

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K**

(Mark one)

Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the fiscal year ended December 31, 2016

or

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

Commission File No. 1-9035

Pope Resources, A Delaware Limited Partnership
(Exact name of registrant as specified in its charter)

Delaware
(State of Organization)

91-1313292
(IRS Employer I.D. No.)

19950 Seventh Avenue NE, Suite 200, Poulsbo, WA 98370
(Address of principal executive offices, Zip Code)

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

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

<u>Title of each class</u>	<u>Name of each exchange on which registered</u>
Depositary Receipts (Units)	NASDAQ

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period than the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (Section 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer

Accelerated Filer

Non-Accelerated Filer (Do not check if a smaller reporting company)

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in rule 12b-2 of the Act). Yes No

At June 30, 2016, the aggregate market value of the non-voting equity units of the registrant held by non-affiliates was approximately \$206,684,453

The number of the registrant's limited partnership units outstanding as of February 17, 2017 was 4,367,595.

Documents incorporated by reference: None

Pope Resources, A Delaware Limited Partnership
Form 10-K
For the Fiscal Year Ended December 31, 2016
Index

<u>Part I</u>		<u>Page</u>
<u>Item 1.</u>	<u>Business</u>	<u>3</u>
<u>Item 1A.</u>	<u>Risk Factors</u>	<u>17</u>
<u>Item 1B.</u>	<u>Unresolved Staff Comments</u>	<u>21</u>
<u>Item 2.</u>	<u>Properties</u>	<u>21</u>
<u>Item 3.</u>	<u>Legal Proceedings</u>	<u>23</u>
<u>Item 4.</u>	<u>Mine Safety Disclosures</u>	<u>23</u>
 <u>Part II</u>		
<u>Item 5.</u>	<u>Market for Registrant's Units, Related Security Holder Matters and Issuer Purchases of Equity Securities</u>	<u>24</u>
<u>Item 6.</u>	<u>Selected Financial Data</u>	<u>26</u>
<u>Item 7.</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>30</u>
<u>Item 7A.</u>	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>50</u>
<u>Item 8.</u>	<u>Financial Statements and Supplementary Data</u>	<u>51</u>
<u>Item 9.</u>	<u>Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>	<u>76</u>
<u>Item 9A.</u>	<u>Controls and Procedures</u>	<u>76</u>
<u>Item 9B.</u>	<u>Other Information</u>	<u>77</u>
 <u>Part III</u>		
<u>Item 10.</u>	<u>Directors and Executive Officers of the Registrant</u>	<u>78</u>
<u>Item 11.</u>	<u>Executive Compensation; Compensation Discussion & Analysis</u>	<u>80</u>
<u>Item 12.</u>	<u>Security Ownership of Certain Beneficial Owners and Management and Related Security Holder Matters</u>	<u>90</u>
<u>Item 13.</u>	<u>Certain Relationships and Related Transactions and Director Independence</u>	<u>93</u>
<u>Item 14.</u>	<u>Principal Accountant Fees and Services</u>	<u>93</u>
 <u>Part IV</u>		
<u>Item 15.</u>	<u>Exhibits</u>	<u>94</u>
	<u>Signatures</u>	<u>99</u>

PART I

Item 1. BUSINESS

OVERVIEW

When we refer to the “Partnership,” the “Company,” “we,” “us,” or “our,” we mean Pope Resources, A Delaware Limited Partnership and its consolidated subsidiaries. References to notes to the financial statements refer to the Notes to the Consolidated Financial Statements of Pope Resources, A Delaware Limited Partnership, included in Item 8 of this report. Statements of intention, belief or expectation reflect intent, beliefs and expectations of our executive officers as of the date of this report, based on information known to them as of that date. Readers should not place undue reliance on these statements, as they are in large part an attempt to predict future outcomes and events, and the section of this report entitled “Item 1A: Risk Factors” contains a non-exhaustive list of factors that may cause us to fall short of our expectations or to deviate from the plans discussed herein.

The Partnership was formed in 1985 as a result of the spinoff of certain timberlands and development properties from Pope & Talbot, Inc.

We currently operate in three primary business segments: (1) Fee Timber, (2) Timberland Investment Management and (3) Real Estate. Fee Timber operations consist of growing, managing, harvesting, and marketing timber from the 212,000 acres that we own or co-own as of December 31, 2016 with our timber fund investors as tree farms. Our Timberland Investment Management segment is engaged in organizing and managing private equity timber funds using capital invested by third parties and the Partnership. Our Real Estate segment’s operations are focused on a portfolio of approximately 2,200 acres in the west Puget Sound region of Washington. This segment’s activities consist of efforts to enhance the value of our land by obtaining the entitlements and, in some cases, building the infrastructure necessary to enable further development, and then selling those properties, ordinarily to commercial and residential developers. Our Real Estate operations also include ownership and management of Port Gamble, Washington, now an historic town. Port Gamble was established by Pope & Talbot in 1853 and was operated as a company town and location for a lumber mill for more than 160 years. Copies of the Partnership’s reports filed or furnished under the Securities Exchange Act, including our annual reports on Form 10-K, our quarterly reports on Form 10-Q and our current reports on Form 8-K, and all amendments to these reports, are available free of charge at www.poperesources.com. The information contained in or connected to our web site is not incorporated by reference into this Annual Report on Form 10-K and should not be considered part of this or any other report filed with or furnished to the Securities and Exchange Commission, or of any report, registration statement or other filing into which the contents hereof are incorporated by reference. The public may read and copy any material we file with the SEC at the SEC’s Public Reference Room at 100 F Street, NE, Washington, DC 20549. The public may also obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC also maintains an internet site at www.sec.gov that also contains our current and periodic reports and all of our other securities filings.

DESCRIPTION OF BUSINESS SEGMENTS

Fee Timber

Operations. As indicated above, our Fee Timber operations consist primarily of growing, managing, harvesting, and marketing timber. Our Fee Timber segment produced 71%, 67% and 75% of our consolidated revenue in 2016, 2015 and 2014, respectively. Delivered log sales to domestic manufacturers and export brokers represent the overwhelming majority of Fee Timber revenue, but we also occasionally sell rights to harvest timber from our tree farms. We refer to these transactions as “timber deed sales.” In addition, our tree farms generate revenue from commercial thinning operations, ground leases for cellular communication towers, and royalties from gravel mines and quarries. The 212,000 timberland acres that we own or manage under the banner of this segment break down into two categories. The first of these categories consists of the approximately 68,000-acre Hood Canal tree farm, located primarily in the western Washington counties of Jefferson, Kitsap, and Mason, and the 50,000-acre Columbia tree farm located in southwest Washington. Management views the Hood Canal and Columbia tree farms as the Partnership’s core holdings, and manages them as a single operating unit. When we refer to these two tree farms, we will describe them as the “Partnership’s tree farms.” We have owned the Hood Canal tree farm, substantially as currently comprised, since our formation in 1985. We acquired the bulk of the Columbia tree farm in 2001, a smaller block in 2004, and added over 8,000 acres to this tree farm in 2016.

This segment also includes a second category, comprised of the operations and on-the-ground management of ORM Timber Fund I, LP (Fund I), ORM Timber Fund II, Inc. (Fund II), ORM Timber Fund III (REIT), Inc. (Fund III), and ORM

Timber Fund IV (REIT) Inc. (Fund IV), which are consolidated into our financial statements. Fund I's assets were sold in 2014 and the fund was wound up in 2015 when its remaining cash was distributed to its investors. Fund IV was launched in December 2016 and had no invested capital or operations as of December 31, 2016. When referring to all the Funds collectively, depending on context, we will use the designations "Fund" or "Funds" interchangeably. The Funds' assets at December 31, 2016 consist of 94,000 acres of timberland located in western Washington, northwestern Oregon and northern California, though Fund II sold a 6,400-acre tree farm in northwestern Oregon in January 2017. The Partnership holds ownership interests of 20% in Fund II, 5% in Fund III, and 15% in Fund IV, and we held a 20% ownership interest in Fund I. The Funds' tree farms consisted of the following at December 31, 2016:

Fund	Acquisition Date	Location	Acres (in thousands)
Fund II	Q4 2009	Northwestern Oregon *	11
	Q3 2010	Western Washington	13
	Q3 2010	Northwestern Oregon	13
Fund III	Q4 2012	Northern California	19
	Q4 2013	Southwestern Washington	10
	Q4 2014	Northwestern Oregon	13
	Q4 2015	Southern Puget Sound Washington	15
			94

* In January 2017, we sold 6,400 of these acres

When referring to the Partnership and Fund tree farms together we will refer to them as the "Combined tree farms." When referring to the combination of the Partnership's tree farms and its 20% and 5% ownership interest in Fund II and Fund III, respectively, along with its 20% interest in Fund I prior to the sale of its assets in the second half of 2014, we will refer to the sums as "Look-through" totals. Fund IV was launched in December 2016 and had no invested capital or operations in any of the periods presented.

Inventory. Timber volume is generally expressed in thousands of board feet (MBF) or millions of board feet (MMBF). In the discussion below, we present merchantable volume, productive acres and projected harvest level data for the Partnership's and Funds' tree farms on both a stand-alone and Look-through basis. On our Washington and Oregon tree farms, we define "merchantable volume" to mean timber inventory in productive stands that are 35 years of age and older. Our California tree farm has been managed historically using uneven-age harvest treatments wherein stands consist of trees of a variety of age classes. On that tree farm, we classify merchantable volume based on the tree's diameter at breast height (DBH), or four and one half feet above ground. Trees with a DBH greater than or equal to 16 inches are considered merchantable and less than 16 inches are considered pre-merchantable. Accordingly, merchantable volume from our California tree farm is reflected in the tables below as "16+".

Partnership merchantable volume (in MMBF) as of December 31:

Merch Class	2016			2015
	Sawtimber	Pulpwood	Total	Total
35 to 39 yrs.	219	11	230	170
40 to 44 yrs.	55	3	58	55
45 to 49 yrs.	27	2	29	31
50 to 54 yrs.	8	—	8	9
55 to 59 yrs.	5	—	5	3
60 to 64 yrs.	3	—	3	5
65+ yrs.	25	1	26	25
	342	17	359	298

Fund merchantable volume (in MMBF) as of December 31:

Merch Class	2016			2015
	Sawtimber	Pulpwood	Total	Total
35 to 39 yrs.	97	5	102	103
40 to 44 yrs.	103	3	106	117
45 to 49 yrs.	94	2	96	94
50 to 54 yrs.	52	1	53	44
55 to 59 yrs.	28	—	28	27
60 to 64 yrs.	11	1	12	7
65+ yrs.	16	—	16	17
16+ inches	161	—	161	177
	562	12	574	586

Note: Data includes volume from 6,400-acre tree farm sold by Fund II in January 2017

Look-through merchantable volume (in MMBF) as of December 31:

Merch Class	2016 Volume			2015 Volume		
	Partnership		Look-through Total	Partnership		Look-through Total
	100% Owned	Share of Funds		100% Owned	Share of Funds	
35 to 39 yrs.	230	15	245	170	16	186
40 to 44 yrs.	58	15	73	55	16	71
45 to 49 yrs.	29	16	45	31	16	47
50 to 54 yrs.	8	7	15	9	6	15
55 to 59 yrs.	5	5	10	3	4	7
60 to 64 yrs.	3	1	4	5	1	6
65+ yrs.	26	6	32	25	1	26
16+ inches	—	9	9	—	9	9
	359	74	433	298	69	367

Note: Data includes volume from 6,400-acre tree farm sold by Fund II in January 2017

Merchantable volume estimates are updated annually. Changes in timber inventory typically reflect depletion of harvested timber, growth, revised estimates of acres available for harvest, timber inventory measurement updates, and timberland acquisition and disposition activity. A portion of each tree farm's timber stands is physically measured or re-measured each year using a statistical sampling process called "cruising" such that generally no "cruise" for stands with actual volume is ever more than seven years old. Actual volume harvested is compared to the volume carried in our inventory system, referred to as a "cutout analysis," to monitor the accuracy of our timber inventory process.

The dominant timber species on the Partnership's tree farms is Douglas-fir, which has unique structural characteristics that make it generally preferable to other softwoods and hardwoods for the production of construction grade lumber and plywood. A secondary softwood conifer species on the Partnership's tree farms is western hemlock, which is similar in color and structural characteristics to a number of other minor softwood conifer timber species, including Sitka spruce and the true firs. These secondary species are thus purchased and manufactured into lumber generically, and referred to as "whitewoods." There is also a minor amount of another softwood conifer species, western red cedar, which is used in siding, fencing and decking. Hardwood species on the Partnership's tree farms include red alder and minor volumes of other hardwood species.

