCE NORTH 14°26'00" EAST 429.62 FEET; THENCE NORTH 65°18'14" EAST 159.94 FEET; THENCE SOUTH 34°41'01" EAST 325.45 FEET; THENCE SOUTH 88°22'24" EAST 170.63 FEET TO A NON-TANGENT INTERSECTION WITH AN ARC CONCAVE TO THE SOUTHWEST FROM WHENCE ITS CENTER BEARS SOUTH 64°07'12" WEST 760.00 FEET DISTANT; THENCE NORTHWESTERLY 70.62 FEET ALONG THE ARC OF SAID CURVE THROUGH A CENTRAL ANGLE OF 5°19'25"; THENCE NORTH 31°12'13" WEST 122.03 FEET; THENCE NORTH 40°00'55" WEST 16.04 FEET; THENCE NORTH 32°50'36" WEST 32.29 FEET; THENCE NORTH 33°57'52" WEST 76.44 FEET; THENCE NORTH 59°53'46" WEST 109.69 FEET; THENCE NORTH 02°56'32" WEST 51.19 FEET; THENCE NORTH 38°14'16" EAST 57.97 FEET; THENCE NORTH 07°38'01" WEST 119.43 FEET TO A NON-TANGENT INTERSECTION WITH AN ARC CONCAVE TO THE EAST FROM WHENCE ITS CENTER BEARS NORTH 79°24'13" EAST 1040.00 FEET DISTANT; THENCE NORTHERLY 136.01 FEET ALONG THE ARC OF SAID CURVE THROUGH A CENTRAL ANGLE OF 7°29'35"; THENCE NORTH 03°06'12" WEST 75.10 FEET; THENCE NORTH 02°58'43" WEST 63.37 FEET; THENCE NORTH 13°52'23" WEST 42.72 FEET; THENCE NORTH 50°39'12" WEST 39.82 FEET TO THE SOUTHERLY RIGHT-OF-WAY MARGIN OF BORGEN BOULEVARD; THENCE ALONG SAID SOUTHERLY RIGHT-OF-WAY MARGIN SOUTH 89°27'25" WEST 629.13 FEET TO A POINT OF CURVATURE OF A 1550.00 FOOT RADIUS CURVE CONCAVE SOUTH; THENCE WESTERLY 248.78 FEET ALONG THE ARC OF SAID CURVE THROUGH A CENTRAL ANGLE OF 09°11'46" TO THE POINT OF BEGINNING;

CONTAINING 1,020,105 SQUARE FEET, OR 23.42 ACRES, MORE OR LESS.

EXHIBIT D

Legal Description of the Residual Parcels

THAT PORTION OF THE NORTHEAST QUARTER OF THE NORTHWEST QUARTER OF SECTION 31, TOWNSHIP 22 NORTH, RANGE 2 EAST, W.M., PIERCE COUNTY, WASHINGTON DESCRIBED AS FOLLOWS:

COMMENCING AT THE NORTHWEST CORNER OF SAID SECTION; THENCE ALONG THE NORTH LINE OF SAID SECTION SOUTH 88°29'18" EAST 1250.66 FEET TO THE NORTHWEST CORNER OF THE NORTHEAST QUARTER OF THE NORTHWEST QUARTER OF SAID SECTION; THENCE ALONG THE WEST LINE OF SAID NORTHEAST QUARTER SOUTH 01°19'55" WEST 98.64 FEET TO THE POINT OF BEGINNING; THENCE CONTINUING ALONG SAID WEST LINE SOUTH 01°19'55" WEST 174.63 FEET; THENCE SOUTH 88°29'18" EAST 309.11 FEET; THENCE SOUTH 01°19'55" WEST 20.46 FEET; THENCE SOUTH 88°29'18" EAST 218.82 FEET; THENCE NORTH 01°19'55" EAST 233.96 FEET TO THE SOUTHERLY RIGHT-OF-WAY MARGIN OF BORGEN BOULEVARD; THENCE ALONG SAID SOUTHERLY RIGHT-OF-WAY MARGIN SOUTH 89°27'25" WEST 281.15 FEET TO A POINT OF CURVATURE OF A 1550.00 FOOT RADIUS CURVE CONCAVE TO THE SOUTH; THENCE WESTERLY 248.78 FEET ALONG THE ARC OF SAID CURVE THROUGH A CENTRAL ANGLE OF 09°11'46" TO THE POINT OF BEGINNING;

CONTAINING 110,555 SQUARE FEET, OR 2.54 ACRES, MORE OR LESS.

EXHIBIT E

Seller's Reports

Environmental Check List	2/26/01
Environmental Check List	10/3/00
Biological Assessment	10/12/99
Noise Impact Evaluation	10/___/98
Mitigated Determination of Non-Significance	3/31/99
Peacock Hills Constraints Map by ESM	10/17/01
Peacock Hills Record of Survey by ESM	4/11/01
Boundary Survey	5/12/89
Traffic Analysis by The Transpo Group	9/19/02
Comp Plan Text Amend Application Review	
Comments by the Shea Group	9/27/02

Site Specific Comprehensive Plan Text Amendment w/ map Designation	5/23/03
Olympic Property Group – Gig Harbor Rezone Traffic Study	6/13/03
Preliminary Geologic Hazards and Geotechnical Feasibility Evaluation	7/29/97
Stream typing and salmon issues on the Peacock Hill property	5/29/98
Downstream Analysis – Peacock Hills Site (West)	8/19/03
Sewer Stub by First Western Development Serv.	7/21/00
Burnham Drive Sanitary Sewer Capacity Report By ESM Consulting Eng.	4/23/98
Review of Submitted Comp Plan Amendment Applications from Olympic Property Group	6/23/03
Peacock Hills Encumbrance Exhibit by ESM	2/4/02
Stormwater Pond Infiltration Analysis proposed Home Depot Store by Geo Engineers	8/23/02
Wetland Assessment Home Depot Gig Harbor Project by Theresa Henson Consulting	9/__/00
Preliminary Stormwater Management Report By Pacific Land Design	10/5/00
Home Depot Storm Report Review by ESM	9/12/02
Geotechnical Engineering Services Proposed Home Depot Gig Harbor by Geo Engineers	11/13/00
Wetland Inventory by Raedeke Associates	8/17/01
Topographic Survey by MulvannyG2	10/13/02

