David L. Nunes
President & Chief Executive Officer

To Our Unitholders:

Even though we were faced with continued softness in our log markets this past year, I am happy to report a slight improvement in our financial results. Net income for 2003 was $3.5 million, or $0.78 per fully diluted unit, up slightly from $3.3 million, or $0.74 per fully diluted unit in 2002. More significantly, operating income improved from $5.6 million in 2002 to $6.6 million in 2003. We worked hard this past year to maximize log price realizations, continue to contain costs, and pave the way towards future growth in earnings and cash flow through important business development initiatives. In addition, we strengthened our balance sheet with continued debt reduction, enhanced working capital utilization, and a significant paydown on the note receivable from the purchaser of our former Port Ludlow assets. All these factors together translated to a $10 million year-end cash balance that greatly facilitated the $8.5 million all-cash timberland acquisition we closed in January 2004.

As a small company that does not enjoy a wide public following, this letter represents our primary forum for communicating with both existing and prospective unitholders. In that context, I want to build on 2002's annual report and provide additional insights into our strategic thinking and management priorities. In addition, I will reference events of 2003 that contributed towards our performance improvement. For a more detailed description of 2003 results, I encourage readers to review Management's Discussion and Analysis of Financial Condition and Results of Operations from our SEC Form 10-K, which is included in this annual report.

The primary focus of Pope Resources is adding value to the lands under our stewardship. This endeavor incorporates a number of discrete strategies, including the following:

- Growing our asset base in absolute terms (acres and value),
- Managing our timberlands in a way that balances revenue optimization with effective cost management,
- Balancing the age class distribution of our timberlands through active portfolio management, and
- Seeking opportunities to extract higher-and-better-use real estate values for lands that ultimately will not be in our long-term timberland portfolio.

Pursuing these strategies will not always lead to immediate improvement in current period revenues and earnings, but our strong conviction is that such strategies will ultimately lead to superior long-term unitholder returns. This past year provided a good example of our focus on investing for the future with three particularly important accomplishments in each of our three business segments. While none of these were intended to result in revenues in 2003, each will, I believe, add long-term value to our lands.

Selected Significant Events of 2003

As mentioned above, we closed on a 3,300-acre timberland acquisition in January 2004 for lands that are adjacent to our Columbia tree farm in southwest Washington. This acquisition will allow us to increase our total harvest by an estimated 25% to 58 million board feet (MMBF) in each of the years 2004 and 2005. We expect that more than three-quarters of the $8.5 million purchase price will be recouped during this period, which would yield an effective purchase price for the residual land and younger timber of less than $500 per acre. These lands will provide additional long-term benefits such as: improved balancing of our age class distribution; increased future cash flow streams; and incremental economies of scale in managing our broader portfolio of timberlands.

Through our third-party timberland management subsidiary, Olympic Resource Management, we formally launched an offering to commence a new $50 million private equity timber fund. Pope Resources will co-invest in the fund alongside qualified high net worth investors, ultimately contributing 10% of the total equity capital raised. So, for example, if $50 million of total equity capital is raised, Pope Resources will contribute $5 million. For Pope Resources, participation in this fund will constitute the primary growth vehicle for our Fee Timber segment in building our base of owned timberlands. Our participation in the fund will allow us to leverage our limited growth capital (approximately $3 to $4 million of free cash flow per year after servicing our debt and paying unitholder distributions) to participate in larger timberland acquisitions. In addition to the benefits that we expect to accrue to our Fee Timber segment, we also expect this fund to generate fees for our Timberland Management and Consulting segment, which will act as the general partner and fund manager.

Our Real Estate segment reached a significant milestone with our Gig Harbor project this past year when the City of Gig Harbor approved a Comprehensive Plan amendment that will allow for the upzone of 35 acres from business park to commercial zoning. Our Real Estate team did a fantastic job of communicating our vision for the project in countless community meetings and hearings over the past few years to secure the necessary community and political support for this project. The outcome validated our philosophy of working within our communities to create win-win solutions. This effort should add significant value to this 320-acre project over the next few years as we prepare to sell commercial, business park, and residential land in advance of the opening of a new Tacoma Narrows bridge span, scheduled for 2007. This Comprehensive Plan amendment paved the way for the signing in late 2003 of a definitive purchase and sale agreement with Costco Wholesale Corporation, which plans to open a store in our project in 2005. We expect the sale to Costco as well as the sale of other small commercial pads to pay for the needed infrastructure investments we will have to make over the next two years in support of the broader 320-acre project's completion.

What are the Prospects for Improved Log Pricing?

