To Our Unitholders:

David L. Nunes
President & CEO

Pope Resources enjoyed a breakout year in 2004, largely on the strength of significantly higher harvest volumes and improved log pricing from our Fee Timber segment. With a strong year as well from our Real Estate segment, net income for the partnership in 2004 surged to $10.2 million, or $2.22 per fully diluted unit, compared with $3.5 million, or $0.78 per fully diluted unit, in 2003. In 2004, we also generated a total of $18.9 million in EBITDDA (earnings before interest, taxes, depreciation, depletion, and amortization), our all-time high for this cash flow metric in a single year. This strong cash flow facilitated one of our busiest acquisition years ever, in which we closed five land transactions – three in Fee Timber, two in Real Estate – for an aggregate cost of $22 million.

Following such a strong year, a natural question revolves around the sustainability of our 2004 earnings and cash flow results. Was this an aberration, or has Pope Resources reached a new plateau of sustainable performance? After describing the primary factors that contributed to our 2004 performance, I will offer my thoughts on the question of sustainability as well as provide some insights into our strategy going forward.

Ingredients for a Banner Year

Financial and operating highlights for this past year, by segment, are described below:

→ *Fee Timber.* We closed three small timberland acquisitions during 2004, adding approximately 4,700 acres and 57 million board feet (MMBF) of merchantable timber to our Fee Timber portfolio at a total cost of $21 million. This allowed us to increase our 2004 harvest volume by 34%, or 15 MMBF, to a total of 60 MMBF. This added harvest volume came at an opportune time, as average log prices increased 11%, or $53 per thousand board feet (MBF), to $529 per MBF. The combination of these two important factors powered Fee Timber operating income to $15 million, representing an increase of 56% over 2003. These acquisitions should also allow us to increase our harvest level in 2005 to approximately 79 MMBF, before settling down to a projected long-term annual rate of 53 MMBF beginning in 2006.

Timberland Management & Consulting. This past year was a building year for our third-party Timberland Management & Consulting segment that operates under the trade name of Olympic Resource Management (ORM). Inasmuch as we completed a large timberland management assignment in late 2003, we entered 2004 without a major timberland management client for the first time since 1997. As a result, this segment generated an operating loss of $0.6 million for the year while we focused our efforts on two areas of potential growth.

We launched an offering for a $50 million private equity timber fund, ORM Timber Fund I, LP, in which Pope Resources will co-invest 10% of the capital raised alongside third-party accredited investors. For Pope Resources, participation in this fund will constitute our primary growth vehicle in owned timberland. We expect to close the fund in early 2005, and will then begin looking for timberland properties to acquire on behalf of the fund.

During 2004, we also served in an advisory capacity for the secured lenders of Crown Pacific, a timberland and sawmill owning entity that filed for bankruptcy in 2003. In late December 2004 at the conclusion of the bankruptcy process, ownership of Crown Pacific's 522,000 acres of timberlands in Washington and Oregon was transferred to a new company called Cascade Timberlands, owned and controlled by these lenders. Cascade Timberlands hired ORM as its timberland manager. When ORM assumed management responsibility for these lands in January 2005, we opened three new field offices and hired a number of foresters. We expect this contract to bridge the time until our timber fund business is up and running at a sustainable scale. In the meantime, this new contract should provide for a meaningful stream of revenue and cash flow for ORM.

Real Estate. On the strength of two important land sales, our Real Estate segment recorded an operating profit of $1.6 million, its first profit in six years. We have worked hard over the past number of years to make important value-enhancing investments in our 3,000-acre higher-and-better-use Real Estate portfolio. This past year marked the beginning of what we expect to be a five-year period of realizing significant revenues

...in 2004 we harvested 60 MMBF of timber off our lands, and in 2005 we plan to increase that annual harvest level to 79 MMBF.

from many of these investments. In 2004, we sold our Homestead project in Hansville, Washington, a 205-acre project that received preliminary plat approval for 89 lots in 2002. We also sold a 426-acre parcel to Kitsap County for use as a regional heritage park. This heritage park site is adjacent to our 720-acre Arborwood project just outside of Kingston, Washington. While providing benefits for the county, we also expect this park to improve the value of our neighboring Arborwood project.

We also acquired two small land parcels, one adjacent to our Gig Harbor project and the other adjoining Port Gamble. The Gig Harbor parcel will allow us to consolidate storm retention ponds serving multiple parcels, which will preserve more high-value land to be sold to other customers. The Port Gamble parcel is an in-holding in the residential portion of town that will eventually be sold for home sites.

General and Administrative. While seeing a 46% increase in our total revenues and absorbing significant new costs associated with Sarbanes-Oxley compliance, our general and administrative costs increased by only a modest 5% in 2004 to $3 million. As a result, our general and administrative costs, measured as a percentage of total revenues, declined to 7.5%, the lowest level in the partnership's history. While we expect to absorb higher Sarbanes-Oxley compliance costs in 2005 associated with implementation of Section 404 internal control measures, we expect general and administrative costs this next year to continue to decline as a percentage of total revenues.

For a more detailed description of 2004 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.

Sustainability of 2004 Results and Strategic Context

Creating a stream of cash flow from owning and managing timberland. As mentioned earlier in this letter, in 2004 we harvested 60 MMBF of timber off our lands, and in 2005 we plan to increase that annual harvest level to 79 MMBF. These increases in harvest volume for 2004 and 2005 are attributable to the three timberland acquisitions we closed in 2004 and do not represent sustainable operating levels going forward. In 2006 and thereafter, we expect the annual harvest to be at a long-term sustainable level of 53 MMBF. This represents a meaningful increase above the 45 MMBF harvest level established in 2002 and is attributable to a number of factors, including the maturing of younger age classes of timber, revised standing timber volumes, and the aforementioned 2004 acquisitions.

We expect the higher harvest volume in 2005 to produce more cash flow, but not necessarily more income as the depletion expense on this added volume will be much higher. Log prices will be driven by a myriad of factors, including housing starts, interest rates, repair and remodel spending, and the strength of the dollar relative to other currencies. If log prices do not decline significantly during 2005, we expect operating income from this segment in 2005 to be comparable to 2004.

The primary focus of our management team is adding value to the lands under our stewardship. Ensuring sustainability is a key attribute of true value creation. From a timberland perspective, this translates to growing our overall asset base while at the same time managing the portfolio of age classes to balance current cash flow with long-term value creation. We recognize that our small size dictates that we will never lead the markets in which we participate. Nonetheless, we possess sufficient scale, invest in sophisticated management systems, and employ outstanding people to assure that our costs and investment returns remain competitive. We capitalized on these capabilities through the three successful timberland acquisitions made during 2004. While small in size, we believe these transactions will generate competitive returns for our unitholders over time.

Investing in and managing timberland portfolios for others. Performance in 2005 by our Timberland Management & Consulting segment is expected to be significantly stronger than in 2004 based on the new timberland management contract for Cascade Timberlands. We do not expect meaningful earnings from our new timber fund until it is fully invested in timberland properties.

We view our success in securing large-scale timberland management contracts as testament to our organizational capabilities and competitiveness. Our third-party timberland management business has provided an important stream of revenue to reduce the net effective cost of managing our own lands. Our emphasis on growing this business has also helped us to improve the management of our own lands, both from the standpoint of investing in technology and in broadening the experience base of our people. We have stayed the course on our strategy as large-scale management assignments have wound down because we recognize that our investment in people and systems will provide the competitive

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edge to securing new business. In 2004, we retained key talent while lacking a large-scale third-party timberland management contract, and were ultimately rewarded for this patience with the new Cascade Timberlands assignment at the beginning of 2005.

This same emphasis on people and systems applies to our new timber fund activities. With the large influx of institutional capital flowing into the timberland asset class over the past decade, we have seen the market for timberland properties become more efficiently valued. As this has occurred, it has shifted more emphasis on management capabilities to drive out competitive returns, and we believe that our timber fund will create benefits for us by increasing management revenues and by generating investment returns.

"Harvests" of higher-and-better-use opportunities. Real Estate performance for the next few years will depend largely on the timing of sales from our Gig Harbor and Bremerton projects, as well as the absorption rate of rural residential land parcels we are actively marketing. While we continue to move forward with the planning for road and water infrastructure investments in our Gig Harbor project, we suffered some unexpected delays in permitting during 2004 that we expect will push the closing of the Costco Wholesale parcel into 2006. Notwithstanding this delay, we remain optimistic about the prospects for this project, which should benefit from the new bridge connecting Gig Harbor and Tacoma that is expected to be completed in 2007. In response to a robust Puget Sound residential market, we are actively marketing the 203-acre residential portion of our Bremerton project.

The real estate side of our business is keenly focused on generating long-term returns. As mentioned in earlier annual reports, we recognized years ago that Washington State's Growth Management Act would ultimately constrain the supply of potential development land in the State. A large investment in time and money was made to try to have as much of our lands as possible placed within urban growth boundaries where the zoning would drive out higher values. We expect this to be demonstrated over the next few years in Gig Harbor and Bremerton as we sell portions of these projects. We are also hopeful that a portion of our large Arborwood project in Kingston, Washington will be placed within an urban growth boundary that is expected to be finalized in the next year.

The final piece of our strategy, which intersects both our Fee Timber and Real Estate segments, seeks to extract higher-and-better-use real estate values from lands that will ultimately not remain in our long-term timberland portfolio. From a Fee Timber perspective, this strategy will help smooth out our age class distribution, which is still heavy to lands less than 25 years old, by transferring some of these lands to our Real Estate segment. Our real estate personnel will in turn develop strategies for selling these lands, which will be influenced by zoning regulations and the market absorption of smaller rural residential parcels. The net effect is intended to pull cash flows forward to earlier periods and improve the overall return to our unitholders. Over the past few years, as we have seen stronger markets for rural residential parcels, we have transferred more lands into our Real Estate segment and made the investments in subdividing some of these lands in order to ramp up future sales. It is our goal to have a small but steady supply of these lands to sell each year out of the total 3,000 acres in this portfolio.

Unit Price Appreciation During 2004 and Early 2005

One of the themes I have focused on in the last couple of annual reports was the deep discount between the price of our units and the underlying value of our timberland and real estate assets. While we believe there is still a modest discount to underlying asset values, we also recognize the significant unit price appreciation we have experienced in 2004 and early 2005 certainly mitigates the degree to which our value story is a compelling one. While some of this recent price appreciation is likely a function of our improved results, we also believe that some of it is related to broader stock price appreciation across the forest products industry as well as the result of favorable references by analysts and investment newsletters.

We have also made a concerted effort to tell our story to a broader cross section of the investment community and by communicating with greater transparency our financial results and the underlying market dynamics influencing our asset values. All these factors have contributed to higher levels of trading, which we believe is very important for our thinly traded partnership units. Ultimately, this higher degree of liquidity should improve the efficiency of our valuation and translate into a unit value that more closely mirrors the underlying value of our assets and in which our earnings and cash flow trading multiples more closely resemble those of our peer companies.