EXHIBIT F

Form of Survey Certification

SURVEYOR’S CERTIFICATION

**TO: Costco Wholesale Corporation and
First American Title Insurance Company**

This is to certify that this map or plat of survey is based on a field survey made on _____, 200__, by me or directly under my supervision in accordance with “Minimum Standard Detail Requirements for ALTA/ACSM Land Title Surveys,” jointly established and adopted by ALTA and ACSM in 1997 and:

- (a) correctly represents the facts found at the time of survey;
- (b) except as shown on the survey map, there are no discrepancies between the boundary lines of the subject property as shown on the survey map and as described in the legal description of record;
- (c) the boundary line dimensions as shown on the survey map form a mathematically closed figure within ± 0.01 foot;
- (d) except as shown on the survey map, the boundary lines of the subject property are contiguous with the boundary lines of all adjoining parcels, roads, highways, streets, or alleys as described in their most recent respective legal descriptions of record;
- (e) the field survey meets the accuracy requirements of a Class A survey as defined therein; and
- (f) except as shown on the survey map, no fences, waterways, arroyos, ditches, ponds, building restrictions, party walls, or set-back lines exist which affect the subject property (or, if set-back lines exist, the lines have not been violated).

EXHIBIT G

Description of REA Matters

We need a Site Plan that depicts and identifies:

- Initial layout of improvements
- Common Area

- Building Areas
- Envelope Areas
- Parcel and Pad subdivision lines
- Shared Sign location(s), if any
- Parking lanes and parking bays, including widths
- Staging/Prohibited Staging Areas
- Perpetual 50' buffer along Borgen Blvd. for native vegetation

Construction Matters:

- Developer Common Area
- Costco Common Area
- Shared Common Area
- Applicable Plans and Specs
- Non-interference
- Construction Indemnities
- Responsible for own costs
- Signage Rights:
 - Costco election regarding signage
 - Pro rata portion
 - Costco in top-most panel
- Staging Areas
- Temporary license for construction access

Easements:

- Access
- No shared parking
- Drainage
- Utilities
- Unimpeded access
- Use by Permittees
- Unauthorized use/closure to protect
- Prohibition against granting easements for property not in Project

Development Restrictions:

- Building Area
- Envelope Area

-
- Common Area
 - Separate Operation
 - Parking Ratios
 - Retail = 5/1000
 - Fast food = 10/1000
 - Sit-down restaurant = 15/1000
 - Building height
 - Unlimited area building set back (60')
 - Drive-up Stacking (excluding Costco's fueling facility)

Use Restrictions:

- Prohibited uses (obnoxious uses)
 - Including adult entertainment and heavy industrial uses
- Non-interference with Common Area

Maintenance

- Buildings
- Common Area
- Certain standards
 - Drive and parking areas
 - Debris and refuse
 - Signs and markers
 - Lighting
 - Obstructions

- Sidewalks
- Landscaping

Damage to Improvements:

- Restoration of Common Area
- Restoration of Buildings
- Clearing of Premises

Miscellaneous:

- Realty Taxes and Assessments
- Indemnification
- Insurance
- Remedies, including lien
- Personal obligation
- Notices
- Binding effect
- Mortgagee protection
- Attorney fees
- Estoppel certificate
- Mechanic's Liens
- Boilerplate

EXHIBIT H

Description of Required Improvements

Off-Site Improvements

Item Description	Task Responsible	Cost Responsible
1 Widen and Improve Borgen Blvd. to City of Gig Harbor standards, including 2 through lanes each way from Burnham Drive, east to the proposed Round-A-Bout at the new North-South Road.	OPG	OPG
2 Construct a 2-lane Round-A-Bout to City of Gig Harbor standards, at the intersection of Borgen Blvd. and the new North-South Road.	OPG	OPG
3 Construct new North-South Road to City of Gig Harbor standards from Borgen Blvd., south to the proposed Round-A-Bout at the most southerly Costco entry.	OPG	OPG
4 Construct a 2-lane Round-A-Bout to City of Gig Harbor standards, at the intersection of the new North-South Road and the most southerly Costco entry.	OPG	OPG/ Costco (Pro-rata)
5 Construct a 1-lane Round-A-Bout to City of Gig Harbor and Pierce County standards, at the intersection of Borgen Blvd. and Peacock Hill Ave N.W.	OPG	OPG
6 Construct water storage tank to City of Gig Harbor standards in accordance with the City's Comprehensive Water Plan.	OPG	OPG
7 Construct water main from water tank to easterly end of existing water line located in Borgen Blvd. Extend new waterline to south end of proposed North-South Road as described above, including water main lateral(s) stubbed to the Shopping Center property line.	OPG	OPG
8 Provide land for storm drainage facility (pond).	OPG	OPG
9 Construct storm drain conveyance line from the proposed Shopping Center property line, southerly to the proposed storm drainage treatment facility (pond) site.	OPG	OPG
10 Construct storm drainage treatment facility (pond) at the site provided approximately 660-feet southerly of the Shopping Center	OPG	OPG/ Costco (Pro-rata)

property.