In addition to describing our strategies for the future of Pope Resources, an important function of this letter is to also address questions we routinely hear from investors. Typically, such conversations include questions about our view of future log prices. As we think about the outlook for the company over the next few years, clearly a big part of this rests on our view of future log pricing. As we have mentioned in past annual reports, log markets in the past few years have been plagued by soft prices and characterized as being oversupplied. This resulted from a myriad of factors, not the least of which was a strong dollar, which have hurt the competitiveness of U.S. log and lumber exports while fostering higher lumber imports. U.S. log and lumber producers have also had to contend with elevated levels of Canadian lumber imports into the U.S. as an unintended consequence of anti-dumping and countervailing duties levied by the U.S. Government. So while we've enjoyed low interest rates and record U.S. housing starts, the prices for lumber and logs have not benefited commensurately.

Pope Resources was able to make the best of this less-than-ideal market environment by taking advantage of our non-integrated status. With no internal sawmills to supply, we are afforded the flexibility to alter both the timing and makeup of our planned annual harvest. This past year, for example, we front-end loaded our planned harvest into the first half of the year, resulting in an average log realization that was $14/MBF higher than if we had maintained an even harvest level throughout the year. We also shifted harvesting into lower-valued hemlock stands during the past few years of softer log pricing in order to preserve (or "bank") the anticipated opportunity to take advantage of higher Douglas-fir prices in the future.

Looking forward, there are a few encouraging signs for near-term log pricing. First, the recent weakening of the dollar has already started to improve the competitiveness of our products overseas, resulting in an increase in log export prices late in 2003 and extending into early 2004. Related to this, we are also seeing a higher component of our harvest starting to go to the export market. This change may not all be a function of a weaker U.S. dollar inasmuch as the Japanese economy has shown some encouraging signs of recovery, but it is nonetheless encouraging. Any strengthening in the export market typically ripples through to domestic log markets as U.S. solid-wood manufacturers compete for logs to source their mills. Also, we have seen stronger lumber pricing this winter as a function of a tight supply environment resulting from seasonal weather conditions, all against the backdrop of continued low interest rates and a strong housing market.

What is the Case for Investing in Timberland?

When talking with prospective investors about Pope Resources, we invariably turn to the subject of the timberland asset class. Given the characterization of Pope Resources as a "pure play" vehicle for investing in timberland through a publicly traded security, it is a short leap to also think of POPEZ as a proxy for investing directly in timberland. Accordingly, we believe it is important for investors to understand the attributes of this unique asset class.

While ownership of industrial timberland stretches back over a century, it is still a relatively new asset class from an institutional ownership standpoint. Prior to the 1980's, vertically integrated forest products companies and individuals with small tracts owned the majority of privately held timberland in the U.S. Spurred by the passage of the 1974 federal Employee Retirement Income Security Act (ERISA) and similar legislation for public pension plans, institutional investors began to increasingly look towards timberland as either a component of their real estate portfolio or as an alternative asset class. In the 1980's, forest products companies began selling timberland to institutional investors to fund pulp and paper capacity expansions and to better capture the underlying value of their timberland assets. Institutional investment has grown from $1 billion in 1990 to more than $10 billion in 2003. In recognition of this growth, the National Council of Real Estate Investment Fiduciaries (NCREIF) developed the Timberland Property Index in 1992 to provide an independent measure of timberland returns. This index, which includes data going back to 1987, represents $5.8 billion of institutional timberland investments in the U.S. and is regarded as the foremost source of third-party timberland investment performance data for this asset class.

The timberland asset class has grown in popularity primarily based on its exceptional risk-adjusted returns and attractive diversification attributes. Over the past 30 years, it has outperformed other asset classes, such as common stocks and commercial real estate, while exhibiting less inherent portfolio risk. In addition, over this same time period, timberland is negatively correlated or uncorrelated with other asset classes. More and more portfolio managers are discovering these outright return and diversification benefits of adding timberland to their portfolios. It is also one of the few commodities that has demonstrated a long-term track record of real price appreciation (after stripping out the effects of inflation), making it an excellent hedge against inflation. With more talk concerning the potential for a return to higher levels of inflation, more portfolio managers are considering investments in timberlands for this reason. The key factors behind this real price appreciation are the overall demand drivers for forest products: population and wealth. As world economies grow in size and/or per capita wealth, they use more forest products, drivers that provide a strong basis for future investments in timberland.

Investors who are interested in adding timberland to their investment portfolios, but do not have the size or inclination to invest in the asset class directly, can buy stock in companies that own timberland. The choices available include buying stock in integrated forest product companies or companies such as Pope Resources that specialize in timberland ownership.

What is the Value of Pope Resources' Underlying Properties?

Pope Resources has been categorized by many as a "value play" based on the discount of our traded equity value relative to the value of the underlying assets. As such, we are often asked to provide insights regarding the value of our assets, including more information on the character of both our timberland and real estate portfolios as well as how such lands are typically valued. I will offer some insights in this regard that I trust readers will find helpful and hope that, in doing so, we will foster further transparency in our overall investor communications.