Distribution Strategy

Since reinstating our distribution in the second half of 2002, we have increased the payout per unit each year based on our assessment of cash flow generation, debt service requirements, and planned

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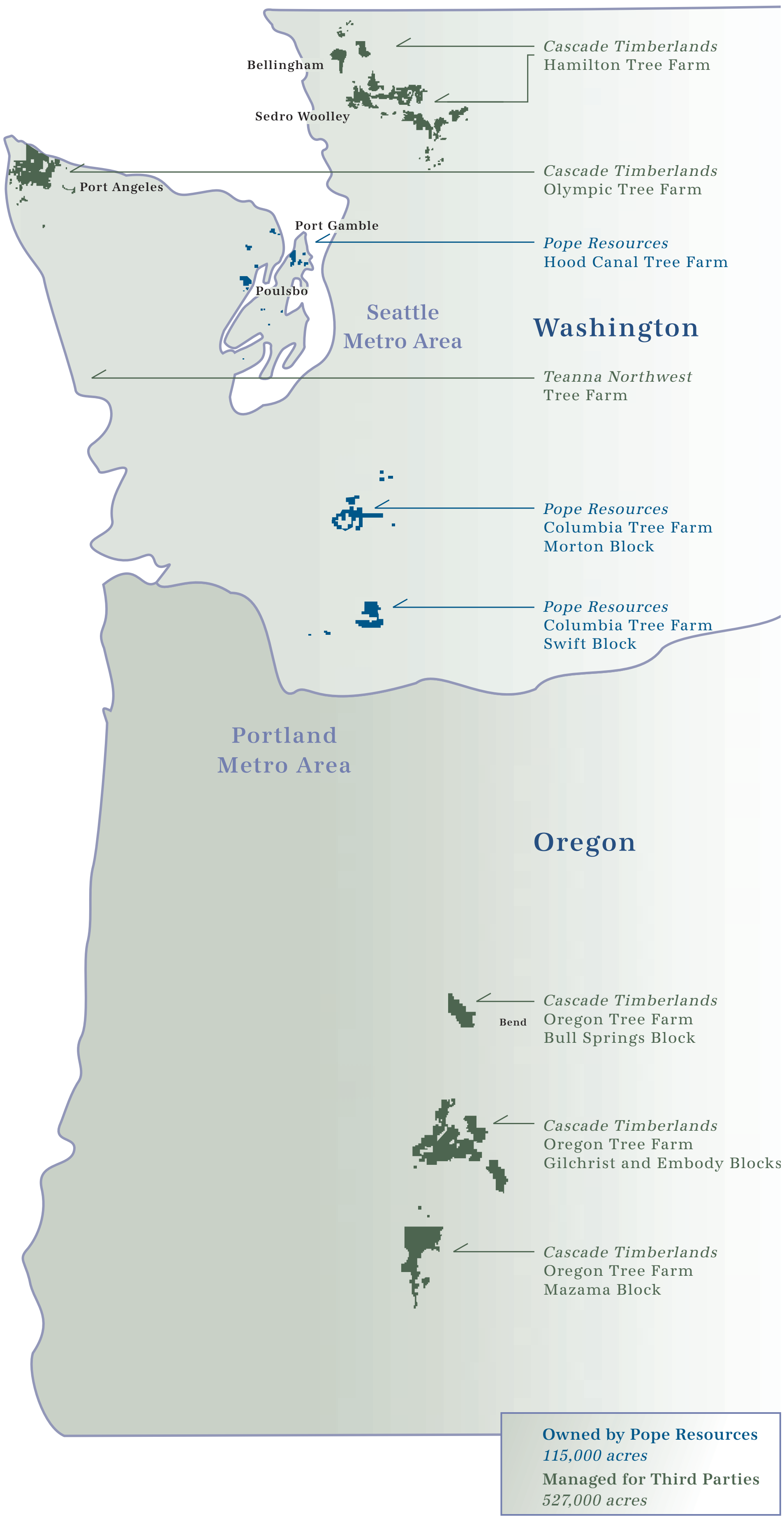
capital expenditures. We were delighted to be able to more than double our distribution in 2004, increasing it from $0.07 to $0.15 per quarter. At today's unit trading price, this distribution equates to a tax-free yield of approximately 1.6%. We will continue to reexamine our distribution level midway through each year as we aim to maintain a sustainable distribution while at the same time assuring we have adequate growth capital.

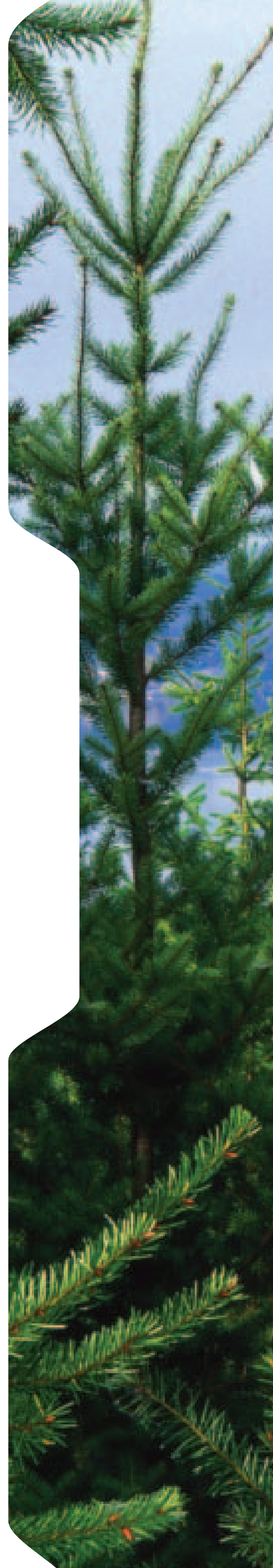
Looking to the Future

In 2004, we not only enjoyed strong bottom line results, but also successfully grew our future base of business as many of our growth initiatives are beginning to bear fruit. We take pride in our strategic mix of owning timberland and real estate properties while providing third-party timberland management expertise to other owners of timberland. We feel this unique strategic mix helps us to hone our skills and ultimately to successfully compete for new business. I would like to thank our dedicated employees for their energy, enthusiasm, and commitment to our vision. I would also like to thank our unitholders for your support and continued confidence in our team. As always, we welcome your comments, questions, and feedback as we work to both grow the partnership and add value to your lands.

David L. Nunes
President and CEO
March 31, 2005



Bellingham
Sedro Woolley
Port Angeles
Port Gamble
Poulsbo
Seattle Metro Area
Washington
Portland Metro Area
Oregon
Bend
Cascade Timberlands
Hamilton Tree Farm
Cascade Timberlands
Olympic Tree Farm
Pope Resources
Hood Canal Tree Farm
Teanna Northwest
Tree Farm
Pope Resources
Columbia Tree Farm
Morton Block
Pope Resources
Columbia Tree Farm
Swift Block
Cascade Timberlands
Oregon Tree Farm
Bull Springs Block
Cascade Timberlands
Oregon Tree Farm
Gilchrist and Embody Blocks
Cascade Timberlands
Oregon Tree Farm
Mazama Block
Owned by Pope Resources
115,000 acres
Managed for Third Parties
527,000 acres

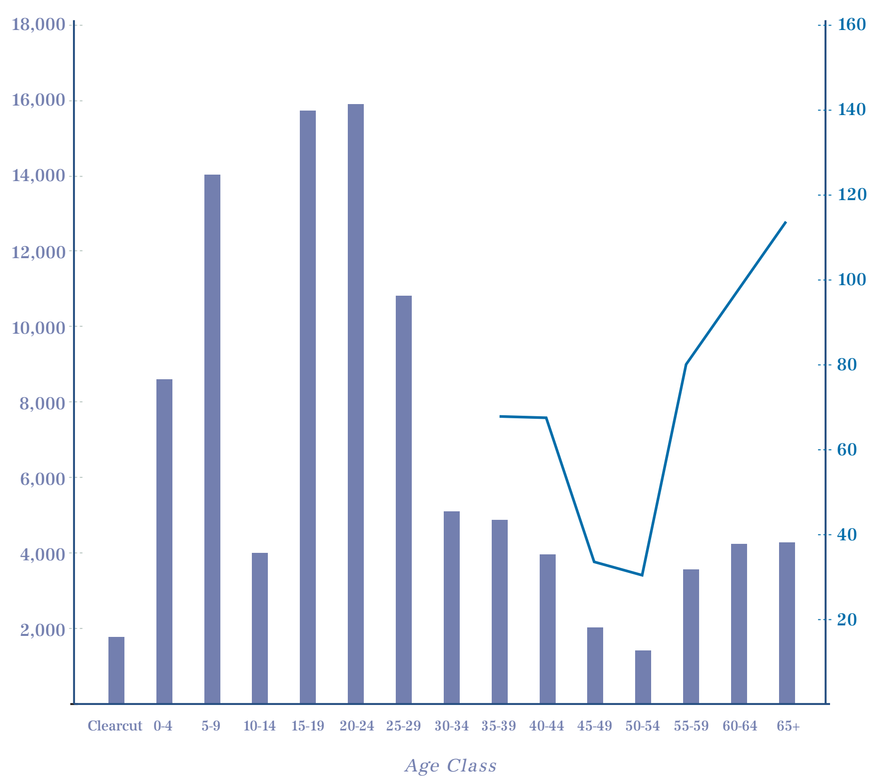


At the beginning of 2005, Olympic Resource Management (ORM), our third-party timberland management subsidiary, assumed management control of the 522,000-acre Cascade Timberlands portfolio in Washington and Oregon. ORM now manages 642,000 acres of timberland on behalf of Pope Resources and other owners, as seen in the map on the opposite page.

The long-term harvest level of the timberlands owned by Pope Resources is determined by analyzing the standing timber inventory contained within the 100,000 acres of productive timberland from our Fee Timber portfolio. The age class distribution of these lands, as well as the distribution of the 486 million board feet of merchantable timber inventory contained within stands older than 35 years, appears in the chart below.

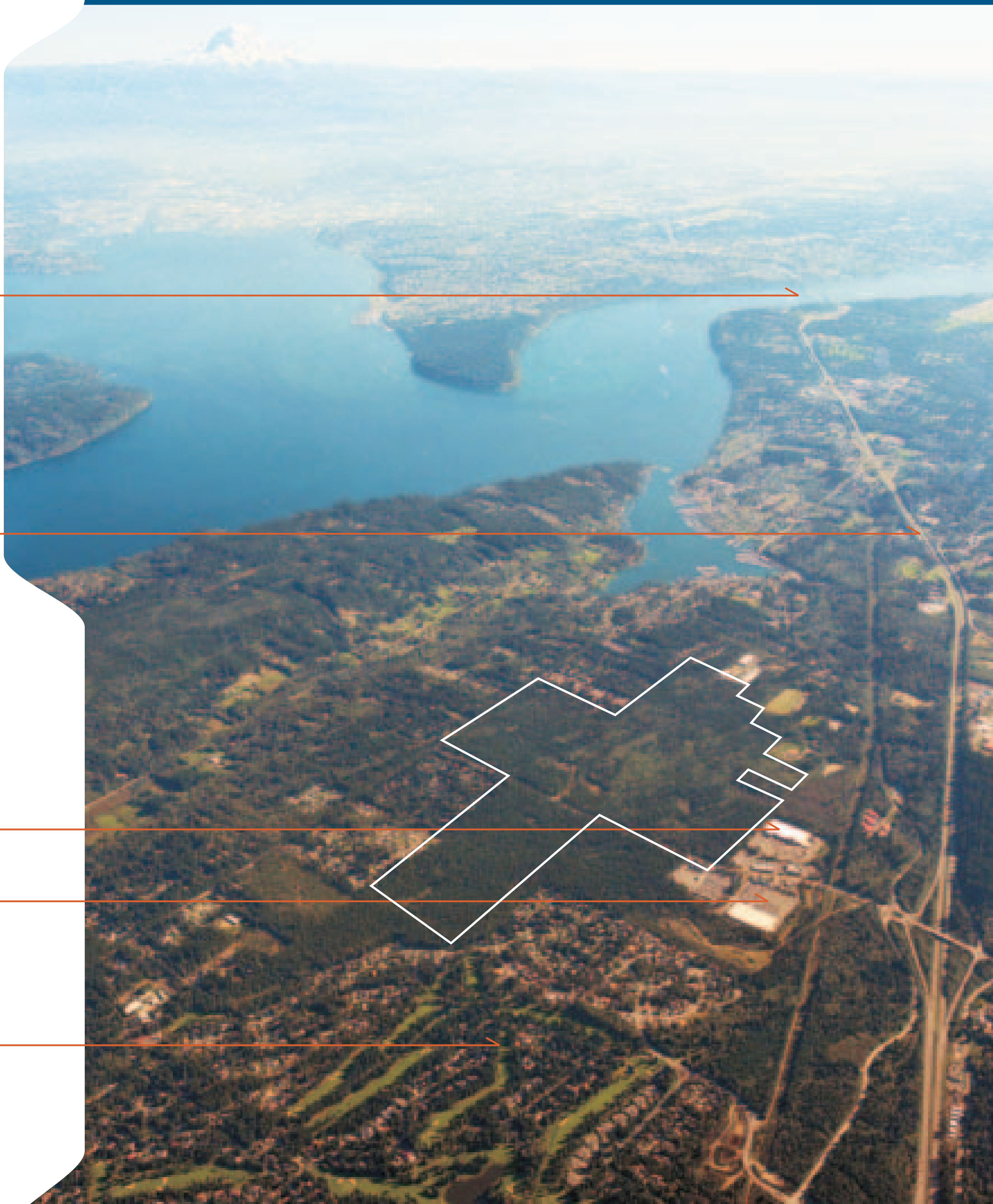
Productive Acres and Inventory

*Total Productive Acres: **99,556 Acres (left axis)***
*Total Merchantable Inventory: **486 MMBF (right axis)***



Real Estate

Gig Harbor The 320-acre Harbor Hill project in Gig Harbor contains 35 acres of commercial land, 72 acres of business park, and 213 acres of residential property with zoning for the eventual construction of 1,000 homes. Construction will begin on road, water, and sewer infrastructure in 2005. Our first commercial property closing is expected in 2006 with the sale of 17 acres to Costco Wholesale. The project, nestled between existing residential properties and a new commercial development, is expected to benefit from the opening of a second span of the bridge connecting Gig Harbor and Tacoma, scheduled to be completed in 2007.