The merchantable timber inventory on Fund properties contains a greater proportion of whitewoods than do the Partnership's timberlands. Fund III's tree farm in northern California includes ponderosa pine and white fir. Ponderosa pine is used for shelving, lumber, and parts for windows, doors, and furniture. White fir is a member of the whitewood species group and is used primarily for lumber and core layers in plywood.

Look-through merchantable volume (in MMBF) as of December 31, 2016:

Species	Partnership		Look-through Total	Percent of total
	100% Owned	Share of Funds		
Douglas-fir	267	32	299	69%
Western hemlock	31	23	54	12%
Western red cedar	11	1	12	3%
Pine	—	3	3	1%
Other conifer	18	12	30	7%
Red alder	27	3	30	7%
Other hardwood	5	—	5	1%
Total	359	74	433	100%

Note: Data includes volume from 6,400-acre tree farm sold by Fund II in January 2017

Look-through merchantable volume (in MMBF) as of December 31, 2015:

Species	Partnership		Look-through Total	Percent of total
	100% Owned	Share of Funds		
Douglas-fir	217	28	245	67%
Western hemlock	26	22	48	13%
Western red cedar	11	1	12	3%
Pine	1	2	3	1%
Other conifer	17	12	29	8%
Red alder	23	4	27	7%
Other hardwood	3	—	3	1%
Total	298	69	367	100%

The Partnership's tree farms as of December 31, 2016 consist of approximately 118,000 acres. Of this total, approximately 101,100 acres are designated as productive acres, meaning land that is capable of growing merchantable timber and where the harvesting of that timber is not constrained by physical, environmental or regulatory restrictions. The Funds' tree farms as of December 31, 2016 totaled approximately 94,000 acres, of which 81,700 were designated as productive acres. Our productive acres on a look-through basis, as of December 31, 2016, were nearly 111,000. Approximately 32% of the Partnership's acreage and 21% of the Funds' Washington and Oregon acreage is in the 25-34 year age-class, much of which will begin moving from pre-merchantable to merchantable timber volume over the next five years. There is no age-class associated with the California tree farm and its productive acres are shown in the following tables under the heading "California."

Look-through productive acres are spread by timber age-class as follows as of December 31, 2016:

12/31/2016 Productive Acres (in thousands)

Age Class	100%		Share of		Look-through	
	Owned	%	Funds	%	Total	%
Clear-cut	3.2	3%	0.2	2%	3.4	3%
0 to 4	8.4	8%	1.1	11%	9.5	9%
5 to 9	7.6	8%	0.6	6%	8.2	7%
10 to 14	11.3	11%	0.7	7%	12.0	11%
15 to 19	12.8	13%	0.5	5%	13.3	12%
20 to 24	7.7	8%	0.4	4%	8.1	7%
25 to 29	14.5	14%	0.9	9%	15.4	14%
30 to 34	17.3	17%	0.7	7%	18.0	16%
35 to 39	12.2	12%	0.8	8%	13.0	12%
40 to 44	3.1	3%	0.8	8%	3.9	4%
45 to 49	1.4	1%	0.7	7%	2.1	2%
50 to 54	0.3	—%	0.3	3%	0.6	1%
55 to 59	0.3	—%	0.2	2%	0.5	—%
60 to 64	0.1	—%	—	—%	0.1	—%
65+	0.9	1%	1	10%	1.9	2%
California	—	—%	0.9	9%	0.9	1%
	101.1		9.8		110.9	

Note: Data includes volume from 6,400-acre tree farm sold by Fund II in January 2017

Look-through productive acres are spread by timber age-class as follows as of December 31, 2015:

12/31/2015 Productive Acres (in thousands)

Age Class	100%		Share of		Look-through	
	Owned	%	Funds	%	through	%
Clear-cut	2.5	3%	0.3	4%	2.8	3%
0 to 4	7.0	8%	1.0	12%	8.0	8%
5 to 9	8.8	10%	0.6	7%	9.4	9%
10 to 14	10.2	11%	0.6	7%	10.8	11%
15 to 19	13.4	14%	0.4	5%	13.8	14%
20 to 24	4.6	5%	0.6	7%	5.2	5%
25 to 29	14.9	16%	0.8	9%	15.7	15%
30 to 34	16.1	17%	0.5	6%	16.6	16%
35 to 39	9.2	10%	0.9	10%	10.1	10%
40 to 44	2.9	3%	0.8	9%	3.7	4%
45 to 49	1.6	2%	0.8	9%	2.4	2%
50 to 54	0.3	—%	0.3	4%	0.6	1%
55 to 59	0.2	—%	0.1	1%	0.3	—%
60 to 64	0.2	—%	—	—%	0.2	—%
65+	1.0	1%	—	—%	1.0	1%
California	—	—%	0.9	10%	0.9	1%
	92.9		8.6		101.5	

Site Index. The site index for a given acre of timberland is a measure of the soil's potential to grow timber. In the Partnership's operating region, site index is expressed in feet and is a measure of a Douglas-fir tree's projected height at age 50. In the California region, it is based on a mix of species. Site index is calculated by tree height and age data collected during the cruising process. Site index is an important input into the models used for projecting harvest levels on a tree farm. The Partnership's properties have an estimated weighted average site index of 116 feet and the Funds' properties have an estimated weighted average site class of 113 feet.

Long-term Harvest Planning. Long-term harvest plans for the Partnership’s and the Funds’ tree farms reflect the different ownership time horizons associated with each group. Plans for Partnership timberlands are designed to maintain sustainable harvest levels over an extended time frame, assuming perpetual ownership. “Sustainable harvest level” denotes our assessment as to the annual volume of timber than can be harvested from a tree farm in perpetuity. As such, the sustainable harvest level generally resembles the annual growth of merchantable timber. Actual annual harvest levels may vary depending on log market conditions and timberland acquisition or disposition activity and whether timber volumes for timberland acquisitions or dispositions were included in the base volume used to calculate the sustainable harvest level. Over multi-year time frames, however, annual harvest volumes will average out to the sustainable harvest levels developed in our long-term harvest plan. The harvest levels for the Funds’ tree farms are developed to maximize the total return during their 10-13 year investment periods by blending income from harvest with the value of the portfolio upon disposition. This will result in more harvest variability between years for Fund tree farms than is the case with the Partnership’s tree farms.

Assuming full operations on the Funds’ existing tree farms, at December 31, 2016 the long-term planned average annual harvest levels for the Partnership and Fund tree farms (and on a Look-through basis) can be found in the table below:

(amounts in MMBF)

	Planned annual harvest volume	Look-through planned annual harvest volume
Partnership tree farms	52	52
Fund tree farms	54	6
Total	106	58

Marketing and Markets. The following discussion applies to the Combined tree farms. We market timber by selling logs mostly to lumber, plywood, and chip producers or to log export brokers. To do so, we engage independent logging contractors to harvest the standing timber, manufacture it into logs, and deliver it to our customers on the open market. Except in the case of some timber deed sales, we retain title to the logs until they are delivered to a customer log yard.

Domestic mills buy the majority of our sawlog volume. Domestic mill customers use the logs they acquire as raw material for manufacturing lumber. Higher quality logs sold to the domestic market are generally used to peel veneer necessary to manufacture plywood. Lumber markets tend to rise and fall with new home starts as well as the repair and remodel market, which in turn drives domestic demand for logs. Additional domestic demand for our products comes from producers of utility poles, cedar shakes, and lumber. Lower quality logs are chipped for use by pulp mills in the production of pulp and paper.

We also sell to export markets in Asia through reputable brokers. Our decision to sell through intermediaries is predicated on risk management considerations, such as mitigation of foreign exchange risk, loss prevention, and minimizing cash collection risks. These export markets generally represent 15% to 35% of the log volume we produce, but can reach as high as 50%. Export markets provide important diversification from our domestic markets. Drivers of export markets include construction activities in Japan, China, and Korea, exchange rates, and shipping costs. Export markets do not tend to correlate with our domestic markets which is why the diversification provided by these markets is valuable.

Historically, Japanese customers have paid a premium for the highest quality Douglas-fir logs from which they mill visually appealing exposed beams used for residential construction. U.S. mills, on the other hand, manufacture mostly framing lumber requiring structural integrity for wall systems concealed by drywall that do not require high aesthetic quality. Accordingly, the logs sold to domestic markets are more of a commodity relative to logs sold to the Japanese market, and thus do not command as high a price.

Beginning in 2010, a reduction in China’s log imports from Russia, coupled with strengthening in the Chinese currency compared to the U.S. dollar, opened up an opportunity for North American log producers to supply a larger portion of logs to the growing Chinese market. This resulted in the migration of the U.S. Pacific Northwest export market from one focused almost exclusively on Japan and Korea to a broader Asian market that now includes China. Today, China represents the largest market within the region based on volume. This export market has provided support to log prices during the gradual recovery of U.S. housing over the past several years. Sawlogs sold to China are used chiefly for construction of concrete forms, pallets, and other uses that can be satisfied with whitewood and lower quality Douglas-fir sawlogs. China’s appetite for lower quality logs expanded the diversity of species mix and log sorts sold to the export market. This increased demand, and in turn prices, for whitewood and Douglas-fir sawlogs purchased traditionally by domestic mills. Combined with the limited volume of high-quality Douglas-fir flowing to Japan, this narrowed the overall premium received for sales of logs to these export markets relative to the domestic market. Beginning in 2015, our export markets began facing headwinds due to declining demand from China as its economy weakened and the U.S. dollar strengthened, which made U.S. log exports less competitive with logs from other countries. At the same time, the domestic housing market continued to strengthen which spurred competition for export

logs recently destined for China. U.S. lumber mills failed to pay the same premium for whitewood and lower quality Douglas-fir logs, resulting in a widening of the premium for these products.

Customers. Logs from the Combined tree farms are sold to a number of customers in both the domestic and export markets. Domestic customers include lumber and plywood mills and other wood fiber processors located throughout western Washington, western Oregon, and northern California. Export customers consist of intermediaries located at the Washington ports of Longview, Tacoma, Port Angeles, Grays Harbor, and Olympia, and the Oregon ports of St. Helens and Astoria. Whether destined for export or domestic markets, the cost of transporting logs limits the destinations to which the Partnership and Funds can profitably deliver and sell their logs.

The ultimate decision on where to sell logs is based on the net proceeds we receive after taking into account both the delivered log prices and the cost to deliver the logs to that customer. In instances where harvest operations are closer to a domestic mill than the log yard of an export broker, we may earn a higher margin from selling to a domestic mill even though the delivered log price is lower. As such, realized delivered log price movements are influenced by marketing decisions predicated on margins rather than focusing exclusively on the delivered log price. In such instances, our reported delivered log prices may reflect more of the property's proximity to customers rather than the broader market trend.

Competition. Most of our competitors are comparable to us in size or larger. Log sellers like the Partnership and the Funds compete on the basis of quality, pricing, and the ability to satisfy volume demands for various types and grades of logs to particular markets. We believe that the location, type, and grade of timber from the Combined tree farms will enable us to compete effectively in these markets. However, our products are subject to some competition from a variety of non-wood and engineered wood products as well as competition from foreign-produced logs and lumber.

Forestry and Stewardship Practices. We manage our forests and young trees to create log sorts, determined largely by log top-end diameter and log quality, and species mix that satisfy what we expect domestic mills will desire in future years. Timberland management activities on the Combined tree farms include reforestation, control of competing brush in young stands and thinning of the timber to achieve optimal spacing after stands are established. This is all to ensure that young stands are on a pathway to produce the desired log sorts and species mix. During 2016, we planted 1.7 million seedlings on 6,600 acres of the Combined tree farms compared to 1.1 million seedlings on 3,100 acres in 2015 and 1.4 million seedlings on 3,900 acres in 2014. Seedlings are generally planted from December to April, depending on weather and soil conditions, to restock stands that were harvested during the preceding twelve months. The number of seedlings planted will vary from year to year based upon harvest level, the timing of harvest, and seedling availability. Management's policy is to return all timberlands to productive status in the first planting season after harvest, provided any requisite brush control has been completed.