With the aforementioned timberland acquisition that closed in January 2004, we own approximately 115,000 acres of commercial timberland in western Washington. In addition, we own approximately 2,600 acres of higher-and-better-use lands in our real estate portfolio, all of which are located in the West Puget Sound region.

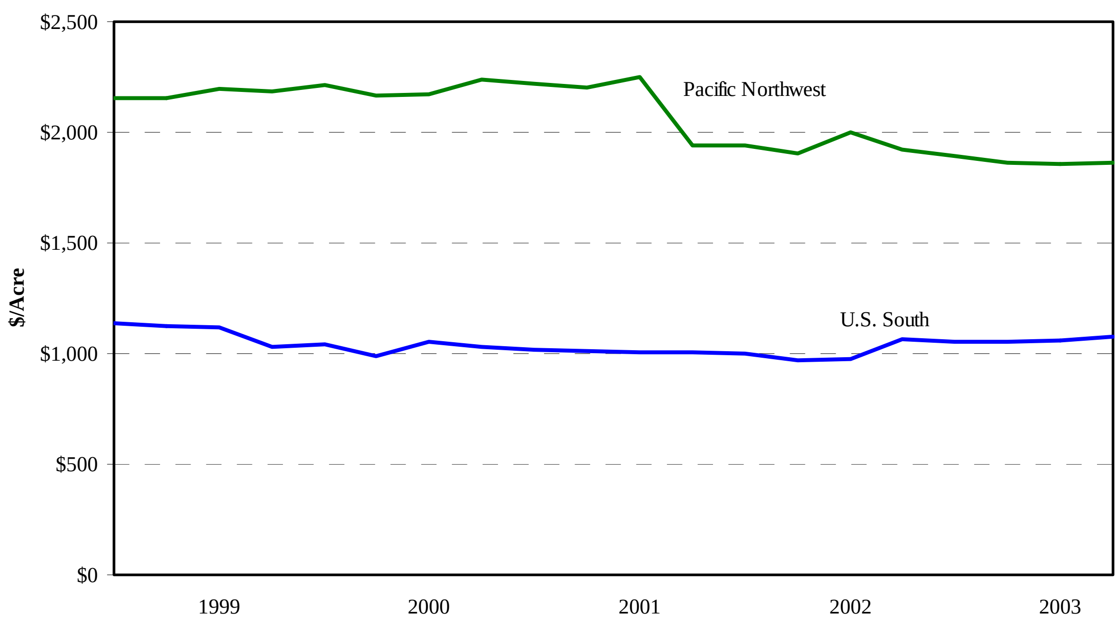
While two seemingly similar parcels of timberland may not necessarily be comparable from a valuation standpoint, we consider recent sale prices to be a meaningful factor in helping management estimate the underlying value of our timberland. A number of factors influence the value of timberland, including: motivations of the buyer and seller, quantity of merchantable timber, species mix, age and soil productivity classifications, general topography, harvesting operability, and access to downstream log markets. Included on the next page is a table populated with recent timberland transactions of similar scale and other characteristics to our ownership that management considers reasonable "comparables" in valuing our timberlands. Note that our own purchase in 2001 of the 44,000-acre Columbia tree farm is part of the table. Given its younger age class distribution, the $1,200 per acre value shown in the table for this tree farm is a reasonable proxy for its current value. The other data points in the table range from $1,800 to $2,000 per acre and we are comfortable that our remaining 71,000-acre Hood Canal tree farm is valued somewhere within this range. Also included below the table is a chart that depicts the average value of western and southern U.S. timberlands represented by the NCREIF Timberland Index.

Recent Closed Timberland Transactions in the US Pacific Northwest

Year	State	Seller or Investment Manager	Buyer or Investment Manager	Total Acres	Total Value (millions)	$/Acre
1999	WA	Williamette Industries	The Campbell Group	117000	$234	$2,000
2001	WA	International Paper	The Campbell Group	265000	$500 +	$1,887
2001	WA	Plum Creek	Pope Resources	44519	$54	$1,208
2002	WA	Weyerhaeuser	HTRG	122400	$220	$1,797
2003	OR	The Campbell Group	Menasha	27900	$53	$1,900
2003	WA	Weyerhaeuser	HTRG	104000	$186	$1,788
2003	OR	The Campbell Group*	The Campbell Group*	200000	$401	$2,005
		*Inter-client transfer		Weighted Average per Acre Price:		**$1,871**