11	Coordinate extension of dry utilities (power, gas, telephone, cable TV) to the Shopping Center boundary.	OPG	Utility Providers
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On-Site Improvements

Item Description	Task Responsible	Cost Responsible	
1	Topographic Mapping of Shopping Center.	Costco	Costco
2	Costco (Property) site planning.	Costco	Costco
3	Residual Parcel's site planning.	OPG	OPG
4	Segregation creating Shopping Center parcel.	OPG	OPG
5	Rezone Application for Shopping Center.	Costco	Costco
6	Site Development Application / Design Review Board for Shopping Center.	Costco	Costco/ OPG (Pro-rata)
7	SEPA Application for Shopping Center.	Costco	Costco/ OPG (Pro-rata)
8	Binding Site Plan for Shopping Center.	Costco	Costco
9	Costco (Property) Building Permits.	Costco	Costco
10	Residual Parcel's Building Permits.	OPG	OPG
11	On-site construction for the Property including clearing, grading, erosion control, paving, and utilities; for structures, drive approaches, access drives, parking lots, pedestrian walkways and open space.	Costco	Costco
12	On-site construction for the Residual Parcels limited to clearing, grading to pad-ready, and erosion control.	Costco	OPG
13	On-site construction of water main lines for fire suppression and domestic water, sewer lines, and dry utilities service lines to serve Costco's (Property) proposed building sites.	Costco	Costco
14	On-site construction of water main lines for fire suppression and domestic water, sewer lines, and dry utilities service lines to serve Residual Parcel's proposed building sites.	OPG	OPG
15	Storm drainage collection and conveyance system to serve Costco site and stubbed to Residual Parcel sites. This system intended to connect to downstream storm drain conveyance system described above in Off-site improvements (#9).	Costco	Costco

EXHIBIT I

Legal Description of Off-Site Storm Water Parcels

THE WEST HALF OF THE SOUTHEAST QUARTER OF THE NORTHWEST QUARTER OF SECTION 31, TOWNSHIP 22 NORTH, RANGE 2 EAST, W.M., PIERCE COUNTY, WASHINGTON; EXCEPT THE NORTH 660 FEET THEREOF; ALSO EXCEPT THE SOUTH 180 FEET THEREOF;

TOGETHER WITH A STRIP OF LAND 20 FEET IN WIDTH, THE CENTERLINE OF WHICH IS DESCRIBED AS FOLLOWS: COMMENCING AT THE NORTHEAST CORNER OF THE ABOVE DESCRIBED PARCEL; THENCE ALONG THE EAST LINE OF SAID PARCEL SOUTH 01°15'21" WEST 26.64 FEET TO THE POINT OF BEGINNING OF SAID STRIP CENTERLINE; THENCE SOUTH 88°44'39" EAST 10.00 FEET; THENCE ALONG A LINE 10 FEET EASTERLY OF AND PARALLEL WITH THE WEST

LINE OF THE EAST HALF OF THE SOUTHEAST QUARTER OF THE NORTHWEST QUARTER OF SAID SECTION NORTH 01°15'21" EAST 668.78 FEET; THENCE NORTH 22°41'53" WEST 197.34 FEET TO THE TERMINUS OF SAID CENTERLINE.

THE SIDELINES OF SAID STRIP TO BE SHORTENED OR LENGTHENED AS NECESSARY TO INTERSECT AT INTERIOR AND EXTERIOR ANGLE POINTS.

CONTAINING 340,955 SQUARE FEET, OR 7.83 ACRES, MORE OR LESS.

EXHIBIT J

Historical Use of Property.

To Seller's knowledge, the only historical use of the property has been as a tree farm. This would include such activities as cutting and filling to construct timber roads, planting, thinning, harvesting, the use of herbicides to control undesirable species, and fertilizer to encourage tree growth.

EMPLOYMENT AGREEMENT

Between

Pope Resources, A Delaware Limited Partnership
and
Thomas M. Ringo

The purpose of this Agreement is to confirm the terms of the employment relationship between Pope Resources, A Delaware Limited Partnership (hereinafter referred to as "the Company"), and Thomas M. Ringo (hereinafter referred to as the "Executive").

1. Term of Agreement. Company and Executive agree that the Executive will be employed by the Company for a term of three (3) years beginning January 1, 2003 (the "Effective Date"), unless employment is sooner terminated as provided herein.

2. Position and Duties. Company and Executive agree that Executive will be employed as Vice President and Chief Financial Officer of Employer, and shall report to the Chief Executive Officer. Executive's responsibilities and duties shall include management and control of the Company's financial affairs, records, and accounting and shall further include such other managerial responsibilities and executive duties as may be assigned to him from time to time by the Chief Executive Officer and/or the Board of Directors of the Company. It is understood that from time to time Executive may be assigned other duties in addition to those described above that are generally consistent with those of a Vice President and Chief Financial Officer, and that Executive's responsibilities may be modified or expanded at any time by the Company in order to accommodate its needs.

2.1 Executive agrees to devote his full-time efforts to his duties with the Company and further agrees that he will not, directly or indirectly, engage or participate in any activities while employed with the Company that would conflict with the best interests of the Company.

2.2 All policies published by the Company or delivered to the Executive prior to or following this Agreement regarding employment policies, required behavior by employees and other similar matters (collectively referred to as "Company Policies") are incorporated within this Agreement as though fully set forth in this Agreement. The Executive agrees to be bound by and adhere to all such Company Policies as presently exist or as may be hereafter issued or modified by the Company. Without limiting the foregoing, the Executive agrees to conduct business on behalf of the Company in a manner consistent with proper and ethical business practices and consistent with the best interests of the Company. To the extent any Company Policies are inconsistent with or contrary to the provisions of this Agreement, this Agreement shall prevail.

3. Compensation. For all services rendered by Executive under this Agreement, Company shall pay Executive a gross salary of One Hundred Fifty Thousand Dollars (\$150,000.00) per annum. Executive shall be paid this salary on the same basis applicable to executive employees generally, minus all lawful and agreed upon payroll deductions. Executive's compensation shall be reviewed annually by Human Resources Committee of the Board of Directors in accordance with normal Company salary review procedures, but may not be decreased during the term of this Agreement.