All harvest and road construction activities are conducted in compliance with federal, state and local laws and regulations. Many of these regulations are programmatic and include, for example; limitations on the size of harvest areas, reforestation following harvest, retention of trees for wildlife habitat and water quality, and sediment management on forest roads. The regulations also require project-specific permits or notifications that govern a defined set of forestry operations. An application for harvest or road construction may require more specific guidance to avoid potential impact to public resources. For example, we often consult third-party, state-qualified geo-technical specialists for operations that have the potential to impact unstable slopes in order to avoid, minimize, or mitigate risks to safety and public resources.

Sustainable Forestry Initiative (SFI®). Since 2003, we have been a member of the SFI® forest certification program; an independent environmental review and certification program that promotes sustainable forest management, focusing on water quality, biodiversity, wildlife habitat, and the protection of unique biota. With our participation in this certification program, we are subject to annual independent audits of the standards required by the program. We view this certification as an important indication of our commitment to manage our lands sustainably while continually seeking ways to improve our management practices. We believe this commitment is an important business practice that contributes positively to our reputation and to the long-term value of our assets.

Our certifications are current for all of the Combined tree farms. We believe this certification allows us to obtain the broadest market penetration for our logs while protecting the core timberland assets of the Partnership and the Funds.

Timberland Investment Management

Background. In 1997, the Partnership formed two wholly-owned subsidiaries, ORM, Inc. and Olympic Resource Management LLC ("ORMLLC"), to facilitate entry into the business of providing Timberland Investment Management services for third-parties. Today, our Timberland Investment Management segment earns management fees and incurs expenses resulting from raising, investing, and managing capital which is invested in Pacific Northwest timberland on behalf of third-

party investors. Since the launch of our timberland private equity fund strategy in 2003, the activities in this segment have consisted primarily of attracting third-party investment capital for the Funds and then acquiring and managing timberland portfolios on their behalf. When we discuss the Timberland Investment Management properties we will refer to either the acquisition values, defined as contractually agreed-upon prices paid for the properties, or the value of assets under management, defined as the current third-party appraised value of the properties. As of December 31, 2016, we manage 94,000 acres of timberland in Washington, Oregon, and California with combined appraised values of \$375 million.

The following table summarizes the committed and called capital, as well as distributions received, for our Timberland Investment Management segment on cumulative basis since its inception:

(in millions)	Total Fund		Co-investment		
	Commitment	Called Capital	Commitment	Called Capital	Distributions Received
Fund I *	\$ 61.8	\$ 58.5	\$ 12.4	\$ 11.7	\$ 15.1
Fund II	84.4	83.4	16.9	16.7	7.4
Fund III	180.0	179.7	9.0	9.0	0.2
Fund IV	381.0	—	57.2	—	—
Total	<u>\$ 707.2</u>	<u>\$ 321.6</u>	<u>\$ 95.5</u>	<u>\$ 37.4</u>	<u>\$ 22.7</u>

* Fund I assets were sold in 2014 and the fund was dissolved in 2015.

Operations. The Timberland Investment Management segment's key activity is to provide investment and portfolio management services to the Funds. We anticipate growth in this segment as we continue to manage the Funds, together with any future funds established by the Partnership. The Timberland Investment Management segment represented less than 1% of consolidated revenue for each of the three years ended December 31, 2014 through 2016, as fee revenue is eliminated in consolidation.

The Partnership benefits in a number of ways from this segment. First, we co-invest in each of these funds such that we are able to diversify our market exposure across more tree farms and more frequent acquisitions than we could by investing only for the Partnership. We also benefit from the economies of scale generated through managing these additional acres of timberland, which accrue to both the Partnership and Fund timberlands. The contribution margin from the fees charged to the Funds lowers the management costs on the Partnership's timberlands. Lastly, we are able to retain additional expertise that neither the Partnership nor the Funds' timberlands could support on a stand-alone basis.

We earn annual asset management fees from the Funds based on the equity capital used to acquire timberland properties. We also earn annual timberland management fees on acres owned by the Funds and log marketing fees based on harvest volume from Fund tree farms. At the end of a Fund term, if a Fund achieves threshold return levels, we earn a carried interest incentive fee.

Accounting rules require that we eliminate in consolidation the fee revenue generated from managing the Funds in our Timberland Investment Management segment and corresponding operating expenses for the Fee Timber segment. The elimination of this fee revenue and corresponding operating expenses reduces the otherwise reported cost per acre of managing Fund tree farms under our Fee Timber segment. These eliminations make the Fee Timber results look stronger and the Timberland Investment Management results look correspondingly weaker.

Marketing. When raising capital for a new Fund, we market these opportunities to investors that have an interest in investing alongside a manager with a specific regional specialization and expertise in the timberland asset class. Our Funds fill a niche among timberland investment management organizations due to our regional specialization, degree of co-investment, smaller fund sizes, and the ability to target relatively small transactions. Additional marketing and business development efforts include regular contact with forest products industry representatives, non-industry owners, and others who provide key financial services to the timberland sector. Our acquisition and disposition activities keep management informed of changes in timberland ownership that can represent opportunities for us to market our services.

Customers. The Funds are the primary customers and users of Timberland Investment Management services.

Competition. We compete against both larger and comparably sized companies providing similar timberland investment management services. There are over 20 established timberland investment management organizations competing

against us in this business. Some companies in this group have access to established sources of capital and, in some cases, increased economies of scale that can put us at a disadvantage. Our value proposition to investors is centered on the differentiation we provide relative to other managers, as described above, as well as our long track record of success in the Pacific Northwest.

Real Estate

Background. The Real Estate segment represented 29%, 33% and 25% of consolidated revenue in 2016, 2015 and 2014, respectively. The Partnership's real estate activities are associated closely with the management of our timberlands. We evaluate timberlands regularly in terms of the best economic use, whether this means continuing to grow and harvest timber, seeking a rezoning of the property for sale or development, or working with conservation organizations and the public on a sale of a portion of property or the sale of a conservation easement. After timberland has been logged, we have a choice among four primary alternatives for the underlying land: reforest and continue to use as timberland, sell as undeveloped property, undertake some level of development to prepare the land for sale as improved property, or hold for later development or sale. We currently have a 2,200-acre portfolio of properties for which we believe there to be a higher and better use than timberland. In addition, the Real Estate segment may acquire and develop other properties for sale, either on its own or by partnering with other experienced real estate developers. To date, this activity has not constituted a material part of our Real Estate segment's operations. Generally speaking, the Real Estate segment's activities consist of investing in and later reselling improved properties and holding properties for later development and sale. As a result, revenue from this segment tends to fluctuate substantially, and is characterized by relatively long periods in which revenue is low, while costs incurred to increase the value of our development properties may be higher. During periods of diminished demand, we manage our incurrence of entitlement related costs and infrastructure investment so as to minimize negative cash flows. Segment expenses do not generally trend directly with segment revenues. When improved properties are sold, income is recognized in the form of sale price net of acquisition and development costs.

Operations. Real Estate operations focus on maximizing the value of the 2,200-acre portfolio mentioned above. For Real Estate projects, we secure entitlements and/or infrastructure necessary to make development possible and then sell the entitled property to a party who will construct improvements. In addition, this segment's results reflect our efforts to negotiate conservation easements (CE) that typically encumber Fee Timber properties and preclude future development on that land but allow continued forestry operations. The third and final area of operations in this segment includes leasing residential and commercial properties in Port Gamble, Washington, and leasing out a portion of our corporate headquarters building in Poulsbo, WA.

We recognize the significant value represented by the Partnership's Real Estate holdings and are focused on adding to that value. The means and methods of adding value to this portfolio vary considerably depending on the specific location and zoning of each parcel. Our properties range from land that has commercial activity zoning where unit values are measured on a per-square-foot basis to large lots of recently harvested timberland where value is measured in per-acre terms. In general, value-adding activities that allow for the highest-and-best-use of the properties include: working with communities and elected officials to develop grass roots support for entitlement efforts, securing favorable comprehensive plan designation and zoning, acquiring easements, and obtaining plat approvals.

Development Properties

Projects in Gig Harbor, Port Gamble, Kingston, Bremerton, Hansville and Port Ludlow, Washington make up approximately half the acres in our development property portfolio. Due to each property's size, development complexity, and regulatory environment, the projects are long-term in nature and require extensive time and capital investments to maximize returns.

Gig Harbor. Gig Harbor, a suburb of Tacoma, Washington, is the site of Harbor Hill, a mixed-use development project that included at its inception the following mix of zoning: 42 acres of commercial/retail sites, 50 acres of business park lots, and 200 acres of land with residential zoning. At December 31, 2016, we still own 18.5 acres of commercial/retail, 11.5 acres of business park and 50 acres of residential lots in this project. A 20-year development agreement was approved by the City of Gig Harbor in late 2010. Key provisions of the development agreement and plat approval include: (a) extending the project development period from 7 to 20 years; (b) reserving sufficient domestic water supply, sanitary sewer, and traffic trip capacity on behalf of the project's residential units; and (c) waiver of park impact fees in exchange for a 7-acre parcel of land for City park purposes. All components of this project have transportation, water and sewer capacities reserved for full build-out. We received preliminary plat approval in early 2011 for the then 200-acre residential portion of this project that included 554 single-family and 270 multi-family units. At December 31, 2016, 158 single-family lots remained for sale.

Port Gamble. Port Gamble fits within both the development and commercial properties aspects of our Real Estate operations. Port Gamble is located northwest of Kingston on the Kitsap Peninsula. Founded in 1853 by the company that became Pope & Talbot, Inc. (“P&T”), Port Gamble served as a mill site, logging port and company town for over 160 years and many of its buildings still stand. The town and mill sites, totaling 130 acres, were transferred from P&T to Pope Resources at the time of our formation in 1985. The operation and management of the town of Port Gamble is discussed under “Commercial Properties” below.

With respect to our development plans for the site, Port Gamble has been designated a “Rural Historic Town” since 1999 under Washington’s Growth Management Act. This designation allows for substantial new commercial, industrial, and residential development using historic land use patterns and densities while maintaining the town’s unique architectural character. Our plans are focused on bringing back the New England-style homes that have slowly disappeared since Port Gamble’s heyday in the 1920s. If approved as proposed, our plat application to Kitsap County will allow for between 200 and 240 additional residential units and 200,000 to 260,000 square feet of additional commercial building space. We submitted this master plan for the 114-acre townsite and adjoining 205-acre agrarian district in January 2013, kicking off a multi-year period of environmental impact review and public comment. The proposal calls for development of homes, an inn, a dock, waterfront trails, and an agricultural area with greenhouses, orchard and winery. Walking trails along the shoreline, through the adjoining forestlands, and along pastoral farmland would contribute to the lifestyle of residents and should enhance Port Gamble as a unique tourist attraction. In 2016, the town was connected to the Kitsap County water supply infrastructure. During the first half of 2017, our efforts will be focused on the installation of a new membrane bioreactor wastewater treatment plant with a large onsite septic system which will be turned over to Kitsap County’s Public Utility District at completion. The new facility will cost approximately \$5.6 million, of which \$2.0 million is being funded by a Washington State appropriation grant. Once operational, the existing treatment plant will no longer discharge treated wastewater to the Hood Canal through the currently permitted outfall pipe. Official de-commissioning of the outfall will commence after the new plant is operational.

As discussed in greater detail below, P&T’s operations at Port Gamble are believed to have resulted in releases of hazardous substances that impacted the upland and submerged portions of the site. We have an environmental remediation liability as a result of our ownership of Port Gamble, which we acquired from P&T at the time of our formation in 1985.

Kingston. The Partnership owns a 374-acre property in Kingston called “Arborwood” with plans for the development of 663 single-family lots and 88 multi-family units. Further development will not proceed until the local market demonstrates an increased appetite for residential lots. In 2016, we acquired an adjacent 10 acres which will provide another access point to the project and allow it to be broken into three or more smaller projects.

Bremerton. The West Hills area of Bremerton, Washington is the site of a 46-acre industrial park which was being developed in two phases totaling 24 lots. Construction on the 9 lots that make up Phase I was completed in 2007. One lot has been sold from Phase I and the industrial market remains weak at this time. In 2013, we obtained a comprehensive plan designation change from industrial to residential for the 36-acre Phase II portion of this property. In 2014, Phase II was rezoned to single-family residential and we hope to secure a preliminary plat for 110 lots in 2017.

Hansville. The Partnership owns a 149-acre residential development project in Hansville called “Chatham,” with 19 parcels ranging from 3 to 10 acres in size. Construction was completed in late 2007 and the lots are currently being marketed for sale. To date, one lot has been sold from this project.