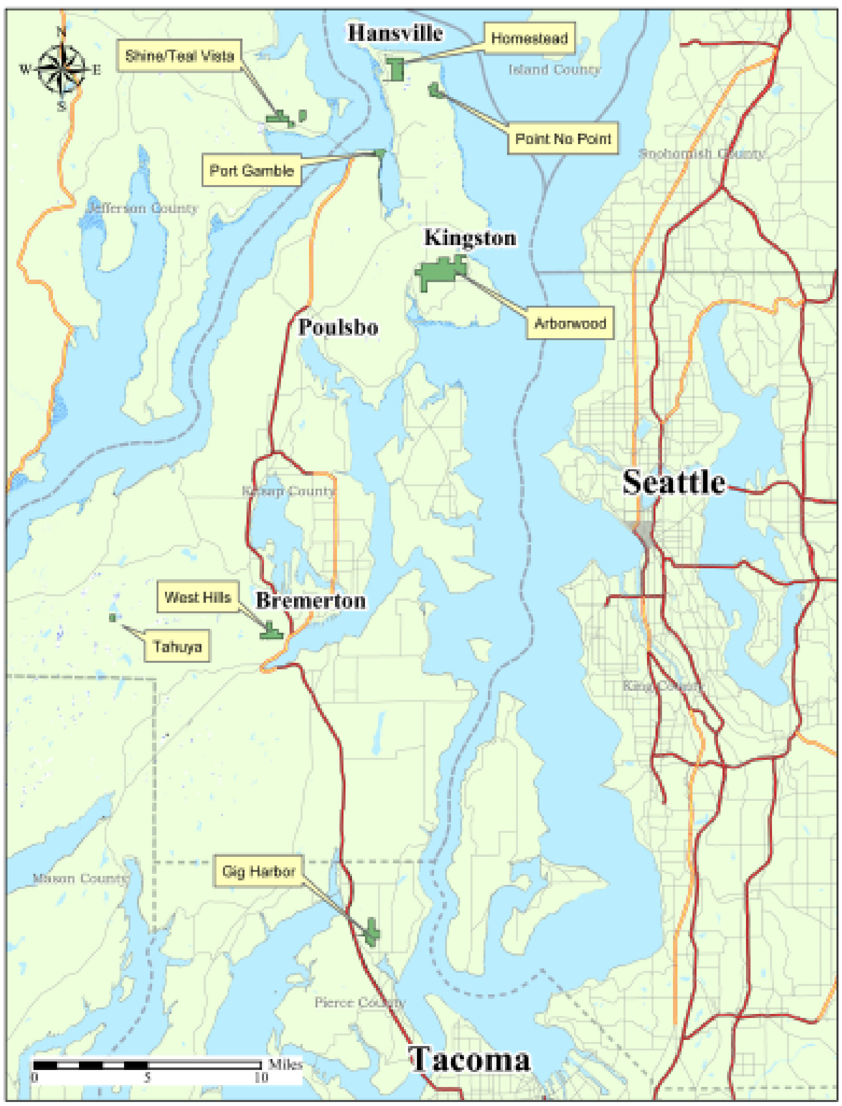
Source: SEC filings, press releases, and Paperloop's "***Timberland Markets***" report

Average Property Values - NCREIF Timberland Index



Source: NCREIF

The portfolio of real estate properties owned by Pope Resources, shown in the map below, reflects a far greater range of per acre values than is the case with our timberlands. This range is a function of variations in location and the extent of development entitlements secured for each property. Our 2,600-acre real estate portfolio includes lands with a wide range of residential zoning, from lands that have low-density zoning (calling for as high as 80 acres per dwelling) all the way to lands located within designated urban growth boundaries where we will be entitled



to densities as high as eight dwellings per acre. While significant portions of our real estate portfolio, such as projects in Gig Harbor and Bremerton, are located within urban growth boundaries, other projects such as Arborwood in Kingston, are still awaiting final determination as to whether they will be located within an urban growth boundary. Beyond residential zoning, we do enjoy higher valued office, business park, and commercial zoning in our Gig Harbor, Bremerton, Poulsbo, Port Gamble, and Kingston projects. This type of land is typically valued on a per-square-foot basis and enjoys substantially higher per-acre valuations. This is particularly true for our Gig Harbor property, where a small subset of the commercially zoned land is expected to sell for as much as $25 per square foot. While it is difficult to accurately gauge the value of our overall real estate portfolio given that much of it is years away from sale, we expect the weighted average value to be in excess of $10,000 per acre.

What Will be the Catalyst for "Unlocking the Value" of POPEZ?

Management believes that the efficient valuation of Pope Resources' units is impacted by a number of interrelated factors, including: small size, limited partnership governance structure, smaller float due to the lock up of large blocks of units, and the fact that we are the lone remaining publicly traded limited partnership specializing in timber. Management is focused squarely on mitigating the effect of illiquidity, which we believe adversely impacts the trading value of our units. Our primary means of addressing this issue is to get our story out into the investment community and generate a supply-demand equilibrium at a price that encourages the dilution of some of the aforementioned locked-up positions in POPEZ. To that end, we have been working with an outside investor relations firm to assist us in reaching target investors. We believe these efforts are beginning to have a beneficial impact on the trading of our units as we have seen the following: new institutional owners, additional market makers, lower bid-ask spreads, and a higher number of average daily trades.