Bremerton The 263-acre West Hills project is located four miles from downtown Bremerton. In 2000, Pope Resources secured a 15-year development agreement for this project, which contains 60 acres of industrial land and 203 acres of residential land. The development agreement vested a subdivision approval for the industrial land and concept approval for the residential land. We are actively marketing the residential portion of the project, while the industrial portion of the property will be developed in two phases.

Kingston The 726-acre Arborwood residential project is located one mile from Kingston. In 2004, Pope Resources sold 426 acres west of the project to Kitsap County for a regional heritage park. This project is expected to benefit from the February 2005 initiation of passenger-only ferry service between Kingston and downtown Seattle. In addition, we are working with Kitsap County to define an expansion of the Kingston Urban Growth Area boundary in accordance with Washington State's Growth Management Act. We expect this work to be completed in 2006. If the boundary is expanded to include the eastern portion of our project, zoning densities will be greatly increased.

Port Gamble The historic town of Port Gamble, where Pope & Talbot (P&T) first established roots in the Pacific Northwest in 1853, was transferred to Pope Resources in 1985 when the Partnership was originally formed. Following the closure of the mill in 1995, Pope Resources assumed full management of both the town and mill site. Pope Resources and P&T recently completed an extensive multi-year voluntary environmental clean-up effort that will help pave the way for redevelopment of the mill site and town. New zoning was awarded to the town by Kitsap County in 1999. Since that time we have reinvigorated the town by converting many of the historic homes to tourism-related business uses. The town is also promoted for weddings, festivals, and meetings.

UNIT PRICE PERFORMANCE

	2004		2003	
	High	Low	High	Low
First Quarter	**$24.00**	**$15.00**	$12.50	$7.00
Second Quarter	**20.74**	**17.14**	12.40	8.95
Third Quarter	**24.00**	**18.02**	14.65	11.70
Fourth Quarter	**25.25**	**23.04**	15.99	12.56

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

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

EXECUTIVE OVERVIEW

Pope Resources, A Delaware Limited Partnership ("we" or the "Partnership"), was organized in October 1985 as a result of a spin-off by Pope & Talbot, Inc. ("P&T"). Pope Resources is engaged in three primary businesses. The first, and by far most significant segment in terms of owned assets and operations, is the Fee Timber segment. Operations in this segment consist of growing timber to be harvested as logs for sale to export and domestic manufacturers. The second most significant business in terms of total assets owned is the development and sale of real estate. Real Estate activities primarily take the form of securing permits, entitlements, and, in some cases, installing infrastructure for raw land development 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. An additional activity that we expect will become a more significant component of our Real Estate revenue mix is the sale of rural residential lots to end-users. These lots will involve minimal development infrastructure and will range in size from 5 to 80 acres. 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, 2004, we owned over 115,000 acres of timberland in western Washington state plus 3,000 acres of real estate held for development. 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 U.S. (and to a lesser degree in Japan); interest rates; and currency exchange rates, particularly those between the U.S. 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 domestically. Currency exchange rates influence the competitiveness of our primary product compared to logs that might be imported from Canada, Europe, or the Southern Hemisphere. Our export logs are sold to domestic intermediaries who then export the logs. A favorable US$/yen exchange rate can help these intermediaries compete in the Japanese market with logs that originate from Canada, Europe, or the Southern Hemisphere, thus increasing the price that we are able to realize from the sale of this export quality log volume.

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

Management's major opportunity and challenge is to profitably grow our revenue base. We have added almost 50,000 acres over the last four years to our fee timberland portfolio including 4,700 acres during 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 began managing 522,000 acres of timberland in January 2005 for Cascade Timberlands LLC and are seeking to secure additional income opportunities for this segment.

Our consolidated revenues in 2004, 2003, and 2002, on a percentage basis by segment, are as follows:

Segment	2004	2003	2002
Fee Timber	85%	85%	72%
Timberland Management & Consulting	4%	9%	23%
Real Estate	11%	6%	5%

Further segment financial information is presented in Note 9 to the Partnership's Consolidated Financial Statements included with this report.

RESULTS OF OPERATIONS

The following table reconciles net income for the years ended December 31, 2004 to 2003 and 2003 to 2002. 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's Discussion and Analysis of Financial Condition and Results of Operations.

YEAR TO YEAR COMPARISONS
(In thousands, except per unit data)

	2004 vs. 2003		2003 vs. 2002	
	Total	Per Unit	Total	Per Unit
Net income:				
Year ended December 31, 2004	$ 10,176	$ 2.22		
Year ended December 31, 2003	3,528	0.78	$ 3,528	$ 0.78
Year ended December 31, 2002			3,334	0.74
Variance	$ 6,648	$ 1.44	$ 194	$ 0.04
Detail of earnings variance:				
Fee Timber				
Log price realizations (A)	$ 2,972	$ 0.64	$ (693)	$ (0.14)
Log volumes (B)	5,165	1.12	(2)	-
Timberland sale income	(43)	(0.01)	236	0.05
Depletion	(2,206)	(0.48)	198	0.04
Other Fee Timber	(431)	(0.09)	(269)	(0.06)
Timberland Management & Consulting				
Management fee changes	547	0.12	(3,791)	(0.78)
Other Timberland Mgmnt & Consulting	(1,417)	(0.31)	3,144	0.65
Real Estate				
Development property sales	2,631	0.57	204	0.04
Environmental remediation	(466)	(0.10)	730	0.15
Other Real Estate	(103)	(0.02)	257	0.05
General & administrative costs	(144)	(0.03)	1,022	0.21
Interest expense	37	0.01	235	0.05
Other (taxes, minority int., interest inc.)	106	0.02	(1,077)	(0.22)
Total change in earnings	$ 6,648	$ 1.44	$ 194	$ 0.04

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

FEE TIMBER

Revenue and Operating Income

Fee Timber revenue is earned primarily from the harvest and sale of logs from the Partnership's 115,000 acres of fee timberland located in western Washington and to a lesser extent from the sale of gravel and cellular communication tower leases. We acquired nearly 4,700 acres of timberland during 2004 in three separate transactions. The timber on two of these transactions consisted primarily of merchantable timber, with the third property also comprising a meaningful proportion of merchantable timber. Taken together, the age-class characteristics of the three acquired properties resulted in an increase in harvest volume in 2004, and will also result in an even higher expected increase in harvest volume in 2005.

Revenue and operating income generated by the Fee Timber segment for each year in the three-year period ended December 31, 2004, are as follows:

Year ended	Timber revenue	Mineral, cell tower,and other revenue	Total segment revenue	Operating income
December 31, 2004	**$31.9 million**	**$1.7 million**	**$33.6 million**	**$15.1 million**
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

Fiscal Year 2004 Compared to 2003

Fee Timber revenue increased $10.7 million, or 47%, to $33.6 million in 2004 from $22.9 million in 2003. Harvest volume increased to 60 million board feet (MMBF) from 45 MMBF for 2003. The increase in harvest volume combined with a $53 per thousand board feet (MBF) increase in average price realized resulted in the increase in revenue. Operating income increased $5.4 million, or 56%, to $15.1 million from $9.7 million in 2003. The increase in operating income is due to the increase in revenue partially offset by increase in cost of sales and operating expenses.

The Partnership regularly adjusts its timberland portfolio of holdings as part of its active management through acquisitions and dispositions of smaller parcels. During 2004 the Partnership closed three separate timberlands acquisitions representing nearly 4,700 acres of timberland. Two of the three acquisitions represented acres that were virtually all harvestable immediately. The third acquisition parcel was a blend of merchantable and younger timber. As a result, annual harvest levels in 2005 are expected to increase to 79 MMBF, which is approximately 26 MMBF over our projected annual sustainable harvest of 53 MMBF. Assuming we do not acquire any additional timberland in 2005, the annual harvest in 2006 is expected to return to our sustainable harvest level of 53 MMBF.

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 volumes were essentially identical between 2003 and 2002 at 45MMBF. 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.

Export Log Market

Log revenue from our timberland ownership is significantly affected by export log market conditions. Sales to the export market totaled 18%, 11%, and 16% of log revenue for 2004, 2003, and 2002, respectively. The vast majority of our export log volume is sold to Japan. Indirect sales to the export market totaled 8.9 MMBF, 4.2 MMBF, and 6.3 MMBF of softwood logs for 2004, 2003, and 2002, respectively. The increase in volume sold through the export market in 2004 is representative of the strengthening export market experienced in 2004 combined with a 2004 harvest plan that included timber stands with a large component of export quality timber volume. A falling U.S. dollar and improved economic conditions in Japan brought on an improvement in the export market for logs. As export markets improve, volume that in a weaker market would be sold to the domestic market is diverted to the export market where log volume commands a higher price. The decline in volume sold to the export market in 2003 relative to 2002 is indicative of the soft economic conditions in Japan during 2003. The average price per MBF realized for export logs sold was $658, $574, and $574 for 2004, 2003, and 2002, respectively.

Prices realized from export logs in 2004 increased 15% from 2003. This improvement is indicative of the general improvement in export market conditions discussed above and an improvement in the quality of logs sold to the export market in 2004. The 3,300-acre timberland acquisition completed in January 2004 contained a large component of high quality logs that command a premium price on the export market. Export prices realized did not change from 2002 to 2003. Low export prices realized in 2003 and 2002 were driven largely by weak economic conditions in Japan and structural changes to the market for logs.

Domestic Log Market

Domestic sawlog volumes were 38.9 MMBF, 32.0 MMBF, and 30.6 MMBF in 2004, 2003, and 2002, respectively. The increase in domestic volume sold in 2004 from 2003 is due to the overall increase in log volume harvested partially offset by the increase in volume sold to the export market. Average realized domestic log prices per MBF were $571, $514, and $535 in 2004, 2003, and 2002, respectively. The price realized from the domestic market in 2004 relative to 2003 is due to strong housing starts in the U.S. combined with the improved export market driving prices higher for the domestic market. Prices realized from domestic log sales declined from 2002 to 2003 due to two separate factors. First, lumber imports from Canada had increased during 2003 as a result of the softwood lumber dispute between the U.S. and Canada. As a result, log prices declined as domestic mills were competing with imported Canadian lumber. Second, the domestic log market was saturated with logs that were redirected away from weak Japanese export markets in 2003.

Other Timber Products

Pulpwood, hardwood, and other log volumes represented 21%, 20%, and 18% of total harvest volume for 2004, 2003, and 2002, respectively. The increase in pulpwood, hardwood and other log volumes in 2004 relative to 2003 is due to harvesting more low quality stands from the Hood Canal tree farm in 2004 which resulted in a large component of pulp log volume. The increase in other timber volume sold in 2003 relative to 2002 is due to the harvesting of lower-quality hemlock stands on the Hood Canal tree farm. Logs sold as pulpwood generally command lower prices than logs sold as sawlogs in the domestic market. To the extent log volume can be moved from pulpwood to domestic sawlog sorts, higher revenue is realized. Other log prices were $309, $292, and $249 per MBF for 2004, 2003, and 2002, respectively. The increase in price realized on other timber products in 2004 as compared to 2003 results from the overall improvement in log prices forcing mills to raise prices to obtain log volume to keep mills operating. The improvement in price realized on pulpwood in 2003 relative to 2002 was caused by a decline in local pulp log inventories.

Harvest Volumes and Seasonality

We harvested the following timber for each year in the three-year period ended December 31, 2004:

	Softwood Sawlogs		Pulp, Hardwood, and Other		Totals	
Year	Volume (MMBF)	Price ($/MBF)	Volume (MMBF)	Price ($/MBF)	Volume (MMBF)	Price ($/MBF)
2004	**47.8**	**$587**	**12.5**	**$309**	**60.3**	**$529**
2003	36.2	$521	8.8	$292	45.0	$476
2002	36.9	$542	8.2	$249	45.1	$488

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. 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 2004 management decided to front load harvest toward the beginning of the year to take advantage of an improved export log market. Though not as dramatically as 2004, harvest activities were also front-loaded in 2003 as log prices had improved in the first quarter of 2003 over those experienced at the end of 2002. Harvest activities in 2002 were relatively consistent from quarter to quarter.