Port Ludlow. Port Ludlow represents a 256-acre property located just outside the Master Planned Resort boundary of Port Ludlow, Washington. We currently expect preliminary plat approval in 2017 that, if obtained, will allow for up to 54 lots ranging from 1 to 1.5 acres each, with the balance of the property designated as open space. Development beyond the point of plat approval will not commence until demand for rural residential lots improves.

Rural Residential. We have a number of properties for which rural residential development represents a higher and better use compared to continuing to manage them as timberland. These properties are typically non-contiguous smaller lots ranging in size between 5 and 40 acres with zoning ranging from one dwelling unit per 5 acres to one per 80 acres. Development and disposition strategies vary depending on the property’s unique characteristics. Development efforts and costs incurred to prepare these properties for sale include work to obtain development entitlements that will increase the property’s value as residential property as well as making improvements to existing logging roads, constructing new roads, extending dry utilities, and sometimes establishing gated entrances. As is the case with much of the Real Estate portfolio, investments in the rural residential program have been limited to those necessary to achieve entitlements, while deferring construction costs until market conditions improve.

North Kitsap County. Since 2011, we have been formally engaged with a coalition of approximately 30 entities to conserve up to 6,500 acres of the Partnership's timberland in north Kitsap County. This effort, known as the Kitsap Forest & Bay Project, saw two closings in 2014 totaling 901 acres. In 2015, an additional 175 acres were sold to Kitsap County utilizing state conservation funds and in 2016 we sold 1,356 acres to Kitsap County, though we retained a timber deed that will allow us to harvest timber on the property for 25 years. We continue to work with the coalition to raise funds for additional sales.

Skamania County. We have been engaged with the Columbia Land Trust (CLT) in a multi-phase conservation project that includes both fee and conservation easement (CE) sales. In tandem with this project, we have been working with Skamania County to rezone the majority of our holdings in the county. In the second half of 2014, the County approved a rezoning of approximately 14,000 acres that allows for the development of 20-acre lots. Funding for conservation sales have been primarily through the Washington Wildlife and Recreation Program (WWRP). CLT has applied for additional CE grants for the final 7,899 acres of this project through the Forest Legacy Program. If awarded, the Forest Legacy grant will be funded for a 2017 closing.

Commercial Properties

Poulsbo. In May 2011, we purchased a 30,000-square-foot commercial office building in Poulsbo, on a 2-acre parcel of land. At the time, the building was fully leased to Union Bank on a five-year, triple-net lease. We moved our headquarters to the new building in November 2012, sharing the space until Union Bank vacated the building in April 2015. We have taken over the basement of the building for our own operations, leased a portion of the first floor, and are seeking replacement tenants for the remaining first-floor space of approximately 5,500 square feet.

Port Gamble. As described above under "*Development Properties*," the Partnership owns and operates the town of Port Gamble where 25 residential buildings and approximately 46,000 square feet of commercial space are currently leased to third parties. In addition, we operate a wedding and events business, utilizing another 8,000 square feet in its venues, that leverages the charm of the townsite to attract clientele. These commercial activities help offset the costs of maintaining the town while the master plan progresses.

Environmental Remediation. As noted above, P&T and its corporate predecessors operated a sawmill at Port Gamble from 1853 to 1995. P&T continued to lease various portions of the site for its operations until 2002. During the time P&T operated in Port Gamble, it also conducted shipping and log storage and transfer operations in the tidal and subtidal waters throughout Port Gamble Bay, some of which were under lease from the Washington State Department of Natural Resources (DNR) that lasted from 1974 to 2004. P&T's operations are believed to have resulted in releases of hazardous substances that impacted the upland and submerged portions of the site. Hazardous substances believed to have been released include various hydrocarbons, cadmium and toxicity associated with wood waste.

Following the mill shutdown, the Washington State Department of Ecology (DOE) began to examine the environmental conditions at Port Gamble. Under Washington law, both Pope Resources and P&T were considered by DOE to be "potentially liable persons" (PLPs); the Partnership because of its ownership of certain portions of the site, and P&T because of its historical ownership and operation of the site. DNR was also considered by DOE to be a PLP because of its management of the submerged beds in Port Gamble Bay and its leasing of certain of those beds to P&T. We believe that DNR is liable for a significant portion of cleanup costs by virtue of its having permitted P&T to operate on the tidal and submerged portions of the site, and by failing to properly enforce the then-existing environmental laws in a manner that we believe would have substantially mitigated the contamination that occurred during P&T's operations at the site.

P&T and Pope Resources entered into a settlement agreement in 2002 that allocated responsibility for environmental contamination at the townsite, millsite, a solid waste landfill, and adjacent waters, with P&T assuming responsibility for funding clean-up in the Bay and other areas of the site that were impacted by its historical operations. At that time, the parties estimated the aggregate cleanup costs allocable to both parties to be between \$10 and \$13 million, with clean-up of Port Gamble Bay expected to amount to approximately 90% of the overall project costs.

In 2005, both Pope Resources and P&T received Environmental Excellence Awards from DOE for their work in remediating the contamination that had existed at the Port Gamble townsite and landfill. DOE also issued letters to both parties in 2006 indicating that the agency expected to take no further action regarding conditions at those portions of the site. Pope Resources continued cleaning up the remaining contamination at the millsite. By late 2005, that portion of the site had largely been cleaned and the remaining aspects of that project consisted of test well monitoring and modest additional remediation. The Port Gamble Bay area and related tidelands, for which P&T was responsible under the parties' settlement agreement, had not yet been remediated. In 2007, P&T filed for bankruptcy protection and was eventually liquidated in bankruptcy, leaving the

Partnership and DNR as the only remaining PLPs. Because environmental liabilities are joint and several as between PLPs and DOE, the result of P&T's bankruptcy was to leave substantial portions of the liability with the Partnership, as one of the two remaining solvent PLPs. At that time, we increased our reserve for remediation liabilities by \$1.9 million to reflect the resulting increase in risk.

Beginning in 2010, DOE began to reconsider its expectations regarding the level of cleanup that would be required for Port Gamble Bay, largely because of input from interested citizens and groups, one of the most prominent of which has been the Port Gamble S'Klallam Tribe. In response to input from these groups, DOE adopted remediation levels that were far more stringent than either DOE or the Partnership had contemplated previously. This culminated in significant modifications to the cleanup alternatives in the draft Port Gamble Bay and Mill Site Remedial Investigation and Feasibility Study issued by DOE in May 2012. As a result, we recorded a \$12.5 million increase in our accrual for the environmental remediation liability in the second quarter of 2012.

In December 2013, the Partnership and DOE entered into a consent decree that included a cleanup action plan (CAP) requiring the removal of docks and pilings, excavation and backfilling of intertidal areas, subtidal dredging and monitoring, and other specific remediation steps. Throughout 2014, we evaluated the requirements of the CAP and conducted additional sampling and investigation to design the remediation project. In November 2014, we submitted a draft engineering design report, or EDR, to DOE, followed by other supplemental materials establishing our proposed means for complying with the CAP. Based on the EDR and subsequent discussions with DOE, we reached the conclusion that the existing reserve for environmental liabilities was insufficient. Accordingly, we accrued an additional \$10.0 million in December 2014. The construction phase of the cleanup of the Port Gamble Bay area and related tidelands began in September 2015 and the in-water portion of the cleanup was completed in January 2017. This will be followed by relatively modest cleanup activity on the millsite and a monitoring period. In the fourth quarter of 2016, we accrued an additional \$7.7 million, representing primarily costs associated with removing pilings and dredging and capping an area of deep wood waste discovered along the southern embankment of the millsite, as well as estimated additional long-term monitoring costs.

Another aspect of this matter relates to Natural Resource Damages, or NRD. Certain environmental laws allow state, federal, and tribal trustees (collectively, the Trustees) to bring suit against property owners to recover damages for injuries to natural resources. Like the liability that attaches to current property owners in the cleanup context, liability for natural resource damages can attach to a property owner simply because an injury to natural resources resulted from releases of hazardous substances on that owner's property, regardless of culpability for the release. The Trustees are alleging that Pope Resources has NRD liability because of releases that occurred on its property. We have been in discussions with the Trustees regarding their claims, and the alleged conditions in Port Gamble Bay. We have also been discussing restoration alternatives that might address the damages the Trustees allege. Resolution of these NRD claims will occur after the construction phase of the project is completed. Discussions with the Trustees may result in an obligation for us to fund NRD restoration activities and past assessment costs that are greater than we have estimated.

In December 2014, the Partnership filed suit against DNR seeking contribution to cleanup costs. In April 2015, the Partnership moved for summary judgment on the issue of DNR's liability for the site. On June 8, 2015, Kitsap County Superior Court ruled on summary judgment that DNR did not qualify as an owner or operator of the site and therefore did not have liability under Washington's Model Toxics Control Act (MTCA). The effect of the court's ruling was to absolve DNR of any responsibility to contribute to the cost of cleanup at Port Gamble. We appealed the Superior Court's ruling and ten public and/or private entities, including DOE, filed or joined in amicus briefs in support of our position, arguing that DNR is liable as an owner or operator of the site. On December 28, 2016, The Washington State Court of Appeals (Division II) reversed the superior court's summary judgment order, ruling that DNR is liable under MTCA as an owner or operator of the site. This liability extends to NRD liability as well. DNR has appealed this ruling to the Washington State Supreme Court. Our recorded liability includes our estimate of the entire cost of the project, without any contribution from DNR, as the matter is still under adjudication. Under MTCA, allocation of liability among PLPs is a separate process from determination of liability.

Additional information regarding this accrual, the aggregate environmental remediation liability and the methodology used to monitor the adequacy of the existing accrual, is set forth in Part II, Item 7: "Management's Discussion and Analysis of Financial Condition and Results of Operations – Overview," "—Real Estate," and "—Critical Accounting Policies and Estimates".

Marketing. Marketing efforts for development properties from 2014 to 2016 were focused primarily on our Harbor Hill development and conservation land and easement sales. In 2015, we started investigating and pursuing the acquisition and development of other real estate properties and closed on the acquisition of a two-acre parcel on Bainbridge Island, Washington. Efforts were also expended in the last several years to sell North Kitsap lands for conservation.

Customers. We typically market properties from the Real Estate portfolio to private individuals, residential contractors, and commercial developers. Customers for rental space in the Port Gamble townsite consist of both residential and commercial tenants. The Quadrant Corporation was our largest customer for our Real Estate segment, representing 15% of consolidated revenue. There were no customers that represented over 10% of consolidated revenue in 2015 or 2014.

Competition. We compete in this segment with local and regional peers that offer land for sale or lease.

Transportation. Land values for the Real Estate portfolio are influenced by transportation options between the west side of Puget Sound, where our properties are located, and the Seattle-Tacoma metropolitan corridor. These areas are separated by bodies of water. Transportation options include the Tacoma Narrows Bridge or one of several car/passenger ferries that link the communities of Kingston, Bremerton, and Bainbridge Island to Edmonds and Seattle.

Employees

As of December 31, 2016, we employed 59 full-time employees and 6 part-time or seasonal personnel, who are distributed among the segments as follows:

Segment	Full-Time	Part-Time/ Seasonal	Total
Fee Timber	24	—	24
Timberland Investment Management	5	—	5
Real Estate	18	6	24
General & Administrative	12	—	12
Totals	59	6	65

None of our employees are subject to a collective bargaining agreement and the Partnership has no knowledge that any steps toward unionization are in progress. We consider our relations with our employees to be good.

Government Regulation

Our timberland and real estate operations are subject to a number of federal, state, and local laws and regulations, including environmental regulations, forestry and timber practices regulations and initiatives, and various state and local real estate and land use laws. These laws and regulations can directly and indirectly affect our fee timber and timberland management segments by regulating harvest levels and impacting the market values of timber and related raw materials. Further, all three states in which we operate maintain extensive regulations governing forest management practices. Our real estate operations are also subject to a wide variety of state and local laws that affect real estate development and land use.

Laws and Regulations that Affect Our Forestry Operations. Both our Fee Timber segment and our Timberland Investment Management segment are affected heavily by federal and state laws and regulations that are designed to promote air and water quality and protect endangered and threatened species. Further, each state in which we own or manage timberlands has developed “best management practices” (BMP) to reduce the effects of forest practices on water quality and plant and animal habitats. Collectively, these laws and regulations increasingly affect our harvest and forest management activities. Regulatory agencies and citizens’ and environmental groups are continually seeking to expand these protections using a wide variety of judicial, legislative and administrative processes as well as state ballot initiatives, a process applicable to all three states in which we operate that allows citizens to adopt laws without legislative or administrative action.