Another factor that has helped get our story out into the marketplace has been the initiation of analyst coverage. Pope Resources has had no analyst coverage for most of its 18-year life. But beginning in the spring of 2003, a regional brokerage firm in Seattle began covering us and helped to raise our visibility within the investment community.

To facilitate telling our story to the investment community, we have been focused on transparency as a guiding principle of our investor communication efforts. Last year's annual report and Form 10-K included information on our timberlands that is not typical disclosure for other companies in our industry. We have included this same information again in the 2003 Form 10-K and offered additional information about our timberland holdings that should provide an even clearer picture of operating capabilities and valuations. The information included in this letter about land and timber values is also reflective of this push toward transparency that we believe will ultimately help the market set an appropriate value for our publicly traded equity.

A question that is occasionally put to us is "why don't you buy back your units?" Companies sometimes engage in stock buyback programs to demonstrate conviction that their stock is under-priced. In our case, as with many issuers whose securities are thinly traded, new SEC regulations make a unit repurchase program impractical for us because of volume restrictions that would limit the size and effectiveness of such a repurchase program. Even were that not so, we would be concerned that a buyback program could serve to exacerbate the liquidity issue. A more effective way to demonstrate our conviction in the value of the units is for insiders to invest in the units directly. On that score, we are putting our money where our mouth is. In the past two years, management and outside directors have purchased over 30,000 units, or 0.7% of the total units outstanding.

We are pleased with the appreciation in our unit value achieved over the last year. We believe we are doing the right thing in more proactively communicating with the investment community and financial marketplace. However, in the end, we will be judged less on story telling and more on how well we deliver value as expressed in operating performance that translates into solid, sustainable returns for our unitholders.

What are the Benefits of Being Organized as an MLP?

In discussions with prospective unitholders, we often discuss the advantages of owning timberland in a master limited partnership (MLP) form. But there remains a great deal of confusion about what exactly these benefits are to investors. This is exacerbated by the fact that Pope Resources is the last remaining MLP specializing in timberland ownership following Plum Creek's conversion to a REIT in 1999, US Timberlands going private in 2003, and Crown Pacific declaring bankruptcy in 2003.

Owning timberland in a pass-through entity like Pope Resources offers meaningful tax benefits that are not available to a shareholder in a corporation that owns timberland. This is because the tax rules allow non-corporate owners of timberland to elect to treat gain on the harvest of timber as capital gains income, taxable today at 15%. Furthermore, the costs associated with timberland management and all other general and administrative costs are treated as ordinary expense and are taxed at a significantly higher marginal tax rate. Since most of Pope Resources' revenue comes from log harvests, we generate an ordinary loss to go against the capital gain from log harvest income. Even though the bottom line results may be profitable, the interplay between the two rates creates a net tax benefit. This benefit, or "tax yield," is different for each unitholder based on when their units were purchased, but is as meaningful in an after-tax yield sense as our quarterly unit distribution. More details on the mechanics of this "tax yield" calculation can be found on our web page at www.orm.com.

Distribution Policy

An additional benefit of the MLP structure is that unitholder distributions are tax-free returns of capital. Since spin-off in 1985, Pope Resources has made distributions of varying amounts and with varying frequencies, both on a quarterly and annual basis. Starting in mid-2002, we began making quarterly distributions of $0.05 per unit. In mid-2003 we increased this quarterly rate to $0.07. At today's unit trading price the distribution rate equates to a tax-free yield of approximately 1.5%. This yield is additive to the "tax yield" described above, generating a meaningful total after-tax yield for our unitholders. The tax efficiency of the partnership format makes this an ideal way for taxable investors to own a piece of the timberland asset class.

It is important to note that Pope Resources has debt covenants that limit our distribution to 50% of net income. In addition, when setting our distribution rate we must be mindful of setting a rate that not only is debt covenant compliant, but also allows us to weather cyclical downturns in our product markets and retain some growth capital for future investments. Having said all that, we will regularly reexamine our distribution level as we aim to grow cash flow that creates in turn opportunities to grow our unitholder distributions.

Looking Ahead to 2004 and Beyond

We have ambitious goals for 2004 and beyond for this wonderful business that is Pope Resources. As we pursue our strategies, we have great opportunities to add value on a number of fronts:

- Continued care and feeding of the core tree farm assets,
- Realizing the promise of Gig Harbor and other portions of our real estate portfolio,
- Attaining a successful closing of our first timber fund, and
- Landing new timberland management clients.

That's a very full plate, but I can attest to the fact that the drive to be successful on all these fronts has energized our entire organization. Each of our businesses demands a clear focus on countless details that absorb day-to-day efforts. Our task is to ensure that all these efforts represent incremental steps towards fulfillment of a vision for building long-term unitholder value. While much progress has been made the past few years, there is much more to be done. I would like to thank our existing unitholders for your continued confidence and acknowledge new unitholders for placing your faith in our team. We thank you for your support and I welcome your comments, questions, and feedback as we work to both grow the company and add value to your lands.