4. Business Expenses. Company agrees to reimburse Executive for all reasonable business expenses incurred by Executive while on Company business, subject to the Company's normal business expense policies. Executive shall maintain such records as will be necessary to enable the Company to properly deduct such items as business expenses when computing the Company's federal income tax.

5. Bonuses: Executive will also be eligible for consideration for a bonus in accordance with the Company's normal bonus program, as it may be implemented or amended from time to time. Under the Company's bonus program, Executive shall be eligible for an annual target bonus equal to 35% of Executive's base salary during the prior year. Actual bonus paid in the subsequent year will be based on a combination of Company and Executive's performance during the year, as determined by the Board of Directors in its discretion. Executive will also be eligible for participation in the Company's Investor Portfolio Management Business Incentive Plan ("IPMB Plan"). Such participation shall be in accordance with, and subject to, the terms and conditions of the IPMB Plan as it currently exists and as it may be amended from time to time.

6. Fringe Benefits. Company and Executive agree that during the term of this Agreement, Executive will be eligible to participate in the Company's employee benefit plans of general application, including without limitation, those plans covering medical, disability and life insurance in accordance with the rules established for individual participation in any such plan and under applicable law.

7. Vacation. Executive shall be entitled to his current earned paid vacation accrual of four (4) week's paid vacation per calendar year, which will be adjusted based on Executive's tenure with the Company, in accordance with the Company's vacation policy as such policy now exists and as it may be amended from time to time. Vacation shall be scheduled by Executive at a time mutually convenient to both the Company and Executive.

7.1 Accrued and Unused Vacation at Termination. Upon the termination of this Agreement, Executive shall be paid for all previously accrued and unused vacation time.

8. Restrictive Covenants.

8.1 Executive's Acknowledgement. Executive agrees and acknowledges that in order to assure the Company that it will retain its value and that of the Business (as defined below) as a going concern, it is necessary that Executive undertake not to utilize his special knowledge of the Business and his relationships with customers and suppliers to compete with the Company. Executive further acknowledges that: (a) the Company is and will be engaged in the Business; (b) Executive will occupy a position of trust and confidence with the Company, and during Executive's employment with the Company, Executive has and will continue to become familiar with the Company's trade secrets and with other proprietary and confidential information concerning the Company and the Business; (c) the agreements and covenants contained in this Article 8 are essential to protect the Company and the goodwill of the Business; and (e) Executive's employment with the Company has special, unique and extraordinary value to the Company and the Company would be irreparably damaged if Executive were to provide services to any person or entity in violation of the provisions of this Agreement. As used herein, "Business" means the ownership and/or management of timberlands, consulting regarding the management of timberlands, and activity meeting the definition of the "Investor Portfolio Management Business" as set forth in the Company's governing documents. For the purposes of this Article 8, "the Company" shall include its subsidiaries, affiliates and assignees and any successors in interest of its subsidiaries and/or affiliates.

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8.2 Non-Compete. Executive hereby agrees that for a period commencing on the date hereof and ending three (3) years later, regardless of whether Executive is employed by the Company or not (the "Restricted Period"), he shall not, directly or indirectly, as employee, agent, consultant, member, stockholder, director, partner or in any other individual or representative capacity, own, operate, manage, control, engage in, invest in or participate in any manner in, act as a consultant or advisor to, render services for (alone or in association with any person, firm, corporation or entity), or otherwise assist any person or entity (other than the Company) that engages in or owns, invests in, operates, manages or controls any venture or enterprise that directly or indirectly engages or proposes to engage in the Business anywhere in North America (the "Territory"); provided, however, that nothing contained herein shall be construed to prevent Executive from investing in the stock of any competing corporation listed on a national securities exchange or traded in the over-the-counter market, but only if Executive is not involved in the business of said corporation and if Executive and his associates (as such term is defined in Regulation 14(A) promulgated under the Securities Exchange Act of 1934, as in effect on the date hereof), collectively, do not own more than an aggregate of five (5%) percent of the stock of such corporation.

8.3 Interference with Relationships. During the Restricted Period, Executive shall not, directly or indirectly, as employee, agent, consultant, stockholder, member, director, co-partner or in any other individual or representative capacity render assistance to any other person or entity who attempts to: (i) employ or engage, recruit or solicit for employment or engagement, any person who is or becomes employed or engaged by the Company during the Restricted Period, or otherwise seek to influence or alter any such person's relationship with the Company, or (ii) solicit or encourage any present or future customer of the Company, to terminate or otherwise alter his, her or its relationship with the Company

8.4 Confidential Information. It is understood and agreed that as a result of Executive's employment with Employer, Executive has acquired and will continue to acquire and make use of confidential information about the Company and its Business, and the Company's suppliers and customers, such information constituting trade secrets. During the course of his employment with Company and thereafter, Executive shall keep secret and retain in strictest confidence, and shall not, without the prior written consent of the Employer, furnish, make available or disclose to any third party (except in furtherance of the Company's business activities and for the sole benefit of the Employer) or use for the benefit of himself or any third party, any Confidential Information. As used in this Agreement, "Confidential Information" shall mean any information relating to the business or affairs of the Company or its business, including but not limited to information relating to financial statements, customer identities, potential customers, employees, suppliers, servicing methods, equipment, programs, strategies and information, analyses, profit margins, or other proprietary information used by the Company in connection with its business; provided, however, that Confidential Information shall not include any information which is in the public domain or becomes known outside the Company by persons who are not associated with the Company and do not have an obligation of confidentiality to the Company with respect to such information through no wrongful act on the part of Executive. Executive acknowledges that the Confidential Information is vital, sensitive, confidential and proprietary to the Company. Executive further agrees that on termination of this Agreement, or at any time on request by the Employer, he shall deliver possession to the Company of all Confidential Information and all documents, writings, and other things of every kind and description prepared or acquired in connection with Company business or at Company expense or in the course of Employee's employment or that contain Company proprietary information including all copies of the same.