The primary laws and regulations that affect our forestry operations include:

Endangered Species Laws

A number of fish and wildlife species that inhabit geographic areas near or within our timberlands have been listed as threatened or endangered under the federal Endangered Species Act (ESA) or similar state laws. Federal ESA listings include the Northern Spotted Owl, marbled murrelet, numerous salmon species, bull trout, and steelhead trout. State endangered species laws impose further restrictions by limiting the proximity of harvest operations to certain identified plants and wildlife. Regulatory and public initiatives to expand the list of protected species and populations may impose further restrictions. Federal and state requirements to protect habitat for threatened and endangered species have imposed restrictions on timber harvest on some of our timberlands, and these protections may be expanded in ways that further affect our operations. These

actions may increase our operating costs, further restrict timber harvests or reduce available acres, and adversely affect supply and demand more broadly across our markets.

Further, federal and state regulatory agencies continually monitor environmental conditions to determine whether, in those agencies' opinion, existing forestry practice rules are effective at promoting compliance with all applicable laws and regulations. If one or more of these agencies were to assert that the rules need to be adjusted, new or modified regulations could result in increased costs, additional capital expenditures, and reduced operating flexibility.

Water Quality Regulations

Also affecting our forestry operations are laws and regulations that are designed to promote water quality. A number of prominent and well-funded environmental groups have conducted an extensive legal challenge to the Environmental Protection Agency's (EPA) permitting process, as a result of which the EPA is conducting public outreach for existing programs that protect water quality from forest road discharges. In June of 2016, the EPA elected to not regulate forest roads under EPA's Phase 2 stormwater regulations. This decision was not appealed.

The EPA also requires states to develop total maximum daily load ("TMDL") allocations for pollutants in water bodies that have been determined to be "water quality impaired". The TMDL limits restrict substances that may be discharged to a body of water or establish best management practices for nonpoint sources, including timberland operations, to reduce the amounts of certain substances to be discharged into designated bodies of water. These forestry practices standards are intended to minimize siltation of streams caused by roads, harvest operations and other timberland activities.

State laws and regulations serve to reduce timberlands available for harvest by, among other things, increasing buffer requirements on a subset of fish bearing streams in order to meet state water quality standards related to maintaining temperature or reducing or eliminating pollutants. Other laws and regulations could have significant impacts on our harvest activities, including increases in setback requirements. As these rules grow more restrictive, we may face increasing costs associated with our silviculture, may find some areas of our tree farms inaccessible (either physically or because of economic inefficiency), and may face reductions in the portion of our timberlands that can be harvested.

Further, the Federal Insecticide, Fungicide, and Rodenticide Act (FIFRA) and similar state laws, are increasingly restricting the use of herbicides in a manner that may reduce our timber production. Herbicides are used to promote reforestation and to optimize the growth of regenerated stands of trees. These federal and state laws and regulations may reduce the efficiency with which we can produce timber, and they may ultimately reduce the volume of timber that is available for harvest. Further, a reduction in insecticides or herbicides may make our tree farms more vulnerable to disease or infestations.

State Harvest Permitting Processes

Washington, Oregon, and California all have a permitting or notification system as part of their forest practice rules. Changes in these processes can cause additional administrative expenses and/or delay project implementation. These laws require significant environmental studies and permitting requirements, often including multiple regulatory agencies, prior to the issuance of harvest permits. All three states periodically update their regulations and permitting processes. The regulatory comment process can cause us to incur expenses, and new permitting regulations commonly require us to increase the level of research and expertise necessary to meet applicable requirements. Substantive changes in these regulations may increase our harvest costs, may decrease the volume of our timber that is available for harvest, and may otherwise reduce our revenues or increase our costs of operations.

Climate Change Regulation

California has implemented a cap and trade program that limits the amount of greenhouse gasses emitted by certain stationary sources and will phase in transportation. This may indirectly impact forest landowners through indirect costs of energy to our manufacturing customers and logging contractors. In Washington State there are proposed regulatory changes to air quality laws as well as likely legislative action on this topic.

The regulatory and non-regulatory forest management programs described above have increased operating costs and resulted in changes in the value of the Combined timberlands. Management does not expect to be disproportionately affected by these programs in comparison with typical timberland owners. Likewise, management does not expect that these programs will significantly disrupt our planned operations over large areas or for extended periods, with the exception of the Oregon ballot initiative that would ban clear cutting.

Laws and Regulations that Affect Real Estate Development. Many of the federal laws (ESA and CWA) that impact forest management can in a more limited circumstance also apply to real estate development. Additionally, there are also state and local land use regulations that have additional permitting requirements and that limit development opportunities. For example, development rights in Washington State are affected by the Growth Management Act (GMA), which requires counties to submit comprehensive plans that identify the future direction of growth and stipulate where population densities are to be concentrated. The purposes of the GMA include: (1) direction of population growth to population centers (Urban Growth Areas), (2) reduction of “suburban sprawl”, and (3) protection of historical sites. We work with local governments within the framework of the GMA to develop our real estate holdings to their highest and best use. Oregon also has growth management provisions in its land use laws which served as a model for Washington’s growth management provisions. Oregon’s land use laws are generally more stringent outside of urban areas, especially in commercial forest lands where residential conversions are often outright disallowed without statutory action by the State legislature. These regulations can impact the permitted density of a given area, which may affect the number of lots, dwellings, or commercial buildings that can be constructed in a given location, any or all of which may affect our real estate revenues and the value of our real estate holdings.

In October of 2016, the Washington State Supreme Court issued a ruling on a case requiring counties to ensure that there is legal water available before issuing permits for exempt wells. This ruling does not impact developments that rely on municipal or utility district water systems so it will not impact larger development projects. However, it may impact the ability to develop isolated rural residential parcels, functionally removing development value from those lands. There are two pieces of legislation being deliberated in the Washington State Legislature related to the Court’s decision. One will establish by statute a formal exemption for small household wells from the state permitting process, effectively undoing the Court’s decision. The other piece of legislation provides some limited alternative pathways for allowing small household wells, but substantively puts the Court’s decision into statute.

Item 1A. RISK FACTORS

Risks Related to Our Industry and Our Markets

We are sensitive to demand and price issues relating to our sales of logs in both domestic and foreign markets. We generate Fee Timber revenue primarily by selling softwood logs to domestic mills and to third-party intermediaries who resell them to the export market. The domestic market for logs in our operating area depends heavily on U.S. housing starts. Recently, the U.S. housing market has started to improve but, to the extent the recovery in the housing market should stall, such a turn of events could have a negative impact on our operating results. For example, interest rates are widely expected to rise in the coming periods. Should this occur, it could have a negative impact on the U.S. housing market. Demand from export markets for Pacific Northwest logs are affected by fluctuations in United States, Japanese and, increasingly, Chinese and Korean economies, the foreign currency exchange rate between these Asian currencies and the U.S. dollar, as well as by ocean transportation costs. Further, the prices we realize for our logs depend in part upon competition, and the October 2015 expiration of the Softwood Lumber Agreement between the United States and Canada, combined with a weak Canadian currency, has had the effect of increasing the supply of logs from Canada to the U.S., exerting downward pressure on log prices.

Our Fee Timber and Timberland Investment Management segments are highly dependent upon sales of commodity products. Our revenues from our forestry businesses, which comprise our Fee Timber and our Timberland Investment Management segments, are widely available from producers in other regions of the United States, as well as Canada and a number of other countries. We are therefore subject to risks associated with the production of commonly available products, such that an increase in supply from abroad as a result of overproduction by competitors in other nations or as a result of changes in currency exchange rates, may reduce the demand for our products in some or all of the markets in which we do business. A bilateral agreement between the United States and Canada, called the Softwood Lumber agreement, had been intended to help manage potentially harmful effects of international competition between our countries, but that agreement expired in October 2015 and has not yet been renewed. The competitive effects of this expiration are likely to impact our business in the future, although management cannot predict accurately the precise effects. Similarly, from time to time in the past we have seen, and in the future we may experience, an increase in supply or a reduction in demand as a result of international tensions or competition that are beyond our control and that may not be predictable.

We are subject to statutory and regulatory restrictions that currently limit, and may increasingly limit, our ability to generate income. Our ability to grow and harvest timber can be impacted significantly by legislation, regulations or court rulings that restrict or stop forest practices. For example, events that focus media attention upon natural disasters and damage to timberlands have at various times brought increasing public attention to forestry practices. Similarly, certain activist groups in Oregon have proposed a ballot initiatives that would eliminate clearcutting, which is the predominant harvest practice across our geographic region and similar groups have proposed bans on pesticides, on various methods of applying pesticides,

and other practices that are commonly used to promote efficient, sustainable forestry practices. While these initiatives have thus far failed to gain traction, such initiatives, alone or in combination, may limit the portion of our timberlands that is eligible for harvest, may make it more expensive or less efficient to harvest all or certain portions of our timberlands, or may restrict other aspects of our operations. Additional regulations, whether or not adopted in response to such events, may make it more difficult or expensive for us to harvest timber and may reduce the amount of harvestable timber on our properties. These and other restrictions on logging, planting, road building, fertilizing, managing competing vegetation, and other activities can increase the cost or reduce available inventory thereby reducing income. Any such additional restrictions would likely have a similar effect on our Timberland Investment Management operations. We cannot offer assurances that we will not be alleged to have failed to comply with these regulations, or we may face a reduction in revenues or an increase in costs as a result of complying with newly adopted statutes, regulations and court or administrative decisions. These claims may take the form of individual or class action litigation, regulatory or enforcement proceedings, or both. Any such claims could result in substantial defense costs and divert management's attention from the ongoing operation of our business, and if any such claims were successful, may result in substantial damage awards, fines or civil penalties.

Environmental and other activist groups may have an adverse impact on the value of our assets or on our ability to generate revenues from our timberlands. In recent years we have seen an increase in activities by environmental groups, Native American tribes, and other activists in the legislative, administrative and judicial processes that govern all aspects of our operations. For example, on more than one occasion the Washington Department of Ecology applied more stringent regulatory standards to our existing environmental remediation operations at Port Gamble, Washington, after soliciting or receiving input from tribal representatives. These revisions substantially increased the cost associated with our pre-existing remediation plans, and we cannot offer assurances that similar actions will not further protract the process or increase remediation costs. Similarly, citizens' and environmental groups have significant influence in the entitlement and zoning processes that affect our Real Estate operations. These activities are not likely to diminish in the foreseeable future, and in some instances may have a material impact upon the revenues we can generate from our properties or upon the costs of generating those revenues.

Our businesses are highly dependent upon domestic and international macroeconomic factors. Both our timberland operations and our real estate operations are highly influenced by housing markets. Our Fee Timber and Timberland Investment Management segments depend upon housing and construction markets in the United States and in other Pacific Rim countries, and our geographic concentration in the Pacific Northwest increases our exposure to economic, labor and shipping risks that are tied to this particular area. Similarly, our Real Estate segment depends upon a highly localized demand in the Puget Sound region of Western Washington. Factors that affect these markets will have a disproportionate impact on our business, and may be difficult or impossible to predict or estimate accurately.

We face increasing competition from engineered and recycled products. Our Fee Timber and Timberland Investment Management segments derive substantially all their revenues from the market for softwood logs and wood products derived from them. Recent years have witnessed the emergence of plastic, fiberglass, wood composite and recycled products, as well as metal products in certain industries, that may have the effect of reducing demand for our products. As these products evolve, and as other competitive products may be developed, we may face a decline in log price realizations that would have an adverse impact on our revenues, our earnings and the value of our assets.

As a property owner and seller, we face environmental risks associated with events that occur or that may be alleged to have occurred on our properties. Various federal and state environmental laws in the states in which we operate place liability for environmental contamination on the current and former owners of real estate on which contamination is discovered. These laws are often a source of "strict liability," meaning that an owner or operator need not necessarily have caused, or even been aware of, the release of hazardous substances. Such a circumstance applies to our operations at Port Gamble, Washington, for example, where contamination occurred prior to the formation of the Partnership. If hazardous substances are discovered or are alleged to have been released on property that we currently own or operate, that we have owned or operated in the past, or that we acquire or operate in the future, we may be subject to liability for the cost of remediating these properties without regard for our conduct or our knowledge of the events that led to the contamination or alleged contamination. These events would likely increase our expenses and might, in some cases, make it more difficult or impossible for us to continue operating our timberlands or to sell parcels of real estate for a price we would deem reasonable, or at all.