David L. Nunes
President and CEO
March 31, 2004

UNIT PRICE PERFORMANCE

	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

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Forward-Looking Statements

"Note: Certain information in this report and in the preceding letter contains forward looking statements within the meaning of federal securities laws. This forward-looking information includes statements about management's plans and the possible results of those plans, as well as information about our prospective business, financial condition and results of operations. Readers should not construe these statements as assurances of future performance because they attempt to predict future events based on plans and known circumstances and trends, which could change as a result of shifts in strategy or unforeseen events. We have included in the attached report to limited partners a list of risks and uncertainties that may cause our results to fall short of our expectations, or that may otherwise negatively affect our business and financial condition. These factors are discussed beginning at page 25 of the report, and you should read these factors carefully. You also should recognize that the plans and projections discussed in this letter and the accompanying report, and the basis for those statements, are effective only as of the date of this letter and will not be updated."

Management's Discussion and Analysis of Financial Condition and Results of Operations

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 in 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.

Management's major opportunity and challenge is to profitably grow our revenue base. We have added almost 44,000 net 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 & 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.

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

	2003 vs. 2002		2002 vs. 2001	
(In thousands, except per unit data)	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)	-	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 Mgmnt & 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	0.24
Total change in earnings	$194	$0.04	$3,766	$0.84

(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 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:

	Softwood Sawlogs		Pulp, Hardwood, and Other		Totals	
Year	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:

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 our subsidiary, Olympic Resource Management LLC (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.

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.

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
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.

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:

Year ended	Balances at the Beginning of the Period	Additions to Accrual	Expenditures for Remediation	Balances at the End of the Period
December 31, 2001	$1,870,000	$-	$461,000	$1,409,000
December 31, 2002	1,409,000	730,000	1,510,000	629,000
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 ORMLLC.

SUPPLEMENTAL SEGMENT INFORMATION

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

	Three months ended Dec.31,		Twelve months ended Dec. 31,	
	2003	2002	**2003**	2002
(In thousands)				
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
Total	**$ 617**	$ 900	**$ 3,546**	$ 3,864
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)
Total	**$ 997**	$ 1,033	**$ 6,623**	$ 5,587
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)
EBITDDA	**$ 1,567**	$ 1,921	**$ 10,122**	$ 9,304

(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.

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.

Operating cash flow:	**December 31, 2003**	December 31, 2002	December 31, 2001
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)
Cash provided by operations	**$8,641**	$9,005	$11,237

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.

Investing activities:	**December 31, 2003**	December 31, 2002	December 31, 2001
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.

Financing activities:	**December 31, 2003**	December 31, 2002	December 31, 2001
Mortgage proceeds	**$ -**	$-	$30,000
Mortgage/LID payments	**(1,662)**	(1,110)	(3,460)
Cash distributions 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.

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.

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.

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.

	Payments Due By Period/Commitment Expiration Period				
Obligation or Commitment	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 MATTERS

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.

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.

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.

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.

CONSOLIDATED BALANCE SHEETS

As of December 31 (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
Total current assets	**12,778**	8,918
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
	72,110	73,830
Other assets:		
Contracts receivable, net of current portion	**196**	2,721
Other	**1,224**	1,319
	1,420	4,040
Total assets	**$86,308**	$86,788
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
Total current liabilities	**3,816**	5,126
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
Total liabilities and partners' capital	**$86,308**	$86,788

See accompanying notes to consolidated financial statements.

Years ended December 31 (In thousands, except per unit data)	2003	2002	2001
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
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)
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)	-
Total operating expenses	**($9,873)**	($15,251)	($24,358)
Operating income (loss):			
Fee timber	**$9,669**	$10,199	$9,190
Timberland management and consulting	**272**	919	1,685
Real estate	**(476)**	(1,667)	(2,709)
Unallocated general & administrative (G&A)	**(2,842)**	(3,864)	(5,110)
Total operating income:	**6,623**	5,587	3,056
Other income (expense):			
Interest expense	**(3,089)**	(3,324)	(3,443)
Interest income	**283**	430	482
Total other expense	**(2,806)**	(2,894)	(2,961)
Income (loss) before income taxes and minority interest	**3,817**	2,693	95
Income tax benefit (expense)	**(242)**	788	(356)
Income (loss) before minority interest	**3,575**	3,481	(261)
Minority interest	**(47)**	(147)	(171)
Net income (loss):	**$ 3,528**	$ 3,334	$ (432)
Earnings (loss) per unit:			
Basic	**$ 0.78**	$ 0.74	$ (0.10)
Diluted	**$ 0.78**	$ 0.74	$ (0.10)

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF PARTNERS' CAPITAL AND COMPREHENSIVE INCOME (LOSS)

(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.

Years ended December 31 (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.

NOTE 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).