Harvest activities in 2005 may be concentrated during the months of winter and early spring. The Pacific Northwest is experiencing an unusually dry winter, which is expected to result in very dry conditions during the summer months. During dry conditions harvest activities are restricted or curtailed altogether due to the risk of fire.

The percentage of annual harvest volume harvested by quarter for each year in the three-year period ended December 31, 2004 is as follows:

Year ended	Q1	Q2	Q3	Q4
December 31, 2004	**34%**	**29%**	**22%**	**15%**
December 31, 2003	29%	28%	27%	16%
December 31, 2002	16%	32%	27%	25%

Cost of Sales

Fee Timber cost of sales for each year in the three-year period ended December 31, 2004, are as follows:

Year ended	Depletion	Harvest, haul and other	Total cost of sales
December 31, 2004	**$5.1 million**	**$ 9.6 million**	**$14.7 million**
December 31, 2003	2.9 million	7.3 million	10.2 million
December 31, 2002	3.1 million	7.3 million	10.4 million

Depletion costs from harvest activities averaged $84, $64, and $68, per MBF for 2004, 2003, and 2002 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 years. The depletion rate in 2004 increased from the rate in 2003 due to the addition of two new depletion pools for two timberland acquisitions made in the last half of 2004. The decrease in depletion rate from 2003 to 2002 reflects the interplay between removing harvested timber stands and adding new depletion layers.

Depletion cost in 2005 will include expense recognized from one of the separate depletion pools. These separate depletion pools were created when we purchased two separate timber tracts in 2004 that were almost entirely merchantable timber. We expect to harvest approximately 79 MMBF in 2005 and 21 MMBF of this harvest is expected to come from one of these separate pools resulting in depletion cost of $7.6 million. The depletion cost on this harvest is expected to approximate the net stumpage otherwise realized on the sale of this particular timber, which will result in almost no net income impact from the harvest but will nonetheless generate operating cash flow. When the depletion cost from this separate pool is blended with depletion costs attributable to all other harvesting, we expect the overall weighted average depletion rate in 2005 will be approximately $150/MBF.

Harvest, haul and other costs (excluding costs resulting from timberland sales) averaged $159, $160, and $159 per MBF for 2004, 2003, and 2002, respectively. 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 to harvest and haul timber have on average increased slightly in 2004 due to the increase in the cost of fuel. This increase is not reflected in average harvest, haul and other costs in 2004 due to the mix of stands harvested in 2004 which were generally easier to access and harvest than those harvested in 2003. Average harvest, haul and other costs increased modestly from 2002 to 2003 due to slightly more difficult to access timber stands harvested during 2003. Costs resulting from timberland sales were zero, $32,000, and $20,000 in 2004, 2003, and 2002, respectively. We did not have any timberland sales in 2004.

Operating Expenses

Fee Timber operating expenses for each of the three years ended December 31, 2004, 2003, and 2002 were $3.8 million, $3.1 million, and $2.7 million, respectively. Operating costs increased in 2004 relative to 2003 due to an increase in road maintenance and silviculture costs, partially resulting from the increase in harvest volume but also due to increased costs for road maintenance resulting from new road maintenance rules in Washington State. Operating costs increased in 2003 relative to 2002 due to added silviculture and road maintenance costs. Washington State has enacted new water quality rules, which have resulted in changes to the rules surrounding road maintenance and construction. As a result, culverts that do not comply with the new rules need to be replaced, which has resulted in an increase in road maintenance costs over the last couple years and is expected to continue into 2007. 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.

TIMBERLAND MANAGEMENT & CONSULTING

Revenue and Operating Income

The Timberland Management & 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 accredited investors interested in investing directly in timberland properties to diversify their portfolios.

The Timberland Management & Consulting segment has been in transition during 2004 following successful completion of our project to manage and dispose of 365,000 acres of industrial timberlands in December 2003. On January 1, 2005 we began managing 522,000 acres of timberland for Cascade Timberlands LLC, which is expected to have a positive impact on earnings in 2005. Revenue and operating income for the Timberland Management & Consulting segment for each year in the three-year period ended December 31, 2004, are as follows:

Year ended	Revenue	Operating income (loss)
December 31, 2004	**$1.6 million**	**($0.6) million**
December 31, 2003	2.4 million	0.3 million
December 31, 2002	7.3 million	0.9 million^

^ Net of $583,000 of restructuring charges

Fiscal Year 2004 Compared to 2003

Revenue decreased $785,000, or 33%, to $1.6 million in 2004 from $2.4 million in 2003. Operating income declined $870,000 to a loss of $598,000 in 2004 from income of $272,000 in 2003. The decrease in revenue and operating income was primarily a result of completing a timberland management and disposition project in December 2003. Operations in 2004 were focused on signing up new timberland management clients. We were successful in this endeavor and expect revenue and operating results for this segment to improve in 2005 as we began providing management services on 522,000 acres of timberland located in Oregon and Washington on January 1, 2005.

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 a major client's decision to not renew its management contract with ORMLLC and the closure of our Canadian forestry consulting offices at the end of 2002. Operating income declined $647,000, or 72%. Revenue in 2003 includes $1.8 million from a major timberland management client. ORMLLC successfully completed the management assignment for this client in December 2003.

Operating Expenses

Timberland Management & Consulting operating expenses for each of the three years ended December 31, 2004, 2003, and 2002 were $2.2 million, $2.1 million, and $6.4 million, respectively. Notwithstanding that we entered 2004 without a major client for this segment, we determined to maintain our investment in people and operating infrastructure given prospects for new business. Accordingly, operating expenses remained basically flat between 2004 and 2003. Operating expenses decreased $4.3 million, or 67%, in 2003 relative to 2002 as a result of reducing the offices and overhead infrastructure supporting the Hancock Timber Resource Group (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 timberland management and asset management fees will be earned from administering the fund. These activities are, as well as the development and 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, 2004 cumulative expenditures incurred in pursuit of IPMB opportunities, including guarantees, were less than cumulative revenue generated. Therefore, cumulative net expenditures as of December 31, 2004 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

Revenue and Operating Income

Real Estate segment revenue is 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.

Revenue and operating income for the Real Estate segment for each year in the three-year period ended December 31, 2004, are as follows:

Year ended	Revenue	Operating income (loss)	
December 31, 2004	**$4.5 million**	**$1.6 million**	^
December 31, 2003	1.7 million	(0.5) million	
December 31, 2002	1.6 million	(1.7) million	#

^ Includes $466,000 of environmental remediation charges related to Port Gamble
# Includes $730,000 of environmental remediation charges related to Port Gamble and $165,000 of warranty charges related to Port Ludlow

Fiscal Year 2004 Compared to 2003

Revenue increased $2.8 million, or 165%, to $4.5 million in 2004 from $1.7 million in 2003. Operating income for this segment also improved from a loss of $476,000 in 2003 to operating income of $1.6 million in 2004. The increase in revenue and operating income are due to an increase in land sales in 2004 relative to 2003. We had land sale revenue of $3.6 million generating operating income of $3.1 million in 2004, which compares favorably with 2003 land sale revenue of $685,000 and operating income from land sales of $475,000. The majority of land sale revenue came from two transactions. The first transaction was a $1.9 million sale to Kitsap County of 426 acres that the County plans to develop into a park. This sale has the added benefit of enhancing the value of the Partnership's other development properties neighboring the planned park. The second transaction was for $1.6 million and closed in December 2004. This transaction represented 210 acres that had a preliminary plat filed with the county thus increasing the value of the property to developers.

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.

Cost of Sales

Real Estate cost of sales for each of the three years ended December 31, 2004, 2003, and 2002 were $497,000, $390,000, and $1.0 million, respectively. The increase in cost of sales in 2004 is due to the increase in revenue generated from land sales. The decrease in cost of sales in 2003 relative to 2002 is due to the decrease in cost of sales attributable to land following the sale of the last Seabeck and Grandridge lots in 2002, which had a relatively high cost basis.

Operating Costs

Real Estate operating expenses for each of the three years ended December 31, 2004, 2003, and 2002 were $2.4 million, $1.8 million, and $2.3 million, respectively. The increase in operating costs in 2004 relative to 2003 is due to the environmental remediation charge of $466,000 combined with a small increase in repairs and maintenance costs at the Port Gamble townsite. The decrease in operating expense from 2002 to 2003 is due to $730,000 of environmental remediation and $165,000 of warranty charges in 2002 partially offset by an increase in operating expenses for the Gig Harbor property in 2003.

Environmental Remediation Costs

We have an accrued liability for estimated environmental remediation charges in and around the townsite of Port Gamble of $474,000 and $292,000 at December 31, 2004 and 2003, respectively. 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 millsite 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 millsite is referred to as such because it was the location for many years of an operating lumber mill through 1995 that was dismantled by the end of 1996.

Activity in the environmental remediation liability consists of the following:

	Balances at the beginning of the period	Additions to accrual expenditures	Environmental remediation expenditures	Balances at the end of the period
Year ended December 31, 2002	$1,409,000	$730,000	$1,510,000	$629,000
Year ended December 31, 2003	629,000	-	337,000	292,000
Year ended December 31, 2004	**292,000**	**466,000**	**284,000**	**474,000**

As of December 31, 2004 the majority of the clean up work was complete. Most of the expenditures now represent the cost of groundwater monitoring those specific sites where contaminants were excavated and removed. This monitoring is required until the site receives four clean test results over four consecutive quarterly periods. The remaining liability as of December 31, 2004 is expected to be adequate to cover remaining costs. If monitoring activities discover additional contamination, however, costs could exceed management's current estimate.

GENERAL AND ADMINISTRATIVE (G&A)

Fiscal Year 2004 Compared to 2003

G&A costs increased $144,000, or 5%, to $3.0 million from $2.8 million in 2003. The modest increase in G&A costs is due to an increase in the accrual for Supplemental Employee Retirement Plan (SERP) liabilities of $80,000 combined with an increase in compensation cost. The beneficiary of the SERP is a retired CEO. G&A costs represented 8% of revenue for the year ended December 31, 2004 as compared to 11% of revenue for the comparable period in 2003.

We expect G&A in 2005 to increase as a result of the costs of implementing Section 404 of the Sarbanes Oxley Act. Section 404 requires management to assess the effectiveness of its internal control over financial reporting as of December 31, 2005. Our auditors will then audit management's assessment and express an opinion on management's assessment and an opinion on the effectiveness of the Partnership's internal controls over financial reporting. Management's assessment and the auditor reports will be included in the Partnership's 10-K for the year ended December 31, 2005. The cost of this new requirement is currently estimated to result in additional G&A expense of approximately $200,000 in 2005.

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.

TAXES

Fiscal Year 2004 Compared to 2003

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 2004 was zero compared with $242,000 in 2003. Tax expense is expected to increase in 2005 as we start providing services under a new timberland management contract for 522,000 acres.

Fiscal Year 2003 Compared to 2002

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.

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 & Consulting segment.

Fiscal Year 2004 Compared to 2003

The minority interest charge decreased in 2004 to zero from $47,000 in 2003. The decline in minority interest is due to completion of our timberland disposition project in 2003 resulting in a loss on IPMB activities in 2004. This is expected to change in 2005 as we start providing services under the new timberland management contract as of January 1, 2005.

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.