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8.5 If any arbitrator pursuant to Section 11.8 of this Agreement, or any court of competent jurisdiction, shall at any time deem the term of this Agreement or any particular Restrictive Covenant (as defined) too lengthy or the Territory too extensive, the other provisions of this Article 8 shall nevertheless stand, the Restrictive Period herein shall be deemed to be the longest period permissible by law under the circumstances, and the Territory herein shall be deemed to comprise the largest territory permissible by law under the circumstances. The court in each case shall reduce the time period and/or Territory to permissible duration or size.

9. Termination. This Agreement shall be terminated upon the occurrence of any one of the following events:

9.1 Death of Executive.

9.2 If Executive shall have been incapacitated from illness, accident or other disability and unable to perform his normal duties hereunder for a cumulative period of three (3) months, upon Company or Executive giving the other party not less than thirty (30) days' written notice.

9.3 Expiration of this Agreement or any renewal or extension thereof.

9.4 Immediately by a majority vote of the Human Resources Committee of the Board of Directors for cause, as a result of the occurrence of one or more of the following:

(a) Executive's willful and continued failure substantially to perform his duties under this Agreement (other than as a result of total or partial incapacity due to physical or mental illness), including Executive's refusal to comply in any material respect with the legal directives of the Company's Chief Executive Officer and/or Board of Directors so long as such directives are not inconsistent with the Executive's position and duties, and such refusal to comply is not remedied within 20 working days after written notice, which written notice shall state that failure to remedy such conduct may result in Termination for Cause; or

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(b) Dishonest or fraudulent conduct, a deliberate attempt to do an injury to the Company, or conduct that materially discredits the Company, including conviction of or plea of nolo contendere to a felony or any crime involving dishonesty or fraud.

9.5 By the Company without cause upon notice to the Executive, which determination may be made by the Company at any time at the Company's sole discretion, for any or no reason.

In such event of termination without cause pursuant to this Section 9.5, Executive shall be entitled to receive his base salary for the balance of the term of the Agreement, payable in accordance with then-applicable normal Company payroll procedures, plus a pro rata share of his bonus for the calendar year in which termination occurs, with such bonus to be calculated on the target bonus amount and based on the number of days of such calendar year that Executive was employed prior to his termination. In addition, Executive shall be entitled to continued paid health insurance benefits for the lesser of the remaining term of this Agreement or the period during which Executive has rights under COBRA to obtain such insurance through the Company. Executive shall not be entitled to receive any additional bonuses or any other benefits under this Agreement for the balance of such term.

10. Effect of Termination. Upon termination of Executive's employment with Employer, Company agrees to pay Executive all salary which is due and owing to Executive as of the date of termination, less legal deductions or offsets Executive may owe to Company for such items as salary advances or loans. Except as otherwise provided pursuant to Section 9.5 with respect to a termination without cause, Executive shall not be entitled to any other or additional compensation upon termination. Executive agrees that his signature on this Agreement constitutes his authorization for all such deductions. Executive agrees to return to Company all of Employer's property of any kind which may be in Executive's possession. In the event of termination of this Agreement, the terms and provisions of this Agreement shall also terminate, with the exception of the restrictive covenants contained in Section 8 and any other provisions that expressly address post-termination issues. Such provisions shall continue in full force and effect according to their terms.

11. Construction of Agreement.

11.1 Essential Terms and Modification of Agreement. It is understood and agreed that the terms and conditions described in this Agreement constitute the essential terms and conditions of the employment arrangement between the Company and Executive, all of which have been voluntarily agreed upon. The Company and Executive agree that there are no other essential terms or conditions of the employment relationship that are not described within this Agreement, and that any change in the essential terms and conditions of this Agreement will not be effective until it is written down in a supplemental agreement which shall be signed by both the Chief Executive Officer, pursuant to authorization of the Board of Directors, and the Executive.

11.2 Severability. If any term, covenant, condition or provision of this Agreement or the application thereof to any person or circumstance shall, at any time, or to any extent, be determined invalid or unenforceable, the remaining provisions hereof shall not be affected thereby and shall be deemed valid and fully enforceable to the extent permitted by law.

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11.3 Notices. Any notice hereunder shall be sufficient if in writing and delivered to the party or sent by certified mail, return receipt requested and addressed as follows:

a. If to the Company: David L. Nunes
Chief Executive Officer
Pope Resources
19245 Tenth Avenue NE
Poulsbo, WA 98370

With a copy to: Greg F. Adams
Davis Wright Tremaine
2600 Century Square
1501 Fourth Avenue
Seattle, WA 98101-1688

b. If to Executive: Thomas M. Ringo

Either party may change the address herein specified by giving to the other, written notice of such change as provided in this Section 11.3.

11.4 Governing Law. This Agreement is made and shall be construed and performed under the laws of the State of Washington.

11.5 Waiver of Agreement. The waiver by the Company of a breach of any provision of this Agreement by Executive shall not operate or be construed as a waiver by the Company of any subsequent breach by Executive.

11.6 Captions. The captions and headings of the sections and subsections of this Agreement are for convenience and reference only and are not to be used to interpret or define the provisions hereof.

11.7 Assignment and Successors. The rights and obligations of Company under this Agreement shall inure to the benefit of and be binding upon the successors and assigns of Employer. The rights and obligations of Executive hereunder are nonassignable. Company may assign its rights and obligations to any entity in which Company or a company affiliated with Company has a majority ownership interest.