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:

(In thousands, except per unit data)	**2003**	2002	2001
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.

Years ended December 31 (In thousands)	**2003**	2002	2001
Weighted average units outstanding			
Basic	**4,518**	4,518	4,526
Dilutive effect of unit options	**4**	2	-
Diluted	**4,522**	4,520	4,526

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.

NOTE 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.

NOTE 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 9.65%, collateralized by timberlands, with monthly interest payments and annual principal payments maturing April 2011	**$11,692**	$12,259
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

NOTE 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.

NOTE 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 :

(In thousands)	**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:

(In thousands)	**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:

	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:

(In thousands)	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:

(In thousands)	2003	2002
Net operating loss carry forward	**$840**	$907
Employee related accruals	**36**	221
Depreciation	**16**	3
Other	**119**	122
	$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.

NOTE 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 (years)
$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

NOTE 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.

NOTE 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.

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:

Year	Amount
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:

Year	Amount
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.

NOTE 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.

NOTE 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.

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)	**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 amoutns	**(99)**	(58)	(3)
Real Estate (External)	**$1,734**	$1,599	$13,143
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
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
Real Estate	**($386)**	($1,647)	($2,705)
Elimination of intersegment amounts	**(90)**	(20)	(4)
Real Estate (External)	**($476)**	($1,667)	($2,709)
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)
Operating income	**$6,623**	$5,587	$3,056
Elimination of intersegment amounts	**-**	-	-
Operating income (External)	**$6,623**	$5,587	$3,056

(In thousands)	2003	2002	2001
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
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

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

NOTE 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.

NOTE 12. QUARTERLY FINANCIAL INFORMATION (UN-AUDITED)

(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 $0.80 per diluted unit) benefit resulting from the restructuring of the Canadian subsidiary.

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

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.

KPMG LLP

KPMG LLP
Seattle, Washington
February 3, 2004

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.

Deloitte & Touche LLP

Deloitte & Touche LLP
Seattle, Washington
February 22, 2002

11-YEAR FINANCIAL SUMMARY

(Dollar amounts are in thousands, except per unit data)	2003	2002	2001	2000
Results of operations				
Revenues				
Fee Timber	**$ 22,916**	$ 23,298	$ 24,999	$ 21,444
Timberland Management & Consulting	**2,386**	7,295	9,703	11,011
Real Estate	**1,734**	1,599	13,143	18,202
Total revenues	**27,036**	32,192	47,845	50,657
Costs and expenses:				
Cost of sales	**10,540**	11,354	20,431	16,970
Operating expenses	**7,031**	10,074	17,998	20,209
General and administrative expenses	**2,842**	3,774	5,110	7,254
Impairment, exit, and environmental	**-**	1,403	1,250	12,101
Total operating costs and expenses	**20,413**	26,605	44,789	56,534
Income from operations	**6,623**	5,587	3,056	(5,877)
Depreciation, depletion, and amortization	**3,546**	3,864	7,698	2,899
Net interest expense	**2,806**	2,894	2,961	700
Income tax expense/(benefit)	**242**	(788)	356	(326)
Minority interest	**47**	147	171	-
Net income/(loss)	**3,528**	3,334	(432)	(6,251)
Per unit results				
Net income/(loss)	**$ 0.78**	$ 0.74	$ (0.10)	$ (1.38)
Distributions	**0.24**	0.10	-	0.40
Partners' capital	**10.18**	9.65	8.99	9.12
Weighted average units outstanding (000)	**4,522**	4,520	4,526	4,528
Cash Flow				
Net cash provided by operating activities	**$ 8,642**	$ 9,005	$ 11,237	$ 9,973
Investing activities	**2,000**	1,676	46,392	2,539
Distributions to unitholders	**1,084**	452	-	1,811
Payment/(issuance) of long-term debt	**1,662**	1,110	(26,540)	424
EBITDDA #	**10,122**	9,304	10,583	(2,978)
Free cash flow #	**3,595**	4,119	2,588 *	(6,603)
Financial position				
Working capital	**$ 8,962**	$ 3,792	$ (979)	$ 26,642
Land and timber, net of depletion	**69,003**	70,495	71,549	25,411
Buildings and equipment, net of depreciation	**3,107**	3,335	4,269	11,996
Total assets	**86,308**	86,788	84,187	60,857
Long-term debt, including current portion	**37,688**	39,239	39,667	13,127
Partners' capital	**46,036**	43,598	40,673	41,280
Financial Ratios #				
Current Ratio	**3.3**	1.7	0.8	5.4
Total Debt to Total Capitalization	**45%**	47%	49%	24%
Debt to EBITDDA	**3.7**	4.2	3.7	(4.4)
EBITDDA to Interest Expense	**3.3**	2.8	3.1	(2.3)
Return on Assets	**4%**	4%	-1%	-10%
Return on Equity	**8%**	8%	-1%	-14%
Enterprise value / EBITDDA	**8.7**	9.9	10.4	(42.8)
Unit Trading Prices #				
High	**$ 15.99**	$ 15.50	$ 24.50	$ 25.75
Low	**7.00**	9.30	14.00	18.88
Year-end close	**15.43**	10.11	14.75	24.50
Market capitalization (year end - $millions)	**70**	46	67	111
Enterprise value (year end - $millions)	**97**	78	105	114
Fee timber harvest (MMBF)	**45.0**	45.1	36.3	37.3
Employees at December 31, (full time equivalent) #	**48**	79	123	241