SUPPLEMENTAL SEGMENT INFORMATION

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

SEGMENT INFORMATION
(all amounts in thousands)

	Three months ended Dec.31		Twelve months ended Dec. 31	
	2004	2003	2004	2003
Revenues:				
Fee Timber	$ 5,576	$ 3,809	$ 33,571	$ 22,916
Timberland Management & Consulting	602	1,350	1,601	2,386
Real Estate	1,799	520	4,476	1,734
Total	$ 7,977	$ 5,679	$ 39,648	$ 27,036
EBITDDA: (1)				
Fee Timber	$ 2,960	$ 1,717	$ 20,319	$ 12,676
TM&C	(10)	736	(510)	341
Real Estate	904	(195)	1,719	(391)
General & administrative and minority int.	(801)	(691)	(2,648)	(2,504)
Total	$ 3,053	$ 1,567	$ 18,880	$ 10,122
Depreciation, depletion and amortization:				
Fee Timber	$ 1,395	$ 481	$ 5,193	$ 3,007
TM&C	22	19	88	69
Real Estate	19	23	133	85
General & administrative	69	94	338	385
Total	$ 1,505	$ 617	$ 5,752	$ 3,546
Operating income/(loss):				
Fee Timber	$ 1,565	$ 1,236	$ 15,126	$ 9,669
TM&C	(32)	717	(598)	272
Real Estate	885	(218)	1,586	(476)
General & administrative	(870)	(738)	(2,986)	(2,842)
Total	$ 1,548	$ 997	$ 13,128	$ 6,623
Log sale volumes (thousand board feet):				
Export conifer	1,153	654	8,885	4,234
Domestic conifer	5,414	4,893	38,869	31,999
Pulp conifer	1,422	1,267	9,648	6,829
Hardwoods	1,111	303	2,914	1,945
Total	9,100	7,117	60,316	45,007
Average price realizations (per thousand board feet):				
Export conifer	$ 676	$ 595	$ 658	$ 574
Domestic conifer	590	502	571	514
Pulp conifer	209	223	224	215
Hardwoods	617	630	588	560
Overall	544	467	529	476

(1) EBITDDA = Earnings before interest taxes depreciation depletion and amortization

LIQUIDITY AND CAPITAL RESOURCES

CASH FLOWS

General

The Partnership invested $21.2 million in three separate timberland acquisitions during 2004. The first transaction was for 3,300 acres of timberland acquired from Plum Creek Timber Company, Inc. in January 2004. This property is being managed as part of the Columbia tree farm inasmuch as these acquired acres are intermingled with that larger holding. The second and third acquisitions totaling 1,400 acres closed during the fourth quarter of 2004 and were both opportunities to acquire in-holdings on the Partnership's existing Hood Canal tree farm and were forested with ready-to-harvest, merchantable timber. These fourth quarter acquisitions were funded by a combination of cash reserves and a line of credit. As of December 31, 2004 the balance on this credit facility was $758,000. The January acquisition had an impact on 2004 harvest levels and will have a similar impact on 2005 harvest levels (and cash flows). One of the two fourth quarter 2004 acquisitions was a very small parcel and the mature timber thereon has been harvested so as to essentially pay for its acquisition. Harvests of mature timber on the other fourth quarter acquisition should produce significant cash flows in 2005 such that we expect its acquisition price also to be largely recovered in the near-term.

We generate operating cash flow through the sale of timber products, by providing timberland management and consulting services, and by selling land for development. 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. In the fourth quarter of 2004 management entered into an agreement with Bank of America, N.A. for a one-year $10 million line of credit.

Operating Cash Flows

The table below provides the components of operating cash flows for each of the three years 2004, 2003, and 2002. Cash received from customers and paid to suppliers and employees results from the harvest and sale of forest products from our tree farms, timberland management and consulting services provided to timberland owners, and finally, the sale and management of our development properties.

	12/31/2004	12/31/2003	12/31/2002
Operating cash flow:			
Cash received from customers	**$ 40,513,000**	$ 29,582,000	$ 33,997,000
Cash paid to suppliers and employees	**(19,693,000)**	(17,961,000)	(21,841,000)
Interest received	**105,000**	306,000	416,000
Interest paid	**(3,058,000)**	(3,117,000)	(3,382,000)
Income taxes paid	**(13,000)**	(169,000)	(185,000)
Total	**$ 17,854,000**	$ 8,641,000	$ 9,005,000

In 2004 cash provided by operations increased $9.2 million to $17.9 million from $8.6 million in 2003. The majority of this increase was produced by the Fee Timber segment due to an increase in timber volume harvested from 45 MMBF in 2003 to 60 MMBF in 2004 combined with a $53 per MBF, or 11%, increase in realized prices on log volume sold in 2004. The Real Estate segment also contributed to improved operating cash flow with an increase in cash provided by land sales of $2.1 million. Cash flow from operating activities is expected to increase in 2005 as we increase our annual harvest to 79 MMBF from 2004's level of 60 MMBF.

In 2003 cash provided by operations decreased $364,000, or 4%, to $8.6 million from $9.0 million in 2002. The decrease in cash provided by operations is due primarily to the loss of the HTRG timberland 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 adjust our operating infrastructure following the loss of this portion of our operations. Offsetting these decreases in operating cash flow was a $1.1 million decrease in cash paid for the environmental remediation at Port Gamble and an increase in cash generated by the Fee Timber segment as a result of the timing of harvest activities at the end of 2002 and during 2003.

Cash used in investing activities

The table below represents the components of cash used in investing activities for the three years 2004, 2003, and 2002. Recurring 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. In 2004 we invested $21.2 million in three separate transactions to acquire 4,700 acres of timberland.

	12/31/2004	12/31/2003	12/31/2002
Investing activities:			
Timberland acquisitions	**$ (21,240,000)**	$ -	$ -
Land buildings and equipment	**(701,000)**	(624,000)	(668,000)
Development properties	**(1,484,000)**	(613,000)	(280,000)
Timber and roads	**(1,075,000)**	(780,000)	(1,210,000)
Proceeds from the sale of fixed assets	-	17,000	482,000
Cash used in investing activities	**$ (24,500,000)**	$ (2,000,000)	$ (1,676,000)

Cash used in investing activities increased $22.5 million from 2004. The increase is primarily due to the acquisition of 4,700 acres of timberland in 2004. The timberlands acquired in these transactions were forested with a large component of merchantable timber that enabled the Partnership to increase its annual harvest in 2004 to 60 MMBF from 45 MMBF in 2003. These timberland acquisitions and related increased harvest activities also resulted in an increase in investments in timber and roads (higher replanting and road building expenditures). Investments in development properties increased in 2004 to $1.5 million from $613,000 in 2003. This increase correlates to our heightened intensity of activity on our 320-acre property at Gig Harbor, Washington given the expectation of land sales at this parcel beginning in 2006. The $1.5 million in development property additions includes $411,000 for a land acquisition bordering the Gig Harbor site and $116,000 for a parcel at the Port Gamble townsite. These acquisitions represent strategic opportunities to acquire acres bordering on our existing properties that management expect will add value to the Partnership's holdings.

Cash used in investing activities increased $324,000, or 19%, in 2003 to $2.0 million from 2002 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 proceeds from sales of fixed assets of nearly $0.5 million.

Cash used in financing activities

The table below represents the components of cash used in financing activities for the three years 2004, 2003, and 2002. Our financing activities primarily result from payments made on the timber mortgages, unitholder distributions, and distributions to the managing general partner, Pope MGP, for its minority interest in the IPMB.

	12/31/2004	12/31/2003	12/31/2002
Financing activities:			
Mortgage/LID payments	**$ (1,979,000)**	$ (1,662,000)	$ (1,110,000)
Cash distributions to unitholders	**(1,989,000)**	(1,084,000)	(452,000)
Net draw on line of credit	**758,000**	-	-
Proceeds from option exercises	**310,000**	-	-
Minority interest distribution	**(58,000)**	(161,000)	(187,000)
Cash used in financing activities	**$ (2,958,000)**	$ (2,907,000)	$ (1,749,000)

Cash used in financing activities increased $51,000 in 2004. This increase is due to an unscheduled pay down of our timber mortgage of $347,000, an increase in cash payments on Local Improvement District (LID) debt, and an increase in our quarterly distributions. The unscheduled mortgage payment was made following the sale of 426 acres to Kitsap County. These acres were included as collateral under the timber mortgage and the partial deed release required some incremental debt repayment. In addition, the Partnership began making payments on a $623,000 LID in 2004 that represents the Partnership's share of the cost of a new road at the Gig Harbor property that has had a positive impact on the value of that property. In the third quarter of 2004 we increased our quarterly distribution rate from $.07 to $.15 per unit as a result of the increase in cash generated from operations in 2004.

Cash used in financing activities increased $1.2 million, or 66%, to $2.9 million in 2003 compared to 2002. 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 and scheduled at the time of the acquisition of the Columbia tree farm in 2001. The other half of the increase is due to higher quarterly cash distributions to unitholders. In 2002 we made two quarterly distributions totaling $0.10 per unit and in 2003 we made four quarterly distributions totaling $0.24 per unit.

EXPECTED FUTURE CHANGES TO CASH FLOWS

Operating Cash Flows

As discussed above, we plan to increase the Partnership's annual harvest volume from 60 MMBF in 2004 to 79 MMBF in 2005. As previously discussed, this increase is due to two of the timberland acquisitions in 2004. The increased harvest level will translate to higher cash flow from operations in 2005. Assuming we do not acquire any additional timberland in 2005, the annual harvest in 2006 is expected to return to our sustainable harvest level of 53 MMBF.

Investing Activities

Investing activities in 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 with a raised-capital target of $50 million. The Partnership has agreed to co-invest 10% of the total amount of equity capital raised by the Fund. 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 total $7.0 million in 2005 and capital expenditures on our Bremerton property are expected to total $2.4 million in 2005. Gig Harbor capital expenditures in 2005 are expected to include a new water tank and a new access road on the property. Capital expenditures on the Bremerton property are expected to include a storm water retention facility and road and sewer extension.

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 infusion required for Gig Harbor is expected to be only short-term to bridge the time between making infrastructure investments and closing land sales (such as our 17-acre sale to Costco Wholesale Corporation). Management anticipates using short-term bank debt to bridge this capital need. We currently have a one-year, $10.0 million line of credit facility in place that we will renew if necessary.

Our debt-to-total-capitalization ratio as of December 31, 2004, as measured by the book and market value of our equity, was 40% and 24%, 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 Federal Securities Law. 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 our 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 that, for example, if the target of $50 million is reached Pope Resources will have contributed $5 million of that equity total. The Fund is presently expected 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 the Fund. However, Emerging Issues Task Force Issue No. 04-5, "Investors' Accounting for an Investment in a Limited Partnership when the Investors is the Sole General Partner and the Limited Partners have Certain Rights" when finally concluded and issued, could require that the Partnership not consolidate, but rather account for the Fund using the equity method of accounting. Use of either the consolidation or equity method of accounting are expected to result in comparable net income and Partners' capital in the consolidated financial statements of the 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 uses a combined pool when the characteristics of the acquired timber are not significantly different from the Partnership's existing timberlands. Prior to the fourth quarter of 2004, all of the Partnership's timberlands were aggregated into one depletion cost pool. The Partnership acquired approximately 1,400 acres of timberland in the last quarter of 2004 that was accounted for in separate depletion pools. These acquisitions were almost entirely merchantable timber, which made the inventory characteristics of these acquisitions sufficiently different from our existing timber pool to indicate separate depletion pools were warranted under our accounting policy. Depletion cost in 2005 will include expense recognized from one of the separate depletion pools. We expect to harvest approximately 21 MMBF from this pool in 2005 resulting in depletion cost of $7.6 million. The depletion cost on this harvest is expected to approximate the net stumpage realized on the sale, which will result in almost no net income impact from the harvest but will generate operating cash flow. As a result of this additional depletion in 2005 we expect the overall weighted average depletion rate in 2005 will be approximately $150/MBF.

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 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 markets and export intermediaries 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. In prior years Western Washington 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. This trend has eased in 2004 with the actual and announced opening of several mills in the Puget Sound area of Washington State. If in the future, consolidation leads to less local competition for wood fiber, our profitability could be negatively impacted.

Canadian lumber imports declined in 2004 as British Columbia's timber harvest volume declined due to hot dry weather and other production interruptions. Prior to 2004, Canadian lumber imports had increased for a few years. Lumber supply from Canada can cause a weakening in log prices in the U.S., when volume from Canada results in lower lumber prices for domestic mills which in turn can have a negative affect on log price and demand.

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 & Consulting

One or two clients have traditionally dominated revenue in the Timberland Management & Consulting segment. In December 2003 this segment completed a timberland management and disposition project, which left the Timberland Management & Consulting segment without a major client for the first time since 1998. In January 2005 we began a new timberland management assignment for 522,000 acres. That assignment is expected to represent the majority of revenue for the Timberland Management & Consulting segment in 2005. In 2004 over 50% of Timberland Management & Consulting was generated through work for one client. This work was performed as part of a project related to the long-term management agreement that began in January 2005.

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.

utilizes annual statistical sampling of the timber (cruising) together with adjustments made for estimated annual 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 volume captured in the standing inventory system. Only productive acres with timber that is at least 20 years old are selected as subject to a cruise. The Partnership cruised 20% of its productive acres with 20-year-old or greater timber in 2004, 2003, and 2002 and plans to continue to cruise 20% of productive acres in 2005 before reducing this level to 10% in subsequent 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 2004 depletion expense by $230,000.

Environmental Remediation

The environmental remediation liability represents an estimate of payments required to remedy and monitor certain areas in and around the townsite and millsite 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 millsite until 1996 and leased the millsite and townsite 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. Based on information provided by consultants the Partnership estimated that the range of costs remaining to complete this project at December 31, 2004 is between $474,000 and $556,000. During 2004 the environmental liability increased $466,000 as a result of costs to complete the Partnership's share exceeding the original estimate and decreased $284,000 for actual expenditures. 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.