11.8 Arbitration. Any dispute or claim arising out of or in connection with this Agreement will be finally settled by binding arbitration in Seattle, Washington in accordance with the rules of the American Arbitration Association by one arbitrator appointed in accordance with said rules. The arbitrator shall apply Washington law, without reference to rules of conflicts of law or rules of statutory arbitration, to the resolution of any dispute. Judgment on the award rendered by the arbitrator may be entered in any court having jurisdiction thereof. Each party shall bear their own legal fees in connection with any such arbitration. Notwithstanding the foregoing, the parties may apply to any court of competent jurisdiction for preliminary or interim equitable relief, or to compel arbitration in accordance with this section, without breach of this arbitration provision. The parties, their representatives, other participants and the mediator or arbitrator shall hold the existence, content and result of any arbitration in confidence. This Section 11.8 shall not be construed to prohibit either party from seeking injunctive relief for actual or threatened violations of Section 8 of this Agreement.

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Executed this 10th day of December, 2003, retroactively effective as of the Effective Date of January 1, 2003.

THOMAS M. RINGO

POPE RESOURCES, A DELAWARE LIMITED
PARTNERSHIP

By David L. Nunes
Its Chief Executive Officer

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EMPLOYMENT AGREEMENT

Between

Olympic Resource Management LLC
and
John T. Shea

The purpose of this Agreement is to confirm the terms of the employment relationship between Olympic Resource Management LLC, a Washington Limited Liability Company, (hereinafter referred to as “the Company”), and John T. Shea (hereinafter referred to as the “Executive”).

1. Term of Agreement. Company and Executive agree that the Executive will be employed by the Company for a term of three (3) years beginning January 1, 2003 (the “Effective Date”), unless employment is sooner terminated as provided herein.

2. Position and Duties. Company and Executive agree that Executive will be employed as Director of Business Development of Employer. It is understood that from time to time Executive may be assigned other duties in addition to those described above that are generally consistent with those of a senior manager, and that Executive’s responsibilities may be modified or expanded at any time by the Company in order to accommodate its needs.

2.1 Executive agrees to devote his full-time efforts to his duties with the Company and further agrees that he will not, directly or indirectly, engage or participate in any activities while employed with the Company that would conflict with the best interests of the Company.

2.2 All policies published by the Company or delivered to the Executive prior to or following this Agreement regarding employment policies, required behavior by employees and other similar matters (collectively referred to as “Company Policies”) are incorporated within this Agreement as though fully set forth in this Agreement. The Executive agrees to be bound by and adhere to all such Company Policies as presently exist or as may be hereafter issued or modified by the Company. Without limiting the foregoing, the Executive agrees to conduct business on behalf of the Company in a manner consistent with proper and ethical business practices and consistent with the best interests of the Company

3. Compensation. For all services rendered by Executive under this Agreement, Company shall pay Executive a gross salary of Ten Thousand Dollars (\$10,000.00) per month. Executive shall be paid this salary on a bi-weekly basis, minus all lawful and agreed upon payroll deductions. Executive’s compensation shall be reviewed annually in accordance with normal Company salary review procedures.

3.1 Bonus. Executive will also be eligible for consideration for a bonus in accordance with the Company’s normal bonus program, as it may be implemented or amended from time to time. Under the Company’s bonus program, Executive shall be eligible for an annual target bonus equal to 25% of Executive’s base salary during the prior year. Actual bonus paid in the subsequent year will be based on a combination of Company and Executive’s performance during the year.

3.2 IPMB Incentive Plan. Executive will also be eligible for participation in the Company’s Investor Portfolio Management Business Incentive Plan (“IPMB Plan”). Such participation shall be in accordance with, and subject to, the terms and conditions of the IPMB Plan as it currently exists and as it may be amended from time to time.

4. Business Expenses. Company agrees to reimburse Executive for all reasonable business expenses incurred by Executive while on Company business, subject to the Company’s normal business expense policies. Executive shall maintain such records as will be necessary to enable the Company to properly deduct such items as business expenses when computing the Company’s federal income tax.

5. Fringe Benefits. Company and Executive agree that during the term of this Agreement, Executive will be eligible to participate in the Company’s employee benefit plans of general application, including without limitation, those plans covering medical, disability and life insurance in accordance with the rules established for individual participation in any such plan and under applicable law.

6. Vacation. Executive shall be entitled to his current earned paid vacation accrual of four (4) week’s paid vacation per calendar year, which will be adjusted based on Executive’s tenure with the Company, in accordance with the Company’s vacation policy as such policy now exists and as it may be amended from time to time. Vacation shall be scheduled by Executive at a time mutually convenient to both the Company and Executive.

6.1 Accrued and Unused Vacation at Termination. Upon the termination of this Agreement, Executive shall be paid for all previously accrued and unused vacation time.

7. Restrictive Covenants.

7.1 Executive's Acknowledgement. Executive agrees and acknowledges that in order to assure the Company that it will retain its value and that of the Business (as defined below) as a going concern, it is necessary that Executive undertake not to utilize his special knowledge of the Business and his relationships with customers and suppliers to compete with the Company. Executive further acknowledges that: (a) the Company is and will be engaged in the Business; (b) Executive will occupy a position of trust and confidence with the Company, and during Executive's employment with the Company, Executive has and will continue to become familiar with the Company's trade secrets and with other proprietary and confidential information concerning the Company and the Business; (c) the agreements and covenants contained in this Article 7 are essential to protect the Company and the goodwill of the Business; and (e) Executive's employment with the Company has special, unique and extraordinary value to the Company and the Company would be irreparably damaged if Executive were to provide services to any person or entity in violation of the provisions of this Agreement. As used herein, "Business" means (1) the location, acquisition, management, development, and/or disposition of timberlands, real property, and related assets and resources and (2) the provision of consulting, analysis, or support services, or any other related services in connection with such activities, whether (a) directly for the account and/or on behalf of the person or entity employing Executive as a consultant, advisor, or in any other capacity, or (b) for the account and/or on behalf of any other party or parties. For the purposes of this Article 7, "the Company" shall include its subsidiaries, affiliates and assignees and any successors in interest of its subsidiaries and/or affiliates.