Risks Relating to Our Operations

We have certain environmental remediation liabilities associated with our Port Gamble property, and that liability may increase. We currently own certain real estate at Port Gamble on the Kitsap Peninsula in western Washington. Sediments adjacent to these properties were alleged to have been impacted by operations of the former owner of the property, Pope & Talbot, Inc. However, as current owner of Port Gamble, we have environmental liability for these properties under Washington State's Model Toxics Control Act (MTCA). In December 2013, we reached an agreement with the Washington State Department of Ecology ("DOE") in the form of a consent decree ("CD") and clean-up action plan ("CAP") that provides for the cleanup of Port Gamble Bay. Together, these documents outline the terms under which the Partnership will conduct environmental remediation as well as the specific clean-up activities to be performed. The CD and CAP were filed with the Kitsap County Superior Court in December 2013. On June 8, 2015, Kitsap County Superior Court ruled on summary judgment that Washington's Department of Natural Resources (DNR) did not qualify as an owner or operator of the site and therefore did not have liability under the MTCA. We appealed the Superior Court's ruling and ten public and/or private entities, including DOE, filed or joined in amicus briefs in support of our position, arguing that DNR is liable as an owner or operator of the site. On December 28, 2016, The Washington State Court of Appeals (Division II) reversed the superior court's summary judgment order, ruling that DNR is liable under MTCA as an owner or operator of the site. DNR has appealed this ruling to the Washington State Supreme Court. There can be no assurance that we will prevail in this matter or that we can reach an acceptable settlement with DNR. The recorded liability reflects the estimated cost of the entire project, without any contribution by DNR. Additionally, certain environmental laws allow state, federal, and tribal trustees (collectively, the Trustees) to bring suit against property owners to recover damages for injuries to natural resources (NRD). Like the liability that attaches to current property owners in the cleanup context, liability for natural resource damages can attach to a property owner simply because an injury to natural resources resulted from releases of hazardous substances on that owner's property, regardless of culpability for the release. The Trustees are alleging that Pope Resources has NRD liability because of releases that occurred on its property. We have been in discussions with the Trustees regarding their claims, and the alleged conditions in Port Gamble Bay. We have also been discussing restoration alternatives that might address the damages the Trustees allege. Discussions with the Trustees may result in an obligation for us to fund NRD assessment and restoration activities that are greater than we have estimated. The outcome of this matter is too uncertain for us to determine the likelihood or potential amount of any such obligation at this time.

Management continues to monitor the Port Gamble cleanup processes closely. The \$12.8 million remediation accrual as of December 31, 2016 represents our current estimate of the remaining cleanup cost and most likely outcome to various contingencies. These estimates are predicated upon a variety of factors, including the actual amount of the ultimate cleanup costs. The liability is based upon a number of estimates and judgments that are subject to change as the project progresses. There may be additional litigation costs if we cannot reach a settlement with DNR, and the outcome of any such litigation is uncertain. The filing of the CD limits our legal exposure for matters covered by the decree, but does not eliminate it entirely. DOE reserves the right to reopen the CD if new information regarding factors previously unknown to the agency requires further remedial action. While unlikely, a reopening of the CD may result in adverse financial impacts and may have the effect of distracting management and other key personnel from the day to day operation of our business. These factors, alone or in combination with other challenges, may have a material adverse effect upon our assets, income and operations.

We have increased our leverage in recent periods, which may give rise to additional risks that have not historically accompanied our operations. As discussed in the notes to the financial statements, we have recently increased the Partnership's leverage and its borrowing capacity to expand our timberland holdings and invest in our Real Estate operations. The Partnership's total outstanding debt was \$73.4 million at December 31, 2016, of which \$24.0 million bears interest at variable rates, with the balance at fixed rates. The increase in debt, particularly that portion that carries variable interest rates, exposes us to certain additional risks, including the possibility that we may face additional interest expense, particularly in an economic environment that includes rising interest rates, as are expected in the United States in coming periods. In addition, generally speaking, an increase in our indebtedness may limit our ability to defer timber harvests and potentially restricts our flexibility to take advantage of other investment opportunities that might otherwise benefit our business. In extreme cases, we could be placed in a position in which we default under one or more of our credit arrangements, which could require us to pledge additional portions of our timberland as collateral for our indebtedness or which might require us to take other actions or expose us to other remedies that could have a material adverse effect upon our assets, operations or business.

Our real estate holdings are highly illiquid, and changes in economic and regulatory factors may affect the value of our properties or the timing of the proceeds, if any, that we expect to receive on the sale of such properties. The value of our real estate investments, and our income from Real Estate operations, is sensitive to changes in the economic and regulatory environment, as well as various land-use regulations and development risks, including the ability to obtain the necessary permits and land entitlements that would allow us to maximize the revenue from our real estate investments. Our real estate investments are long-term in nature, which raises the risk that unforeseen changes in the economy or laws surrounding

development activities may have an adverse effect on our investments. These investments often are highly illiquid and thus may not generate cash flow if and when needed to support our other operations. Further, we occasionally announce contracts relating to the sale of our real estate holdings, but those agreements may contain contingencies and conditions that may delay or prevent the consummation of transactions even after we have agreed to sale terms.

Our operations are geographically concentrated, and we may face greater impacts from localized events than would more geographically diverse timber companies. Because our operations are conducted exclusively west of the Cascade Mountains of the Pacific Northwest, between northern California and the Canadian border, regionalized events and conditions may have a more pronounced impact upon our operations than they might upon a more geographically diverse timber company. For example, disease and insect infestations tend to be local or regional in scope, and because our Fee Timber and Timberland Investment Management businesses are geographically concentrated, events of this nature may affect our operations more significantly than they might a similarly situated company whose operations are more widely dispersed. Similarly, because the vast majority of our Real Estate operations are limited to the Puget Sound region of Western Washington, regional impacts such as growth patterns, weather patterns and natural disasters, as well as socio-political events such as environmental and land use initiatives, may disproportionately affect that segment more significantly than a company whose operations are less concentrated.

Consolidation of sawmills in our geographic operating area may reduce competition among our customers, which could adversely affect our log prices. In the past we have experienced, and may continue to experience, consolidation of sawmills and other wood products manufacturing facilities in the Pacific Northwest. Because a portion of our cost of sales in our Fee Timber segment, which encompasses the Combined tree farms, consists of transportation costs for delivery of logs to domestic sawmills, it becomes increasingly expensive to transport logs over longer distances for sales in domestic markets. As a result, a reduction in the number of sawmills, or in the number of sawmill operators, may reduce competition for our logs, increase transportation costs, or both. These consolidations thus may have a material adverse impact upon our Fee Timber revenue or income and, as that segment has traditionally represented our largest business unit, upon our results of operation and financial condition as a whole. Any such material adverse impact on timber revenue and income as a result of regional mill consolidations will also indirectly affect our Timberland Investment Management segment in the context of raising capital for investment in Pacific Northwest-based timber funds.

Our timber investment fund business depends upon establishing and maintaining a strong reputation among investors, and on our ability to maintain strong relationships with existing and prospective investors in our Funds. Our ability to expand our operations using our private equity timber fund strategy depends to a significant degree upon our ability to maintain and develop our expertise in managing timberlands in a manner that generates investment returns for prospective Fund investors. Events or conditions that adversely impact this capacity, including events that damage our reputation or our relationship with Fund investors, may make it more difficult to grow our operations using this strategy, and in some instances may result in actual or alleged liability to our investors. Any such events may cause a reduction in our revenues or may cause us to realize less than the optimum potential of our assets.

We compete with a number of larger competitors that may be better able than we to absorb price fluctuations, may be able to expend greater resources on production, may have greater access to capital, and may operate more efficiently than we can. 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 inherent in our line of business. Moreover, the timber industry has experienced consolidation in recent years and, as that consolidation occurs, our relative market share decreases and the relative financial capacity of our competitors increases. While management believes the Partnership is at a competitive advantage over some of these companies because of our lack of vertical integration into forest products manufacturing, our advantageous tax structure, and management's attempts to diversify our asset base, we cannot assure investors that competition will not have a material and adverse effect on our results of operations or our financial condition.

We and our customers are dependent upon active credit markets to fund operations. We sell logs from our Fee Timber segment to mills and log brokers that in most circumstances rely upon an active credit market to fund their operations. Our Real Estate sales are also often dependent upon credit markets in order to fund acquisitions. To the extent borrowing restrictions impinge on customers' access to debt, we expect those customers to respond by reducing their expenditures, and those reductions may have the effect of directly reducing our revenues and of indirectly reducing the demand for our products. Any such outcomes could materially and adversely impact our results of operations, cash flows, and financial condition.

We may incur losses as a result of natural disasters that may occur, or that may be alleged to have occurred, on our properties. Forests are subject to a number of natural hazards, including damage by fire, severe windstorms, insects and disease, flooding and landslides. Changes in global climate conditions may intensify these natural hazards. Severe weather conditions and other natural disasters can also reduce the productivity of timberlands and disrupt the harvesting and delivery of forest products. While damage from natural causes is typically localized and would normally affect only a small portion of our timberlands at any one time, these hazards are unpredictable and losses might not be so limited. Consistent with the practices of other large timber companies, we do not maintain insurance against loss of standing timber on our timberlands due to natural disasters. However, we do carry fire insurance on a portion of our timberland portfolio.

We rely on experienced contract loggers and truckers who are at times in short supply and who may seek consistent work. We rely on contract loggers and truckers for the production and transportation, respectively, of our products to customers. The pool of available contractors is limited and can result in an increase in harvest and haul costs as harvest volumes increase regionally. In addition, contractors may value continuity of work which influences contractor availability and the selection of contract bidders. A commitment to more continuous work could reduce our flexibility to time markets, affecting total returns.

Risks Relating to Ownership of Our Securities

We are controlled by our managing general partner. As a master limited partnership, substantially all of our day-to-day affairs are controlled by our managing general partner, Pope MGP, Inc. The board of directors of Pope MGP, Inc. serves as our board of directors, and by virtue of a stockholder agreement, each of the two controlling shareholders of Pope MGP, Inc. have the ability to designate one of our directors and jointly appoint two others, with the fifth board position taken by our chief executive officer, who serves as a director by virtue of his executive position. Unitholders may remove the managing general partner only in limited circumstances, including, among other things, a vote by the holders of a two-thirds majority of the “qualifying units,” which generally means the units that have been owned by their respective holders for at least five years prior to such vote. By virtue of the terms of our agreement of limited partnership, as amended, or “partnership agreement”, our managing general partner directly, and the general partner shareholders indirectly, have the ability to do the following: prevent or impede transactions that would result in a change of control of the Partnership; to prevent or, upon the approval of limited partners holding a majority of the units, to cause, the sale of the assets of the Partnership; and to cause the Partnership to take or refrain from taking certain other actions that one might otherwise perceive to be in the Partnership’s best interest. Under our partnership agreement, we are required to pay to Pope MGP, Inc. an annual management fee of \$150,000, and to reimburse Pope MGP, Inc. for certain expenses incurred in managing our business.

We have a limited market capitalization and a relatively low historic trading volume, as a result of which the trading prices of our units may be more volatile than would an investment in a more liquid security. Our relatively small public float and our limited trading volume may, in some instances, make trading in our units more volatile, as a result of which our price may deviate more significantly, and opportunities to buy or sell our units may be more limited, than investors might experience with a more liquid market. This circumstance may be magnified during times of significant or prolonged selling pressure on our securities.

We benefit from certain tax treatment accorded to master limited partnerships, and if that status changes the holders of our units may realize less advantageous tax consequences. The Partnership is a Master Limited Partnership and is therefore not generally subject to U.S. federal income taxes. If a change in tax law (or interpretation of current tax law) caused the Partnership to become subject to income taxes, operating results would be adversely affected. We also have a handful of taxable subsidiaries. The estimation of income tax expense and preparation of income tax returns requires complex calculations and judgments. We believe the estimates and calculations used in this process are proper and reasonable and more likely than not would be sustained under examination by federal or state tax authorities; however if a federal or state taxing authority disagreed with the positions we have taken, a material change in provision for income taxes, net income, or cash flows could result.