Land Held for Development

Land held for development represents the Partnership's cost basis in land that has been identified as having greater value as development than timber property. Our Real Estate department works with these properties to establish entitlements with city and county officials that allow for further development. These entitlement costs are evaluated for capitalization based upon the expected value derived from the efforts. For example, costs incurred to change Urban Growth Area boundaries are expensed as incurred due to the difficulty of successfully changing these boundaries but the cost of applying for a preliminary plat is generally capitalized as these efforts have a high likelihood of success and thus increase the value of the property. Those properties that are either under contract or where the Partnership is planning to sell within the next 12 months are classified as a current asset under Land Held for Sale.

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.

CONTRACTUAL OBLIGATIONS, COMMERCIAL COMMITMENTS AND CONTINGENCIES

Our commitments at December 31, 2004 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	< 1 year	1-3 years	4-5 years	After 5 years
Total debt	$35,766,000	$1,602,000	$3,000,000	$2,750,000	$28,414,000
$10 million line of credit	758,000	758,000			
Performance bonds	68,000				68,000
Operating leases	217,000	129,000	87,000	1,000	
Unconditional purchase obligations	None				
Other long term obligations	704,000	468,000	56,000	50,000	130,000
Total contractual obligations	$37,513,000	$2,957,000	$3,143,000	$2,801,000	$28,612,000

We have debt totaling $35.8 million with the contractual maturities described in Note 2 of Partnership's Consolidated Financial Statements included with this report plus a $758,000 balance on a revolving line of credit. Cash paid for interest on the revolving line of credit was $3,000 in 2004. The $10.0 million revolving line of credit expires on October 31, 2005. 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. The Partnership will make this investment once the fund is fully subscribed and timberland acquisitions have been identified.

Other long-term obligations include the Partnership's $474,000 contingent liability for environmental remediation in and around the Port Gamble townsite and $230,000 liability for a supplemental employment retirement plan. We expect to spend $468,000 of these liabilities in 2004 and $236,000 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 any variable interests in unconsolidated entities.

Deferred Tax Assets

The Partnership has a United States subsidiary corporation that has $671,000 of deferred tax assets as of December 31, 2004. The majority of this balance relates to 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. The Partnership has concluded that deferred tax assets as December 31, 2004 are more-likely-than-not to be realized.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

INTEREST RATE RISK

As of December 31, 2004, the Partnership had $11.2 million with a fixed interest rate of 9.65%, $23.8 million with a fixed interest rate of 7.63%, and Local Improvement District debt of $0.8 million with fixed interest rates of 5.03% to 6.5%. This fixed rate debt totals $35.8 million outstanding with a fair value of approximately $39.7 million based on 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.

The Partnership also has a $10.0 million line of credit with a balance of $758,000 as of December 31, 2004. Interest on this obligation is variable using either the bank's prime rate or LIBOR plus 1.25 percentage points.

Years ended December 31 (In thousands, except per unit data)

	2004	2003	2002
Revenues:			
Fee Timber	**$ 33,571**	$ 22,916	$ 23,298
Timberland Management & Consulting	**1,601**	2,386	7,295
Real Estate	**4,476**	1,734	1,599
Total revenues	**39,648**	27,036	32,192
Costs and expenses:			
Cost of sales:			
Fee Timber	**(14,687)**	(10,150)	(10,364)
Real Estate	**(497)**	(390)	(990)
Total cost of sales	**(15,184)**	(10,540)	(11,354)
Operating expenses:			
Fee Timber	**(3,758)**	(3,097)	(2,735)
Timberland Management & Consulting (TM&C)	**(2,199)**	(2,114)	(5,793)
TM&C restructuring costs	-	-	(583)
Real Estate	**(1,927)**	(1,820)	(1,546)
Real Estate environmental remediation	**(466)**	-	(730)
General & Administrative (G&A)	**(2,986)**	(2,842)	(3,774)
G&A restructuring costs	-	-	(90)
Total operating expenses	**(11,336)**	(9,873)	(15,251)
Operating income (loss):			
Fee Timber	**15,126**	9,669	10,199
Timberland Management & Consulting	**(598)**	272	919
Real Estate	**1,586**	(476)	(1,667)
Unallocated G&A	**(2,986)**	(2,842)	(3,864)
Total operating income	**13,128**	6,623	5,587
Other income (expense):			
Interest expense	**(3,052)**	(3,089)	(3,324)
Interest income	**100**	283	430
Total other expense	**(2,952)**	(2,806)	(2,894)
Income before income taxes and minority interest	**10,176**	3,817	2,693
Income tax benefit (expense)	-	(242)	788
Income before minority interest	**10,176**	3,575	3,481
Minority interest	-	(47)	(147)
Net income	**$ 10,176**	$ 3,528	$ 3,334
Earnings per unit:			
Basic	**$ 2.25**	$ 0.78	$ 0.74
Diluted	**$ 2.22**	$ 0.78	$ 0.74

See accompanying notes to consolidated financial statements.

(In thousands)	General Partners	Limited Partners	Total
January 1, 2002	$ 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
Net income	**135**	**10,041**	**10,176**
Distributions	**(26)**	**(1,963)**	**(1,989)**
Proceeds from option exercises	-	**310**	**310**
December 31, 2004	**$ 991**	**$ 53,542**	**$ 54,533**

Weighted average units outstanding	**12/31/2004**	12/31/2003	12/31/2002
Basic	**4,522**	4,518	4,518
Diluted	**4,594**	4,522	4,520

See accompanying notes to consolidated financial statements.

Years ended December 31 (In thousands)

	2004	2003	2002
Cash flows from operating activities:			
Cash received from customers	**$ 40,513**	$ 29,582	$ 33,997
Cash paid to suppliers and employees	**(19,693)**	(17,961)	(21,841)
Interest received	**105**	306	416
Interest paid	**(3,058)**	(3,117)	(3,382)
Income taxes paid	**(13)**	(169)	(185)
Net cash provided by operating activities	**17,854**	8,641	9,005
Cash flows from investing activities:			
Capital expenditures	**(3,260)**	(2,017)	(2,158)
Proceeds from sale of fixed assets	-	17	482
Timberland acquisition	**(21,240)**	-	-
Net cash used in investing activities	**(24,500)**	(2,000)	(1,676)
Cash flows from financing activities:			
Cash distributions to unitholders	**(1,989)**	(1,084)	(452)
Net draw on line of credit	**758**	-	-
Repayment of long-term debt	**(1,979)**	(1,662)	(1,110)
Proceeds from option exercises	**310**	-	-
Minority interest distribution	**(58)**	(161)	(187)
Net cash used in financing activities	**(2,958)**	(2,907)	(1,749)
Net increase (decrease) in cash and cash equivalents	**(9,604)**	3,734	5,580
Cash and cash equivalents:			
Beginning of year	**10,361**	6,627	1,047
End of year	**$ 757**	$ 10,361	$ 6,627
Reconciliation of net income to net cash provided by operating activities:			
Net income	**$ 10,176**	$ 3,528	$ 3,334
Cost of land sold	**209**	200	189
Cost of art sold	-	175	-
Minority interest	-	47	165
Depreciation and amortization	**660**	658	779
Depletion	**5,092**	2,888	3,085
Deferred tax expense	-	242	(975)
Loss on retirement of PP&E	-	-	292
Increase (decrease) in cash from changes in operating accounts:			
Accounts receivable	**(255)**	903	(649)
Work in progress	-	40	343
Contracts receivable	**304**	1,676	2,087
Other current assets	**336**	(384)	158
Loan fees and other	-	-	32
Accounts payable and accrued liabilities	**228**	(424)	336
Restructuring	-	(466)	441
Environmental remediation	**182**	(337)	(780)
Deposits	**38**	(1)	24
Deferred profit	**815**	(32)	22
Other long-term liabilities	**80**	(50)	84
Other, net	**(11)**	(22)	38
Net cash provided by operating activities	**$ 17,854**	$ 8,641	$ 9,005

See accompanying notes to consolidated financial statements.

CAPITAL EXPENDITURES AND COMMITMENTS

Projected capital expenditures in 2005 of $12.7 million are currently expected to include $7.0 million for the Gig Harbor site and $2.4 million for the Bremerton site. The Partnership also expects to make half of its planned investment in the Timber Fund of $5.0 million in 2005. These expenditures could be increased or decreased as a consequence of future economic conditions. Projected capital expenditures at the Gig Harbor and Bremerton site are subject to permitting timetables and progress towards closing on specific land sale transactions, especially those with Costco Wholesale Corp. and Kitsap County Consolidated Housing Authority.

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 United States 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 NOT YET IMPLEMENTED

In December 2004, the FASB released its revised standard, SFAS No. 123R, Share-Based Payment. SFAS 123R requires that a public entity measure the cost of equity based service awards based on the grant-date fair value of the award. That cost will be recognized over the period during which an employee is required to provide service in exchange for the award or the vesting period. A public entity will initially measure the cost of liability based service awards based on its current fair value and the fair value of that award will be remeasured subsequently at each reporting date through the settlement date. Changes in fair value during the requisite service period will be recognized as compensation cost over that period. Adoption of SFAS 123R is required for fiscal periods beginning after June 15, 2005. The Company is evaluating SFAS 123R and believes it will likely result in recognition of additional non-cash stock-based compensation expense and accordingly would decrease net income in amounts, which likely will be considered material. There will be no effect on cash, working capital or total stockholders' equity.

The Partnership is currently negotiating with several potential investors in ORM Timber Find I, LP (the Fund). The Fund has a target invested capital amount of $50 million. Upon funding this $50 million target, the Fund will seek to invest the raised capital in timberland investments. The Partnership will invest 10% of the equity capital in the Fund so

As of December 31 (In thousands)

ASSETS

	2004	2003
Current assets:		
Cash and cash equivalents	$ 757	$ 10,361
Accounts receivable, net of allowance for doubtful accounts of $- and $13	1,120	865
Land held for sale	152	135
Current portion of contracts receivable	606	872
Prepaid expenses and other	195	545
Total current assets	2,830	12,778
Properties and equipment, at cost:		
Land held for development	9,074	7,708
Land	13,958	13,092
Roads and timber, net of accumulated depletion of $26,418 and $21,335	64,485	48,203
Buildings and equipment, net of accumulated depreciation of $6,034 and $5,537	3,166	3,107
	90,683	72,110
Other assets:		
Contracts receivable, net of current portion	158	196
Other	1,197	1,224
	1,355	1,420
Total assets	$ 94,868	$ 86,308
LIABILITIES AND PARTNERS' CAPITAL		
Current Liabilities:		
Accounts payable	$ 597	$ 536
Accrued liabilities	1,492	1,325
Environmental remediation	468	100
Current portion of long-term debt	1,602	1,631
Minority interest	30	89
Operating line of credit	758	-
Deposit	70	32
Deferred profit	918	103
Total current liabilities	5,935	3,816
Long-term debt	34,164	36,114
Other long-term liabilities	236	342
Commitments and contingencies		
Partners' capital (units outstanding: 4,539 and 4,518)	54,533	46,036
Total liabilities and partners' capital	$ 94,868	$ 86,308

See accompanying notes to consolidated financial statements.

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. Pope Resources' active subsidiaries include ORM, Inc., which is responsible for managing Pope Resources' timber properties; Olympic Resource Management LLC, which provides timberland management and consulting activities and is responsible for developing the timber fund business; OPG I, LLC, which manages the Port Gamble town and mill sites and land that is classified as development property; and OPG Properties LLC, which owns land that is held as development property.

The managing general partner is Pope MGP, Inc. The Partnership operates in three business segments: Fee Timber, Timberland Management & Consulting, and Real Estate. Fee Timber represents the growing and harvesting of trees from owned properties. Timberland Management & 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.

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 8) 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 zero, 12% and 6% of the Partnership's accounts receivable balance as of December 31, 2004, 2003, and 2002, 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.

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 between 7% and 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, 2004, minimum principal payments on contracts receivable for the next five years and thereafter are due as follows:

2005	$606,000
2006	47,000
2007	55,000
2008	56,000
2009	-
Thereafter	-

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 carryforwards 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.