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7.2 Non-Compete. Executive hereby agrees that for a three-year period commencing on the Effective Date (regardless of whether Executive is employed by the Company or not) (the "Restricted Period"), he shall not, directly or indirectly, as employee, agent, consultant, member, stockholder, director, partner or in any other individual or representative capacity, own, operate, manage, control, engage in, invest in or participate in any manner in, act as a consultant or advisor to, render services for (alone or in association with any person, firm, corporation or entity), or otherwise assist any person or entity (other than the Company) that engages in or owns, invests in, operates, manages or controls any venture or enterprise that directly or indirectly engages or proposes to engage in the Business anywhere in North America (the "Territory"); provided, however, that the Company expressly agrees that nothing contained herein shall be construed to prevent, and Executive is entitled to engage in, the following activities:

7.2.1 Ownership and Management. Executive may own, operate, and manage timberlands, as long as such ownership, operation, and management is solely and exclusively for his own account and/or the account of lineal ancestors and descendants, and no other persons, directly or indirectly.

7.2.2 Employment by Third Parties. Executive may, either as an employee or as an independent contractor, manage timberlands for other individuals or entities who directly own such timberlands solely and exclusively for their own account. For as long as the Company is engaged in, or is actively seeking to be engaged in, the Investor Portfolio Management Business ("IPMB"), as that business is defined in the governing documents of the Company's affiliate, Pope Resources, A Delaware Limited Partnership, the authorization provided by this Section 7.2.2 shall not include the authorization to manage timberlands for any person or entity that is engaged in any activity that would constitute IPMB if such activity were performed by the Company.

7.2.3 Securities. Executive may invest in the stock of any competing corporation listed on a national securities exchange or traded in the over-the-counter market, but only if Executive is not involved in the business of said corporation and if Executive and his associates (as such term is defined in Regulation 14(A) promulgated under the Securities Exchange Act of 1934, as in effect on the date hereof), collectively, do not own more than an aggregate of five (5%) percent of the stock of such corporation.

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7.3 Interference with Relationships. During the Restricted Period, Executive shall not, directly or indirectly, as employee, agent, consultant, stockholder, member, director, co-partner or in any other individual or representative capacity render assistance to any other person or entity who attempts to: (i) employ or engage, recruit or solicit for employment or engagement, any person who is or becomes employed or engaged by the Company during the Restricted Period, or otherwise seek to influence or alter any such person's relationship with the Company, or (ii) solicit or encourage any present or future customer of the Company, to terminate or otherwise alter his, her or its relationship with the Company

7.4 Confidential Information. It is understood and agreed that as a result of Executive's employment with Employer, Executive has acquired and will continue to acquire and make use of confidential information about the Company and its Business, and the Company's suppliers and customers, such information constituting trade secrets. During the course of his employment with Company and thereafter, Executive shall keep secret and retain in strictest confidence, and shall not, without the prior written consent of the Employer, furnish, make available or disclose to any third party (except in furtherance of the Company's business activities and for the sole benefit of the Employer) or use for the benefit of himself or any third party, any Confidential Information. As used in this Agreement, "Confidential Information" shall mean any information relating to the business or affairs of the Company or its business, including but not limited to information relating to financial statements, customer identities, potential customers, employees, suppliers, servicing methods, equipment, programs, strategies and information, analyses, profit margins, or other proprietary information used by the Company in connection with its business; provided, however, that Confidential Information shall not include any information which is in the public

domain or becomes known in the industry through no wrongful act on the part of Executive. Executive acknowledges that the Confidential Information is vital, sensitive, confidential and proprietary to the Company. Executive further agrees that on termination of this Agreement, or at any time on request by the Employer, he shall deliver possession to the Company of all Confidential Information and all documents, writings, and other things of every kind and description prepared or acquired in connection with Company business or at Company expense or in the course of Employee's employment or that contain Company proprietary information including all copies of the same.

8. Termination. This Agreement shall be terminated upon the occurrence of any one of the following events:

8.1 Death of Executive.

8.2 If Executive shall have been incapacitated from illness, accident or other permanent disability and unable to perform his normal duties hereunder for a consecutive period of three (3) months, upon Company or Executive giving the other party not less than thirty (30) days' written notice.

8.3 Expiration of this Agreement or any renewal or extension thereof.

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8.4 Immediately by the Company for cause. For purposes of this subparagraph, "cause" shall mean "(1) any material breach of the provisions of this Agreement by Employee; (2) consistent poor performance on the part of Employee after being counseled as to the standard required; (3) violation by Employee of any local, state or federal laws, including without limitation, an act of dishonesty such as embezzlement or theft; (4) material failure to comply with Company policies, and any and all acts or omissions which would constitute cause under common law.

9. Effect of Termination. Upon termination of Executive's employment with Employer, Company agrees to pay Executive all salary which is due and owing to Executive as of the date of termination, less legal deductions or offsets Executive may owe to Company for such items as any personal items charged to Executive's Company credit card account. Executive agrees that his signature on this Agreement constitutes his authorization for all such deductions. Executive agrees to return to Company all of Employer's property of any kind which may be in Executive's possession. In the event of termination of this Agreement, the terms and provisions of this Agreement shall also terminate, with the exception of the restrictive covenants contained in the paragraphs above. Such provisions shall continue in full force and effect according to their terms.

10. General Terms.

10.1 Essential Terms and Modification of Agreement. It is understood and agreed that the terms and conditions described in this Agreement constitute the essential terms and conditions of the employment arrangement between the Company and Executive, all of which have been voluntarily agreed upon. The Company and Executive agree that there are no other essential terms or conditions of the employment relationship that are not described within this Agreement, and that any change in the essential terms and conditions of this Agreement will be written down in a supplemental agreement which shall be signed by both the Company and Executive before it is effective.