Item 1B. UNRESOLVED SECURITIES AND EXCHANGE COMMISSION COMMENTS

None

Item 2. PROPERTIES

The following table reconciles acreage owned as of December 31, 2016 to acreage owned as of December 31, 2015. As noted previously, we own 20% of Fund II and 5% of Fund III. This table includes the entire 94,000 acres of timberland

owned by the Funds and also presents the acreage on a Look-through basis. Properties are typically transferred from the Fee Timber segment to the Real Estate segment at the point in time when the Real Estate segment takes over responsibility for managing the properties with the goal of maximizing the properties' value upon disposition.

Description	Timberland Acres (in thousands) by Tree Farm				2016
	2015	Acquisitions	Sales	Transfer	
Hood Canal tree farm (1)	69.1	0.8	(1.5)	—	68.4
Columbia tree farm (1)	41.8	8.2	—	—	50.0
<i>Subtotal Partnership Timberland</i>	<u>110.9</u>	<u>9.0</u>	<u>(1.5)</u>	<u>—</u>	<u>118.4</u>
Fund II tree farms (2)	37.2	—	(0.1)	—	37.1
Fund III tree farms (2)	56.8	—	(0.1)	—	56.7
<i>Subtotal Funds' Timberland</i>	<u>94.0</u>	<u>—</u>	<u>(0.2)</u>	<u>—</u>	<u>93.8</u>
Total Fee Timber acres	<u>204.9</u>	<u>9.0</u>	<u>(1.7)</u>	<u>—</u>	<u>212.2</u>
Partnership share of Funds	10.4	—	—	—	10.4
Total Real Estate acres (see detail below)	<u>2.5</u>	<u>—</u>	<u>(0.3)</u>	<u>—</u>	<u>2.2</u>
Combined Look-through total acres	<u>123.8</u>	<u>9.0</u>	<u>(1.8)</u>	<u>—</u>	<u>131.0</u>

(1) A subset of this property is used as collateral for the Partnership's long-term debt, excluding debt of the Funds. The Hood Canal tree farm is located in northwestern Washington and the Columbia tree farm is located in western Washington.

(2) A subset of these properties is used as collateral for the Funds' long-term debt. Fund II's tree farms are located in western Washington and northwestern Oregon. Fund III's tree farms are located in southern Puget Sound and southwestern Washington, northwestern Oregon and northern California.

Project Location	Real Estate Acres Detail				2016
	2015	Acquisitions	Sales	Transfer	
Bremerton	46	—	—	—	46
Gig Harbor	129	—	(48)	—	81
Hansville	149	—	—	—	149
Kingston - Arborwood	364	—	10	—	374
Port Gamble town and mill sites	130	—	—	—	130
Port Gamble Agrarian District	205	—	—	—	205
Port Ludlow	256	—	—	—	256
Poulsbo	2	—	—	—	2
Bainbridge Island	2	—	—	—	2
Other Rural Residential	1,232	—	(264)	—	968
Total	<u>2,515</u>	<u>—</u>	<u>(302)</u>	<u>—</u>	<u>2,213</u>

The following table provides dwelling unit (DU) per acre zoning for the Partnership's owned timberland and development properties as of December 31, 2016 and land sold during 2016. The table does not include sales of development rights or small timberland sales from tree farm properties:

Current Real Estate Land Inventory by Zoning Category

2016 Sales from RE Portfolio

Zoning Designation	Acres	Acres	\$/Acre	Total Sales (in thousands)
Urban zoning - residential	452	49	\$ 311,163	\$ 15,247
Historic Rural Town	114			
Commercial/retail	21			
Business park/industrial	22			
1 DU per 5 acres	385			
1 DU per 10 acres	33	120	5,458	655
1 DU per 20 acres	645	144	7,535	1,085
1 DU per 40 acres	38			
1 DU per 80 acres	298			
Agrarian District	205			
Total	2,213	313	\$ 54,272	\$ 16,987

Item 3. LEGAL PROCEEDINGS

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

Item 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

Item 5. MARKET FOR REGISTRANT’S UNITS, RELATED SECURITY HOLDER MATTERS, AND ISSUER PURCHASES OF EQUITY SECURITIES

Market Information

The Partnership’s equity securities are listed on NASDAQ and traded under the ticker symbol “POPE”. The following table sets forth the 2014 to 2016 quarterly ranges of low and high prices, respectively, for the Partnership’s units together with per unit distribution amounts by the period in which they were paid:

	High	Low	Closing	Distributions
Year Ended December 31, 2014				
First Quarter	\$ 70.50	\$ 64.17	\$ 66.99	\$ 0.55
Second Quarter	70.26	63.94	67.00	0.65
Third Quarter	71.00	65.85	66.35	0.65
Fourth Quarter	68.25	62.35	63.63	0.65
Year Ended December 31, 2015				
First Quarter	\$ 65.21	\$ 59.00	\$ 63.46	\$ 0.65
Second Quarter	70.05	62.50	68.46	0.65
Third Quarter	70.50	59.95	67.21	0.70
Fourth Quarter	68.72	58.15	64.07	0.70
Year Ended December 31, 2016				
First Quarter	\$ 68.77	\$ 51.50	\$ 60.48	\$ 0.70
Second Quarter	70.06	57.15	64.20	0.70
Third Quarter	68.95	62.66	66.00	0.70
Fourth Quarter	67.95	63.90	66.32	0.70

Distributions

The Partnership has no directors. Instead, the board of directors of its managing general partner, Pope MGP, Inc. (the “Managing General Partner”), serves in that capacity. References to the “Board” or words of similar construction in this report are to the board of the Managing General Partner, acting in its management capacity with respect to the Partnership. All cash distributions are at the discretion of the Board of Directors. During 2016, the Partnership made four quarterly distributions of 70 cents per unit each, totaling \$12.2 million in the aggregate. In 2015, the Partnership made two quarterly distribution of 65 cents per unit and two of 70 cents per unit totaling \$11.7 million in the aggregate.

Our Board of Directors increased our quarterly distribution by \$0.05 per unit, or 8% in the third quarter of 2015. This increase was in addition to a \$0.10, or 18%, increase in the quarterly distribution rate in the second quarter of 2014. The Board, in its discretion, determines the amount of the quarterly distribution and regularly evaluates distribution levels. As such, the quarterly determination of distribution amounts, if any, will reflect the expectations of management and the Board for the Partnership’s liquidity needs.

Unitholders

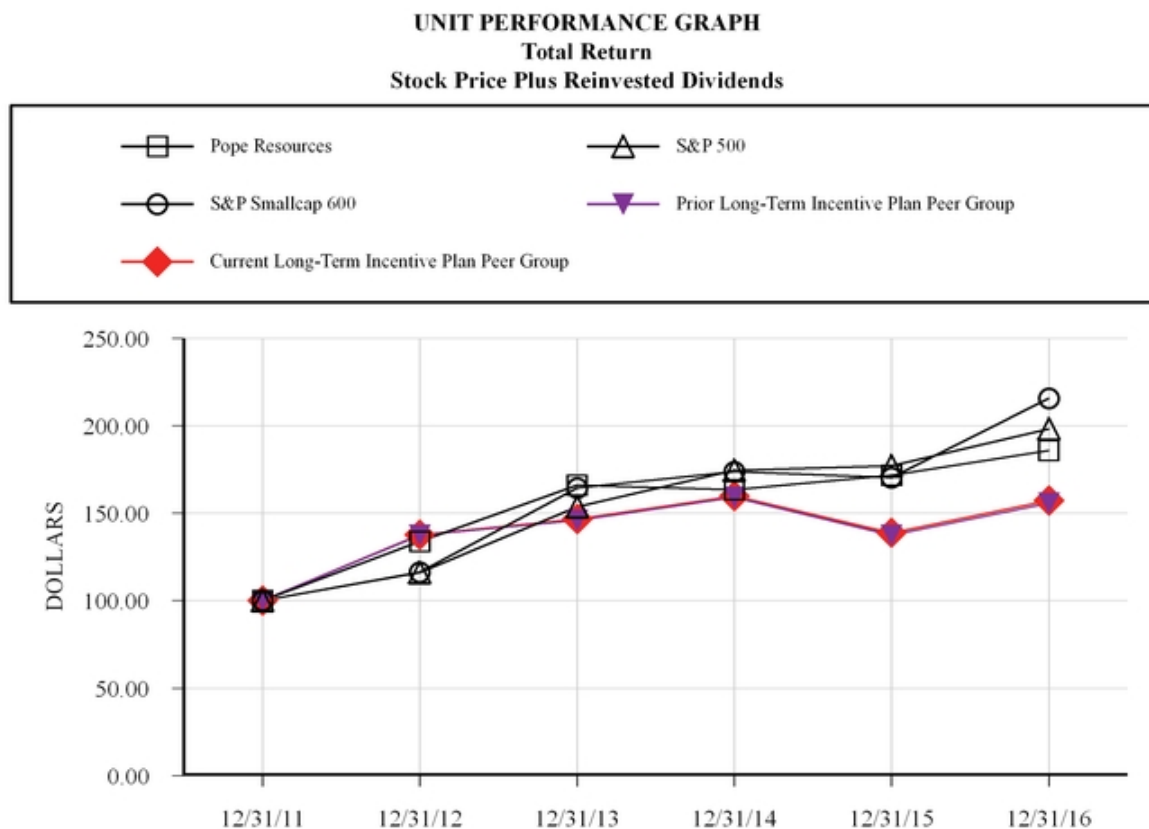
As of January 31, 2017, there were 4,367,595 outstanding units, held by 214 holders of record. Units outstanding include 40,948 that are currently restricted from trading and that were granted to 23 holders of record who are either current or former management employees or members of the Board of Directors. The trading restriction for these units is removed as the units vest. These restricted units vest over four years, either ratably or 50% on the third anniversary of the grant date and the remaining 50% upon reaching the fourth anniversary.

Equity Compensation Plan Information

The Partnership maintains the Pope Resources 2005 Unit Incentive Plan, which authorizes the granting of nonqualified equity compensation in order to provide incentives to align the interests of management with those of unitholders. Pursuant to the plan, the Partnership issues restricted unit grants that vest over four years. As of December 31, 2016 there were 35,493 unvested and outstanding restricted units and 892,865 limited partnership units remained issuable under the plan. Additional information regarding equity compensation arrangements is set forth in Note 7 to Consolidated Financial Statements and Item 11 - Executive Compensation. Such information is incorporated herein by reference.

Performance Graph

The following graph shows a five-year comparison of cumulative total unitholder returns for the Partnership, the Standard and Poor's 500 Index, the Standard and Poor's Smallcap 600 Index, and the Long-Term Incentive Plan Peer Group for the five years ended December 31, 2016. The total unitholder return assumes \$100 invested at the beginning of the period in the Partnership's units, the Standard and Poor's 500 Index, the Standard and Poor's Smallcap 600 Index, and the current and prior Long-Term Incentive Plan Peer Groups. The graph assumes distributions are reinvested.



*\$100 invested on 12/31/11 in stock or index, including reinvestment of dividends.
Fiscal year ending December 31.

Copyright© 2017 Standard & Poor's, a division of S&P Global. All rights reserved.

	12/31/11	12/31/12	12/31/13	12/31/14	12/31/15	12/31/16
Pope Resources	100.00	133.88	165.98	163.51	196.25	185.85
S&P 500	100.00	116.00	153.58	174.60	178.29	198.18
S&P Smallcap 600	100.00	116.33	164.38	173.84	175.61	215.67
Prior Long-Term Incentive Plan Peer Group	100.00	137.53	146.04	159.02	156.82	155.73
Current Long-Term Incentive Plan Peer Group	100.00	137.76	146.62	159.87	138.86	157.25

Issuance of Unregistered Securities

The Partnership did not conduct any unregistered offering of its securities in 2014, 2015, or 2016.