Buildings and equipment consist of the following as of December 31, 2004 and 2003:

Description	**12/31/2004**	12/31/2003
Buildings	**$5,833,000**	$5,330,000
Equipment	**2,792,000**	2,724,000
Furniture and fixtures	**575,000**	590,000
Total	**9,200,000**	8,644,000
Accumulated depreciation	**(6,034,000)**	(5,537,000)
Net buildings and equipment	**$3,166,000**	$3,107,000

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. To calculate the depletion rate the Partnership uses a combined pool when the characteristics of the acquired timber are not significantly different from the Partnership's existing timberlands. The Partnership acquired approximately 1,400 acres of timberland in the last quarter of 2004 that was accounted for in separate depletion pools. These acquisitions were almost entirely merchantable timber, which made the inventory characteristics of these acquisitions sufficiently different from our existing timber pool to indicate separate depletion pools were warranted under our accounting policy. 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. A depletion rate is calculated for each depletion pool and that rate is applied to timber volume harvested from that depletion pool.

Land Held for Development

Land held for development represents the Partnership's cost basis in land that has been identified as having greater value as development than timber property. Our Real Estate department works with these properties to establish entitlements with city and county officials that allow for further development. These entitlement costs are evaluated for capitalization based upon the expected value derived from the efforts. For example, costs incurred to change Urban Growth Area boundaries are expensed as incurred due to the difficulty of successfully changing these boundaries but the cost of applying for a preliminary plat is generally capitalized as these efforts have a high likelihood of success and thus increase the value of the property. Those properties that are either under contract or where the Partnership is planning to sell within the next 12 months are classified as a current asset under Land Held for Sale.

Deferred Profit

Deferred profit represents the unearned portion of revenue collected. The balance at December 31, 2004 includes $803,000 collected on an interim services agreement that will be credited against revenue earned on a long-term management agreement in 2005. The remainder of the balance in 2004 and the $103,000 balance at December 31, 2003 represents the unearned portion of amounts received on annual cell tower leases.

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, upon receipt of adequate down payment, and receipt of the buyer's obligation to make continuing payments towards purchase of the property. 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 revenue is recognized as the related services are provided. Accounts receivable includes earned but unbilled services of $29,000 and $13,000 at December 31, 2004 and 2003, 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 statements 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 for the years ended December 31 would have been adjusted to the pro forma amounts indicated below:

	Year Ended December 31,		
(In thousands, except per unit data)	**2004**	2003	2002
Net income as reported	**$ 10,176**	$ 3,528	$ 3,344
Add back employee units based compensation expense recognized	-	-	-
Subtract proforma compensation expense under SFAS No. 123	**(222)**	(285)	(309)
Proforma net income under SFAS No. 123	**$ 9,954**	$ 3,243	$ 3,035
Earnings per unit as reported			
Basic	**$ 2.25**	$ 0.78	$ 0.74
Diluted	**$ 2.22**	$ 0.78	$ 0.74
Proforma			
Basic	**$ 2.20**	$ 0.72	$ 0.67
Diluted	**$ 2.17**	$ 0.72	$ 0.67

Unit options used in the calculation of proforma SFAS 123 compensation expense for 2004, 2003, and 2002 were 215,605, 60,835, and 68,525, respectively. The fair value of options was calculated using the Black-Scholes option-pricing model, with the following assumptions:

	Year Ended December 31,		
	2004	2003	2002
Expected life	**5 years**	5 years	5 years
Risk-free interest rate	**3.97% - 4.75%**	3.70% - 4.46%	3.95% - 5.43%
Dividend yield	**1.2% - 1.8%**	1.6% - 2.1%	-% - 2.2%
Volatility	**20.7% - 25.4%**	19.4% - 20.4%	18.3% - 24.7%
Weighted average value	**$4.46**	$2.14	$4.05

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. Revenue and expense is 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

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

Income Per Partnership Unit

Basic income per partnership unit is computed using the weighted average number of units outstanding during each year. Diluted income 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

	Year Ended December 31,		
	2004	2003	2002
Weighted average units outstanding (in thousands):			
Basic	**4,522**	4,518	4,518
Dilutive effect of unit options	**72**	4	2
Diluted	**4,594**	4,522	4,520

Unit options outstanding that were not included in the calculation of earnings per partnership unit as they were anti-dilutive were 148,086, 316,251, and 317,052 in 2004, 2003, and 2002, respectively.

Statements 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, the Partnership incurred Local Improvement District debt of $168,000, which also represents capitalized improvements to the properties. Similarly, during 2002, the Partnership incurred Local Improvement District debt of $682,000, which also represents capitalized improvements to the properties.

Reclassifications

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

Accounting Standards Not Yet Implemented

In December 2004, the FASB released its revised standard, SFAS No. 123R, *Share-Based Payment*. SFAS 123R requires that a public entity measure the cost of equity based service awards based on the grant-date fair value of the award. That cost will be recognized over the period during which an employee is required to provide service in exchange for the award or the vesting period. A public entity will initially measure the cost of liability based service awards based on its current fair value and the fair value of that award will be remeasured subsequently at each reporting date through the settlement date. Changes in fair value during the requisite service period will be recognized as compensation cost over that period. Adoption of SFAS 123R is required for fiscal periods beginning after June 15, 2005. The Company is evaluating SFAS 123R and believes it will likely result in recognition of additional non-cash stock-based compensation expense and accordingly would decrease net income in amounts, which likely will be considered material. There will be no effect on cash, working capital or total stockholders' equity.

The Partnership is currently working to locate investors for a partnership, ORM Timber Fund I, LP (the Fund) with a target amount of $50 million in equity capital. Upon funding this $50 million target, the Fund will seek to invest 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. The Fund is presently expected 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 the Fund. However, Emerging Issues Task Force Issue No. 04-5, "Investors' Accounting for an Investment in a Limited Partnership when the Investors is the Sole General Partner and the Limited Partners have Certain Rights" when finally concluded and issued, could require that the Partnership not consolidate, but rather account for the Fund using the equity method of accounting. Use of either the consolidation or equity method of accounting are expected to result in comparable net income and Partners' capital in the consolidated financial statements of the Partnership.

2. LONG-TERM DEBT

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

	2004	2003
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	**$11,179**	$11,692
Mortgage note payable to an insurance company, with interest at 7.63%, collateralized by timberlands, with monthly interest payments and annual principal payments maturing April 2011	**23,800**	25,174
Local improvement district assessments, with interest ranging from 5.03% to 6.5%, due through 2013	**787**	879
	35,766	37,745
Less current portion	**(1,602)**	(1,631)
Total long-term debt	**$ 34,164**	$ 36,114

7. COMMITMENTS AND CONTINGENCIES

Restructuring

The Partnership decided in the fourth quarter of 2002 to close both of its timberland consulting offices in Canada. Additionally, the Partnership closed two timberland management offices in Oregon and one such 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.

Environmental Remediation

The Partnership has an accrual for estimated environmental remediation costs of $474,000, $292,000, and $629,000, as of December 31, 2004, 2003 and 2002, respectively. Of the year-end 2004 amount, $468,000 is expected to be spent in 2005. The accrual represents estimated payments to be made to remedy and monitor certain areas in and around the townsite and millsite 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, millsite and other assets were spun off to the Partnership. P&T continued to operate the millsite until 1996 and leased the millsite and townsite 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, millsite and surrounding area to applicable State standards is between $474,000 and $556,000. The environmental remediation liability at December 31, 2004 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.

Capital Improvements

The Partnership is committed to build infrastructure including water, sewer, and roads at the Gig Harbor and Bremerton properties subject to purchasers in each case acquiring the land. The current estimated cost of those improvements at Gig Harbor is $13 to $15 million. Infrastructure costs at the Bremerton property are expected to be in the range of $2 to $3 million. The timing of these expenditures is dependent upon the timing of completion of each land sale.

Investment in Timber Fund

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. The Partnership will make this investment once the fund is fully subscribed and timberland acquisitions have been identified.

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 $68,000 and $93,000 outstanding at December 31, 2004 and 2003, respectively.

The Partnership has a $10 million revolving term loan facility. The balance outstanding on the facility as of December 31, 2004 was $758,000. Interest on the facility is charged at the bank's prime rate, which was 5.25% as of December 31, 2004. The facility expires on October 31, 2005. As of December 31, 2003, the Partnership did not have a revolving term loan facility.

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. As of December 31, 2004, the Partnership was in compliance with its debt covenants.

At December 31, 2004, principal payments on long-term debt for the next five years and thereafter are due as follows (in thousands):

2005	$1,602
2006	1,625
2007	1,375
2008	1,375
2009	1,375
Thereafter	28,414

3. FAIR VALUE OF FINANCIAL INSTRUMENTS

The Partnership's financial instruments include cash and cash equivalents, accounts receivable, contracts receivable, accounts payable, accrued liabilities, and a $10 million revolving term loan facility 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 $35.8 million and $37.7 million has been estimated based on current interest rates for similar financial instruments to be approximately $39.7 million and $42.3 million as of December 31, 2004 and 2003, respectively.

4. 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 as follows:

	Year Ended December 31,		
(In thousands)	**2004**	2003	2002
Consolidated Partnership income before income taxes (less minority interest)	**$10,176**	$3,770	$2,546
Less: Income earned in entities that pass through pre-tax earnings to the partners	**10,335**	3,348	2,920
Income subject to income taxes:			
Domestic	**(159)**	422	128
Foreign	-	-	(502)
Total income (loss) subject to taxes	**($159)**	$422	($374)

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 $95,000, $57,000, and $219,000 for the years ended December 31, 2004, 2003, and 2002 respectively.

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

Year	Amount
2005	$64
2006	37
2007	14
2008	3
2009	1

Supplemental Employee Retirement Plan

The Partnership has a supplemental employee 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 with a fixed payment set at $25,013 annually. The Partnership accrued $109,000 in 2002 and an additional $80,000 in 2004 for this benefit based on an approximation of the cost of purchasing a life annuity paying the aforementioned benefit amount. The balance of the projected liability for the two years ended December 31, 2004 and 2003 were $230,000 and $150,000, respectively.

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 on the Partnership's consolidated financial condition or results of operations or cash flows.

8. 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, 2004, cumulative revenue from IPMB exceeds cumulative IPMB expenditures.

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 this amount 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.

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:

	Year Ended December 31,		
(In thousands)	**2004**	2003	2002
Current	**$-**	$-	$(187)
Deferred	**-**	(242)	975
Total	**$-**	($242)	$788

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

	2004	2003	2002
Statutory tax on income	**34%**	34%	34%
Income (loss) earned in entities that pass through pre-tax earnings to the partners	**(34%)**	(28%)	(37%)
Liquidation of Canadian subsidiary	-	-	(34%)
Non-deductible operating losses of subsidiaries	-	-	10%
Other	-	-	(2%)
Effective income tax rate	- %	6 %	(29%)

The net deferred income tax assets include the following components as of December 31:

(In thousands)	**2004**	2003
Current (included in prepaid expenses and other)	**$16**	$30
Non current (included in other assets)	**990**	981
Total	**$1,006**	$1,011

The deferred tax assets are comprised of the following:

(In thousands)	**2004**	2003
Net operating loss carryforward	**$671**	$840
Employee-related accruals	**16**	36
Depreciation	**44**	16
Other	**275**	119
Total	**$1,006**	$1,011

9. SEGMENT AND MAJOR CUSTOMER INFORMATION

The Partnership's operations are classified into three segments: Fee Timber, Timberland Management & Consulting, and Real Estate. The Fee Timber segment consists of the harvest and sale of timber from the Partnership's 115,000 acres of fee timberland in Washington State.

The Timberland Management & Consulting segment was not serving a significant timberland management client during 2004 but began providing services under a 522,000-acre timberland management client on January 1, 2005. In 2003 Olympic Resource Management LLC successfully completed a timberland management and disposition project for a significant client representing 76% of segment revenue. Hancock Timber Resource Group represented 13% of consolidated Partnership revenue in 2002.

The 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 nearly 3,000 acres of early stage development properties as of December 31, 2004. All of the Partnership's real estate activities are in Washington State.

For the year ended December 31, 2004, the Partnership had two major customers that represented 15% and 12% of consolidated revenue, respectively. For the year ended December 31, 2003, there was one major customer representing 30% of consolidated revenue. No other customer represents 10% or greater of consolidated revenue during 2004, 2003, or 2002.

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.