10.2 Severability. If any term, covenant, condition or provision of this Agreement or the application thereof to any person or circumstance shall, at any time, or to any extent, be determined invalid or unenforceable, the remaining provisions hereof shall not be affected thereby and shall be deemed valid and fully enforceable to the extent permitted by law.

10.3 Notices. Any notice hereunder shall be sufficient if in writing and delivered to the party or sent by certified mail, return receipt requested and addressed as follows:

- a. If to the Company: David L. Nunes
Olympic Resource Management LLC
19245 Tenth Avenue NE
Poulsbo, WA 98370

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- b. If to Executive: John T. Shea

Either party may change the address herein specified by giving to the other, written notice of such change as provided in this Section 10.3 of this Agreement.

10.4 Governing Law. This Agreement is made and shall be construed and performed under the laws of the State of Washington.

10.5 Waiver of Agreement. The waiver by the Company of a breach of any provision of this Agreement by Executive shall not operate or be construed as a waiver by the Company of any subsequent breach by

Executive.

10.6 Captions. The captions and headings of the paragraphs of this Agreement are for convenience and reference only and are not to be used to interpret or define the provisions hereof.

10.7 Assignment and Successors. The rights and obligations of Company under this Agreement shall inure to the benefit of and be binding upon the successors and assigns of Employer. The rights and obligations of Executive hereunder are nonassignable. Company may assign its rights and obligations to any entity in which Company or a company affiliated with Company has a majority ownership interest.

10.8 Arbitration. Any dispute or claim arising out of or in connection with this Agreement will be finally settled by binding arbitration in Seattle, Washington in accordance with the rules of the American Arbitration Association by one arbitrator appointed in accordance with said rules. The arbitrator shall apply Washington law, without reference to rules of conflicts of law or rules of statutory arbitration, to the resolution of any dispute. Judgment on the award rendered by the arbitrator may be entered in any court having jurisdiction thereof. Each party shall bear their own legal fees in connection with any such arbitration. Notwithstanding the foregoing, the parties may apply to any court of competent jurisdiction for preliminary or interim equitable relief, or to compel arbitration in accordance with this paragraph, without breach of this arbitration provision. The parties, their representatives, other participants and the mediator or arbitrator shall hold the existence, content and result of any arbitration in confidence. This Section 10.8 shall not be construed to prohibit either party from seeking injunctive relief for actual or threatened violations of Section 7 of this Agreement.

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Executed this 10th day of December, 2003, retroactively effective as of the Effective Date of January 1, 2003.

JOHN T. SHEA

OLYMPIC RESOURCE MANAGEMENT LLC

By David L. Nunes
Its President & CEO

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Consent of Independent Auditors

The Board of Directors and Unitholders

Pope Resources, A Delaware Limited Partnership:

We consent to the incorporation by reference in the registration statement (No. 333-46091) on Form S-8 of Pope Resources, A Delaware Limited Partnership of our report dated February 3, 2004 relating to the consolidated balance sheets of Pope Resources, A Delaware Limited Partnership and subsidiaries as of December 31, 2002 and 2003, and the related consolidated statements of operations, partners' capital and comprehensive income (loss), and cash flows for each of the years in the two-year period ended December 31, 2003, which report appears in the December 31, 2003 annual report on Form 10-K of Pope Resources, A Delaware Limited Partnership.

/s/ KPMG LLP

Seattle, Washington

March 19, 2004

INDEPENDENT AUDITORS' CONSENT

We consent to the incorporation by reference in Registration Statement No. 333-46091 of Pope Resources, A Delaware Limited Partnership, and subsidiaries on Form S-8 of our report dated February 22, 2002, appearing in the Annual Report on Form 10-K of Pope Resources, A Delaware Limited Partnership, and subsidiaries for the year ended December 31, 2003.

/s/ Deloitte & Touche LLP

Seattle, Washington

March 19, 2004

CERTIFICATION

I, David L. Nunes certify that:

1. I have reviewed this annual report on Form 10-K of Pope Resources, a Delaware Limited Partnership;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e) for the registrant and have:
 - a) designed such disclosure controls and procedures or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) evaluated the effectiveness of the registrant's disclosure controls and procedures; and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end period covered by this report based on such evaluation; and
 - c) disclosed in the report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls over financial reporting.

Date: March 19, 2004

/s/ David L. Nunes
David L. Nunes
President and CEO

CERTIFICATION

I, Thomas M. Ringo certify that:

1. I have reviewed this annual report on Form 10-K of Pope Resources, a Delaware Limited Partnership;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e) for the registrant and have:

a) designed such disclosure controls and procedures or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures; and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end period covered by this report based on such evaluation; and

c) disclosed in the report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

a) all significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls over financial reporting.

Date: March 19, 2004

/s/Thomas M. Ringo
Thomas M. Ringo
V.P. and CFO

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

PURSUANT TO

18 U.S.C. SECTION 1350,

AS ADOPTED PURSUANT TO

SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of Pope Resources, A Delaware Limited Partnership (Partnership) on Form 10-K for the year ended December 31, 2003, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, David L. Nunes, Chief Executive Officer of the Partnership, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 as amended; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Partnership.

/s/ David L. Nunes

David L. Nunes
President and Chief Executive Officer
Pope MGP
March 19, 2004

CERTIFICATION OF CHIEF FINANCIAL OFFICER

PURSUANT TO

18 U.S.C. SECTION 1350,

AS ADOPTED PURSUANT TO

SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of Pope Resources, A Delaware Limited Partnership (Partnership) on Form 10-K for the year ended December 31, 2003, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Thomas M. Ringo, Chief Financial Officer of the Partnership, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 as amended; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Partnership.

/s/ Thomas M. Ringo

Thomas M. Ringo

Vice President and Chief Financial Officer

March 19, 2004