Definitions

EBITDDA = Net income before interest expense, interest income, taxes, depreciation, depletion, and amortization

Current Ratio = Current assets divided by current liabilities

Total Debt to Total Capitalization = Long-term debt plus current portion of long-term debt divided by total debt plus partners' capital

Debt to EBITDDA = Long-term debt, including current portion, divided by EBITDDA

EBITDDA to Interest Expense = EBITDDA divided by interest expense

Return on Assets = Net income divided by the average of beginning and ending total assets

Return on Equity = Net income divided by the average of beginning and ending partners' capital

1999	1998	1997	1996	1995	1994	1993
$ 23,467	$ 20,985	$ 19,694	$ 21,772	$ 26,604	$ 19,083	$ 25,716
11,705	8,906	-	-	-	-	-
15,681	13,061	10,415	11,241	9,558	11,002	8,615
50,853	42,952	30,109	33,013	36,162	30,085	34,331
15,799	12,120	10,937	12,160	13,437	12,947	10,787
20,092	13,355	9,773	7,275			
8,282	7,105	4,545	3,760	6,367	5,232	5,289
-	-	-	-	-	-	-
44,173	32,580	25,255	23,195	19,804	18,179	16,076
6,680	10,363	4,854	9,818	14,799	10,572	16,576
2,683	2,053	1,647	1,458	1,559	1,334	1,679
1,039	788	1,008	1,106	1,326	1,439	1,751
259	310	-	-	-	-	-
316	256	-	-	-	-	-
5,066	8,792	3,509	8,334	13,090	8,893	14,825
$ 1.11	$ 1.94	$ 0.78	$ 1.84	$ 2.90	$ 1.93	$ 3.00
0.40	0.40	0.49	0.82	1.06	0.72	1.20
10.90	10.16	8.61	8.32	7.30	5.48	4.51
4,548	4,534	4,526	4,519	4,520	4,605	4,938
$ 8,347	$ 9,152	$ 5,820	$ 12,330	$ 17,040	$ 7,416	$ 20,071
3,764	5,582	3,515	2,581	3,564	4,137	1,206
1,810	2,260	1,763	3,706	4,790	3,260	5,560
497	2,594	333	3,289	7,663	(1,201)	(2,572)
9,047	11,943	6,164	10,898	15,975	11,666	18,255
4,681	3,805	2,069	5,469	2,840	6,068	15,057
$ 15,720	$ 12,685	$ 13,816	$ 14,635	$ 12,297	$ 12,991	$ 9,030
28,002	27,973	26,095	26,077	27,068	24,443	21,455
15,921	16,028	10,944	9,600	9,040	9,484	9,642
66,880	62,706	56,319	54,599	54,147	52,879	48,101
13,688	14,200	14,674	15,003	18,292	25,773	24,478
49,302	45,896	38,911	37,616	32,988	24,824	20,875
5.0	5.5	6.1	9.5	7.1	8.4	4.6
22%	24%	27%	29%	36%	51%	54%
1.5	1.2	2.4	1.4	1.1	2.2	1.3
7.0	8.5	4.3	7.9	9.3	6.2	7.7
8%	15%	6%	15%	24%	18%	30%
11%	21%	9%	24%	45%	39%	61%
16.5	12.8	20.1	9.8	6.7	8.6	4.8
$ 35.00	$ 32.50	$ 31.00	$ 23.40	$ 21.80	$ 18.80	$ 16.40
27.88	24.06	17.40	15.80	15.25	14.40	9.60
29.25	32.50	30.00	20.00	20.80	16.80	14.80
132	147	136	90	94	77	74
141	158	147	102	111	103	98
42.0	38.9	33.2	31.6	37.9	29.7	36.3
257	157	88	56	62	56	80

Definitions (continued):

Enterprise value / EBITDDA = Average of beginning and ending enterprise value divided by EBITDDA

Weighted Average Units Outstanding = Weighted average units outstanding for the year plus the effect of dilutive unit options outstanding

Free cash flow = net income plus depreciation, depletion, and cost of land sold less principal payments and recurring capital expenditures

Enterprise value = market capitalization less cash plus total debt outstanding

Footnotes

* The purchase of the Columbia tree farm in 2001 was not included in the calculation of free cash flow.

\# Unaudited

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