(In thousands)	**2004**	2003	2002
Depreciation, amortization, and depletion			
Fee Timber	**$5,193**	$3,007	$3,164
Timberland Management & Consulting	**88**	69	190
Real Estate	**133**	85	57
Unallocated General and Administrative	**338**	385	453
Total	**$5,752**	$3,546	$3,864
Identifiable assets			
Fee Timber	**$82,159**	$63,118	$68,361
Timberland Management & Consulting	**169**	187	205
Real Estate	**6,084**	5,894	5,264
Unallocated General and Administrative	**6,456**	17,109	12,958
Total	**$94,868**	$86,308	$86,788
Capital and land expenditures			
Fee Timber	**$22,358**	$809	$1,315
Timberland Management & Consulting	**73**	50	179
Real Estate	**1,506**	1,117	491
Unallocated General and Administrative	**63**	41	173
Total	**$24,500**	$2,017	$2,158

Revenues by product line for the years ended December 31, 2004, 2003, and 2002 are as follows (in thousands):

	2004	2003	2002
Sales of forest products:			
Domestic	**$27,727**	$20,489	$19,695
Export, indirect	**5,844**	2,427	3,603
Sales of homes, lots, and undeveloped acreage	**3,630**	613	871
Fees for service:			
Domestic	**2,447**	3,507	6,634
Foreign	**-**	-	1,389
Total revenues	**$39,648**	$27,036	$32,192

10. QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

(In thousands, except per unit amounts)	Revenues	Income from Operations	Net Income	Earnings per Partnership unit basic	Earnings per Partnership unit diluted
2004					
First quarter	**$11,732**	**$4,748**	**$3,998**	**$.88**	**$.87**
Second quarter (1)	**11,888**	**4,773**	**3,997**	**.88**	**.87**
Third quarter (2)	**8,051**	**2,059**	**1,361**	**.31**	**.30**
Fourth quarter	**7,977**	**1,548**	**820**	**.18**	**.18**
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	-	-	-

(1)Includes $295,000 (or $0.06 per diluted unit) increase in the environmental remediation liability in Port Gamble.
(2)Includes $171,000 (or $0.04 per diluted unit) increase in the environmental remediation liability in Port Gamble.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the accompanying consolidated balance sheets of Pope Resources, A Delaware Limited Partnership, and subsidiaries (collectively, the Partnership) as of December 31, 2004 and 2003, and the related consolidated statements of operations, partners' capital and comprehensive income, and cash flows for each of the years in the three-year period ended December 31, 2004. In connection with our audits of the consolidated financial statements, we also have audited the financial statement schedule listed in the index at Item 15. These consolidated financial statements and financial statement schedule are the responsibility of the Partnership's management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). 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 the 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, 2004 and 2003, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2004, in conformity with U.S. generally accepted accounting principles. Also in our opinion, the related 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.

KPMG LLP

KPMG LLP
Seattle, Washington
February 3, 2005

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, 2004 and 2003. The Partnership recorded a deferred tax asset and benefit of $907,000 in 2002 due to the aforementioned liquidation of its Canadian subsidiary.

5. 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 1,107,183 units authorized but unissued as of December 31, 2004. 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 233,441, 199,965, and 118,085, at December 31, 2004, 2003, and 2002, respectively. Vested unit options had weighted average exercise prices of $15.65, $18.71, and $20.65 at December 31, 2004, 2003, and 2002, respectively. Unit options outstanding were as follows:

	Number of units (in thousands)	Weighted average price per unit
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
Granted	29.5	17.90
Exercised	(20.5)	(15.12)
Expired	-	-
Balance, December 31, 2004	**363.7**	**$16.71**

The following table summarizes information about unit options outstanding at December 31, 2004:

Price range	Options outstanding	Exercise price options outstanding *	Options exercisable	Exercise price options exercisable *	Remaining contractual life (yrs) *
$9 - $14	184,304	$12.21	84,804	$12.17	8.7
$15 - $19	87,778	$19.04	65,778	$19.58	6.1
$20 - $24	66,109	$22.45	57,359	$22.52	5.5
$25 - $30	25,500	$27.25	25,500	$27.25	3.7
Total	363,691	$16.71	233,441	$15.65	6.2

* Weighted average

6. EMPLOYEE BENEFITS

As of December 31, 2004, all employees of the Partnership and its subsidiaries are eligible to receive benefits under a defined contribution plan. During 2004, 2003 and 2002 the Partnership matched 50% of the employees' contributions up to 8% of compensation. The Partnership's contributions to the plan amounted to $90,000, $82,000, and $57,000, for each of the years ended December 31, 2004, 2003, and 2002, respectively.

Details of the Partnership's operations by business segment for the years ended December 31 were as follows (in thousands):

	2004	2003	2002
Revenues			
Fee Timber	**$33,629**	$22,988	$23,428
Elimination of intersegment amounts	**(58)**	(72)	(130)
Fee Timber (External)	**$33,571**	$22,916	$23,298
Timberland Management & Consulting	**$2,018**	$2,860	$8,611
Elimination of intersegment amounts	**(417)**	(474)	(1,316)
Timberland Management & Consulting (External)	**$1,601**	$2,386	$7,295
Real Estate	**$4,512**	$1,833	$1,657
Elimination of intersegment amounts	**(36)**	(99)	(58)
Real Estate (External)	**$4,476**	$1,734	$1,599
Total revenues	**$40,159**	$27,681	$33,696
Elimination of intersegment amounts	**(511)**	(645)	(1,504)
Total revenues (External)	**$39,648**	$27,036	$32,192
Operating income/(loss)			
Fee Timber	**$14,784**	$9,171	$9,880
Elimination of intersegment amounts	**342**	498	319
Fee Timber (External)	**$15,126**	$9,669	$10,199
Timberland Management & Consulting	**$(284)**	$686	$1,228
Elimination of intersegment amounts	**(314)**	(414)	(309)
Timberland Management & Consulting (External)	**$(598)**	$272	$919
Real Estate	**$1,614**	($386)	($1,647)
Elimination of intersegment amounts	**(28)**	(90)	(20)
Real Estate (External)	**$1,586**	($476)	($1,667)
Unallocated General and Administrative	**($2,986)**	($2,848)	($3,874)
Elimination of intersegment amounts	-	6	10
Unallocated General and Admin (External)	**($2,986)**	($2,842)	($3,864)
Operating income	**$13,128**	$6,623	$5,587
Elimination of intersegment amounts	-	-	-
Operating income (External)	**$13,128**	$6,623	$5,587

(Dollar amounts are in thousands except per unit data)	2004	2003	2002	2001
Results of operations				
Revenues				
Fee Timber	**$ 33,571**	$ 22,916	$ 23,298	$ 24,999
Timberland Management & Consulting	**1,601**	2,386	7,295	9,703
Real Estate	**4,476**	1,734	1,599	3,143
Total revenues	**39,648**	27,036	32,192	47,845
Costs and expenses:				
Cost of sales	**15,184**	10,540	11,354	20,431
Operating expenses	**7,884**	7,031	10,074	17,998
General and administrative expenses	**2,986**	2,842	3,774	5,110
Impairment, exit, and environmental remediation costs	**466**	-	1,403	1,250
Total operating costs and expenses	**26,520**	20,413	26,605	44,789
Income from operations	**13,128**	6,623	5,587	3,056
Depreciation, depletion, and amortization	**5,752**	3,546	3,864	7,698
Net interest expense	**2,952**	2,806	2,894	2,961
Income tax expense/(benefit)	-	242	(788)	356
Minority interest	-	47	147	171
Net income/(loss)	**10,176**	3,528	3,334	(432)
Per unit results				
Net income/(loss)	**$ 2.22**	$ 0.78	$ 0.74	$ (0.10)
Distributions	**0.44**	0.24	0.10	-
Partners' capital	**11.87**	10.18	9.65	8.99
Weighted average units outstanding (000)	**4,594**	4,522	4,520	4,526
Cash Flow				
Net cash provided by operating activities	**$ 17,854**	$ 8,641	$ 9,005	$ 11,237
Investing activities	**24,500**	2,000	1,676	46,392
Distributions to unitholders	**1,989**	1,084	452	-
Payment/(issuance) of long-term debt	**1,979**	1,662	1,110	(26,540)
EBITDDA #	**18,880**	10,122	9,304	10,583
Free cash flow #	**10,906 ***	3,595	4,119	2,588 *
Financial position				
Working capital	**$ (3,105)**	$ 8,962	$ 3,792	$ (979)
Land and timber, net of depletion	**87,517**	69,003	70,495	71,549
Buildings & equipment, net of depreciation	**3,166**	3,107	3,335	4,269
Total assets	**94,868**	86,308	86,788	84,187
Long-term debt, including current portion	**35,766**	37,688	39,239	39,667
Partners' capital	**54,533**	46,036	43,598	40,673
Financial Ratios #				
Current Ratio	**0.5**	3.3	1.7	0.8
Total Debt to Total Capitalization	**40%**	45%	47%	9%
Debt to EBITDDA	**1.9**	3.7	4.2	3.7
EBITDDA to Interest Expense	**6.2**	3.3	2.8	3.1
Return on Assets	**11%**	4%	4%	-1%
Return on Equity	**20%**	8%	8%	-1%
Enterprise value / EBITDDA	**6.5**	8.7	9.9	10.4
Unit Trading Prices #				
High	**$ 25.25**	$ 15.99	$ 15.50	$ 24.50
Low	**15.00**	7.00	9.30	14.00
Year-end close	**25.00**	15.43	10.11	14.75
Market capitalization (year end - $millions)	**113**	70	46	67
Enterprise value (year end - $millions)	**148**	97	78	105
Fee timber harvest (MMBF)	**60.3**	45.0	45.1	36.3
Employees at December 31, (full time equivalent) #	**49**	48	79	123

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

2000	1999	1998	1997	1996	1995	1994
$ 21,444	$ 23,467	$ 20,985	$ 19,694	$ 21,772	$ 26,604	$ 19,083
11,011	11,705	8,906	-	-	-	-
18,202	15,681	13,061	10,415	11,241	9,558	11,002
50,657	50,853	42,952	30,109	33,013	36,162	30,085
16,970	15,799	12,120	10,937	12,160	13,437	12,947
20,209	20,092	13,355	9,773	7,275		
7,254	8,282	7,105	4,545	3,760	6,367	5,232
12,101	-	-	-	-	-	-
56,534	44,173	32,580	25,255	23,195	19,804	18,179
(5,877)	6,680	10,363	4,854	9,818	14,799	10,572
2,899	2,683	2,053	1,647	1,458	1,559	1,334
700	1,039	788	1,008	1,106	1,326	1,439
(326)	259	310	-	-	-	-
-	316	256	-	-	-	-
(6,251)	5,066	8,792	3,509	8,334	13,090	8,893
$ (1.38)	$ 1.11	$ 1.94	$ 0.78	$ 1.84	$ 2.90	$ 1.93
0.40	0.40	0.40	0.49	0.82	1.06	0.72
9.12	10.90	10.16	8.61	8.32	7.30	5.48
4,528	4,548	4,534	4,526	4,519	4,520	4,605
$ 9,973	$ 8,347	$ 9,152	$ 5,820	$ 12,330	$17,040	$ 7,416
2,539	3,764	5,582	3,515	2,581	3,564	4,137
	1,811	1,810	2,260	1,763	3,706	4,790
3,260	424	497	2,594	333	3,289	7,663
(1,201)	(2,978)	9,047	11,943	6,164	10,898	15,975
11,666	(6,603)	4,681	3,805	2,069	5,469	2,840
6,068						
$ 26,642	$ 15,720	$ 12,685	$ 13,816	$ 14,635	$12,297	$ 12,991
25,411	28,002	27,973	26,095	26,077	27,068	24,443
11,996	15,921	16,028	10,944	9,600	9,040	9,484
60,857	66,880	62,706	56,319	54,599	54,147	52,879
13,127	13,688	14,200	14,674	15,003	18,292	25,773
41,280	49,302	45,896	38,911	37,616	32,988	24,824
5.4	5.0	5.5	6.1	9.5	7.1	8.4
24%	22%	24%	27%	29%	36%	51%
(4.4)	1.5	1.2	2.4	1.4	1.1	2.2
(2.3)	7.0	8.5	4.3	7.9	9.3	6.2
-10%	8%	15%	6%	15%	24%	18%
-14%	11%	21%	9%	24%	45%	39%
(42.8)	16.5	12.8	20.1	9.8	6.7	8.6
$ 25.75	$ 35.00	$ 32.50	$ 31.00	$ 23.40	$ 21.80	$ 18.80
18.88	27.88	24.06	17.40	15.80	15.25	14.40
24.50	29.25	32.50	30.00	20.00	20.80	16.80
111	132	147	136	90	94	77
114	141	158	147	102	111	103
37.3	42.0	38.9	33.2	31.6	37.9	29.7
241	257	157	88	56	62	56

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

* Timberland acquisitions are excluded from the calculation of free cash flow.
\# Unaudited

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