Repurchase of Equity Securities

None

Item 6. SELECTED FINANCIAL DATA

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

(In thousands, except per unit data)

Statement of operations data	Year Ended December 31,				
	2016	2015	2014	2013	2012
Revenue:					
Fee Timber	\$ 57,304	\$ 52,164	\$ 65,204	\$ 56,035	\$ 45,539
Timberland Investment Management	8	—	—	—	7
Real Estate	23,116	25,864	22,266	14,657	8,497
Total revenue	80,428	78,028	87,470	70,692	54,043
Operating income/(loss):					
Fee Timber	16,926	12,961	44,289	16,168	11,853
Timberland Investment Management	(2,620)	(2,625)	(2,329)	(1,950)	(1,568)
Real Estate (1)	(3,609)	5,313	(2,720)	3,276	(11,099)
General & Administrative	(5,076)	(4,972)	(3,781)	(4,562)	(4,170)
Total operating income (loss)	5,621	10,677	35,459	12,932	(4,984)
Net income (loss) attributable to unitholders	\$ 5,942	\$ 10,943	\$ 12,415	\$ 13,135	\$ (4,709)
Earnings (loss) per unit – diluted	\$ 1.35	\$ 2.51	\$ 2.82	\$ 2.96	\$ (1.11)
Distributions per unit	\$ 2.80	\$ 2.70	\$ 2.50	\$ 2.00	\$ 1.70
Balance sheet data					
Total assets	\$ 399,050	\$ 370,056	\$ 344,826	\$ 310,908	\$ 267,499
Long-term debt	130,410	84,651	89,730	75,690	43,835
Partners' capital	59,133	64,548	64,216	69,445	64,223

(1) Real Estate operating results in 2016, 2014, and 2012 included \$7.7 million, \$10.0 million, and \$12.5 million, respectively, of environmental remediation charges.

Management uses cash available for distributions (CAD), a non-GAAP measure, as a meaningful indicator of liquidity and, as such, has provided this information in addition to the generally accepted accounting principles-based presentation of cash provided by operating activities. CAD is a measure of cash generated by the Partnership after expenditures for maintenance capital and including the Partnership's share of cash generated by the Funds, based on its co-investment ownership interest percentage in each Fund. As such, CAD represents cash generated that is available to distribute to the Partnership's unitholders, under the assumption that the Funds distribute the CAD they generate to their investors, including the Partnership. Because we control cash distributions from the Funds, we believe this assumption is accurate. Management

considers this metric in evaluating capital allocation alternatives, including the distribution payout rate to unitholders. Management recognizes that there are varying methods of calculating cash flow and has provided the information below to give transparency to this particular metric's calculation.

(In thousands)

	Year Ended December 31,				
	2016	2015	2014	2013	2012
Cash Available for Distribution (CAD):					
Cash provided by operations	\$ 5,146	\$ 20,170	\$ 30,795	\$ 17,949	\$ 16,209
Less: Maintenance capital expenditures (1)	(1,973)	(2,549)	(2,335)	(2,230)	(1,987)
Less: Noncontrolling portion of Funds' cash from operations (2)	(2,346)	(3,963)	(7,481)	(4,795)	(2,540)
Cash available for distribution (CAD)	\$ 827	\$ 13,658	\$ 20,979	\$ 10,924	\$ 11,682
Other data					
Timber acres owned/managed (thousands)	212	205	193	204	196
Fee timber harvested (MMBF) (3)	97	84	97	90	84

- (1) Capital expenditures from the cash flow statement, excluding timberland acquisitions less costs incurred to purchase and make leasehold improvements to the corporate building.
- (2) Share of Funds' operating income (loss), interest, tax, amortization, depreciation, and depletion expense, gain or loss on sale of timberland, change in working capital accounts, maintenance capital expenditures, and cash from operations that are attributable to noncontrolling interests. That share is 80% in the case of Funds I and II and 95% in the case of Fund III.
- (3) Includes timber deed sales of 5.9 MMBF, 0.6 MMBF, 4.0 MMBF, 2.0 MMBF and 4.4 MMBF in 2016, 2015, 2014, 2013 and 2012, respectively.

The following table presents Fee Timber revenue, operating income, and harvest volume on a look-through basis for each year in the three-year period ended December 31, 2016. This depiction reflects an adjustment to these GAAP financial items to reflect our proportionate ownership of each of the Funds, which for GAAP purposes are consolidated into our financial statements.

(in millions) Year ended	Revenue			Gain (loss) on Sale of Timberland	Operating Income	Harvest Volume (MMBF)	Timber Deed Sale Volume (MMBF)
	Log Sale	Other Revenue	Total Fee Timber				
Partnership	\$ 33.8	\$ 2.5	\$ 36.3	\$ 0.8	\$ 15.5	57.1	0.6
Share of Funds	2.6	0.1	2.7	—	0.4	4.8	0.3
Look-through 2016	\$ 36.4	\$ 2.6	\$ 39.0	\$ 0.8	\$ 15.9	61.9	0.9
Partnership	\$ 30.9	\$ 2.9	\$ 33.8	\$ —	\$ 14.4	47.1	—
Share of Funds	4.6	0.2	4.8	4.8	1.0	7.2	0.2
Look-through 2015	\$ 35.5	\$ 3.1	\$ 38.6	\$ 4.8	\$ 15.4	54.3	0.2
Partnership	\$ 30.7	\$ 1.5	\$ 32.2	\$ —	\$ 14.1	48.5	—
Share of Funds	4.6	0.1	4.7	—	0.5	7.8	0.1
Look-through 2014	\$ 35.3	\$ 1.6	\$ 36.9	\$ —	\$ 14.6	56.3	0.1

The following table presents log volume sold by species on a look-through basis for each year in the three-year period ended December 31, 2016 as follows:

Volume (in MMBF)

		2016	% Total	2015	% Total	2014	% Total
Sawlogs	Douglas-fir	38.1	62%	28.7	60%	32.8	61%
	Whitewood	8.2	13%	5.1	11%	9.2	17%
	Pine	0.2	—%	0.2	—%	—	—%
	Cedar	2.6	4%	2.8	6%	1.7	3%
	Hardwoods	2.3	4%	2.6	5%	1.7	3%
Pulpwood	All Species	10.5	17%	8.7	18%	8.7	16%
Total		61.9	100%	48.1	100%	54.1	100%

The following table presents log price realized by species on a look-through basis for each year in the three-year periods ended December 31, 2016 as follows:

		Fiscal Year						
		2016	Δ from 2015 to 2016		2015	Δ from 2014 to 2015		2014
			\$/MBF	%		\$/MBF	%	
Sawlogs	Douglas-fir	\$ 471	\$ (155)	(25)%	\$ 626	\$ (93)	(13)%	\$ 719
	Whitewood	282	(172)	(38)%	454	(170)	(27)%	624
	Pine	172	—	—%	172	(371)	(68)%	543
	Cedar	1,547	111	8%	1,436	67	5%	1,369
	Hardwood	673	78	13%	595	(26)	(4)%	621
Pulpwood	All Species	275	(57)	(17)%	332	29	10%	303
Overall		465	(132)	(22)%	597	(56)	(9)%	653

The percentage of annual harvest volume by quarter on a look-through basis for each year in the three-year period ended December 31, 2016 was as follows:

Year ended	Q1	Q2	Q3	Q4
2016	17%	21%	20%	42%
2015	33%	18%	21%	28%
2014	32%	27%	20%	22%

Fee Timber cost of sales on a Look-through basis for each year in the three-year period ended December 31, 2016 is as follows, with the first table expressing these costs in total dollars and the second table expressing those costs that are driven by volume on a per MBF basis:

(in thousands)	Harvest, Haul and Tax	Depletion	Other	Total Fee Timber Cost of Sales	Harvest Volume (MMBF)	Timber Deed Sale Volume (MMBF)
Partnership tree farms	\$ 11,875	\$ 3,550	\$ 72	\$ 15,497	57.1	0.6
Share of Funds	1,148	910	3	2,061	4.8	0.3
Look-through 2016	\$ 13,023	\$ 4,460	\$ 75	\$ 17,558	61.9	0.9
Partnership tree farms	\$ 9,143	\$ 1,880	\$ 852	\$ 11,875	42.6	—
Share of Funds	1,390	944	92	2,426	5.6	—
Look-through 2015	<u>\$ 10,533</u>	<u>\$ 2,824</u>	<u>\$ 944</u>	<u>\$ 14,301</u>	<u>48.2</u>	<u>—</u>
Partnership tree farms	\$ 10,992	\$ 2,244	\$ 1,161	\$ 14,397	47.1	—
Share of Funds	1,918	1,347	30	3,295	7.0	0.2
Look-through 2014	<u>\$ 12,910</u>	<u>\$ 3,591</u>	<u>\$ 1,191</u>	<u>\$ 17,692</u>	<u>54.1</u>	<u>0.2</u>

(Amounts per MBF)	Harvest, Haul and Tax *	Depletion *
Partnership tree farms	\$ 208	\$ 62
Share of Funds	239	178
Look-through 2016	\$ 210	\$ 71
Partnership tree farms	\$ 215	\$ 44
Share of Funds	248	169
Look-through 2015	\$ 219	\$ 59
Partnership tree farms	\$ 233	\$ 48
Share of Funds	274	187
Look-through 2014	\$ 239	\$ 66

* Timber deed sale volumes are excluded in the per MBF computation for harvest, haul and tax costs but included in the per MBF computation for depletion.

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

This report contains a number of projections and statements about our expected financial condition, operating results, and business plans and objectives. These statements reflect management's estimates based upon our current goals, in light of management's knowledge of existing circumstances and expectations about future developments. Statements about expectations and future performance are "forward looking statements" within the meaning of applicable securities laws, which describe our goals, objectives and anticipated performance. These statements can be identified by words such as "anticipate," "believe," "expect," "intend" and similar expressions. These statements are inherently uncertain, and some or all of these statements may not come to pass. Accordingly, you should not interpret these statements as promises that we will perform at a given level or that we will take any or all of the actions we currently expect to take. Our future actions, as well as our actual performance, will vary from our current expectations, and under various circumstances these variations may be material and adverse. Some of the factors that may cause our actual operating results and financial condition to fall short of our expectations are set forth in the part of this report entitled "Risk Factors" in Item 1A above. From time to time we identify other risks and uncertainties in our other filings with the Securities and Exchange Commission. The forward-looking statements in this report reflect our estimates and expectations as of the date of the report, and unless required by law, we do not undertake to update these statements as our business operations and environment change.

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"), 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. This segment includes timberlands owned directly by the Partnership and operations of the three private equity funds ("Fund I", "Fund II", and "Fund III", collectively, the "Funds"). Fund I's assets were sold in 2014 and the fund was fully unwound in 2015. When we refer to the timberland owned by the Partnership, we describe it as the Partnership's tree farms. We refer to timberland owned by the Funds as the Funds' tree farms. When referring collectively to the Partnership's and Funds' timberland we will refer to them as the Combined tree farms. Operations in this segment consist of growing timber to be harvested as logs for sale to export brokers and domestic manufacturers. The second most significant business segment 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 selling larger parcels to buyers who will take the land further up the value chain by either selling homes to retail buyers or lots to developers of commercial property. Since these land projects span multiple years, the Real Estate segment may incur losses for multiple years while a project is developed, and will not recognize operating income until that project is sold. In addition, within this segment we sometimes negotiate and sell development rights in the form of conservation easements (CE's) on Fee Timber properties which preclude future development. Our third business segment, which we refer to as Timberland Investment Management, is engaged in organizing and managing private equity timber funds using capital invested by third parties and the Partnership.

Our primary strategy for adding timberland acreage is centered on our private equity timber fund business model, although in some instances where not restricted by the Funds' governing documents, we may acquire timberlands for the Partnership. As of December 31, 2016, we have assets under management in Fund II and Fund III totaling approximately \$375 million based on the most recent appraisals. Through our 20% co-investment in Fund II and our 5% co-investment in Fund III, we have deployed \$26 million of Partnership capital. Our co-investment affords us a share of the Funds' operating cash flows while also allowing us to earn asset management and timberland management fees, as well as potential future incentive fees, based upon the overall success of each fund. We also believe that this strategy allows us to maintain more sophisticated expertise in timberland acquisition, valuation, and management on a more cost-effective basis than we could for the Partnership's timberlands alone. We believe our co-investment strategy also enhances our credibility with existing and prospective Fund investors by demonstrating that we have both an operational and a financial commitment to the Funds' success.

The Funds are consolidated into our financial statements, but then income or loss attributable to equity owned by third parties is removed from consolidated results in our Condensed Consolidated Statements of Comprehensive Income under the caption "Net (income) loss attributable to non-controlling interests-ORM Timber Funds" to arrive at comprehensive income attributable to unitholders of the Partnership.

The strategy for our Real Estate segment centers around how and when to “harvest” a parcel of land and optimize value realization by selling the property, balancing the long-term risks and costs of carrying and developing a property against the potential for income and cash flows upon sale. Land held for development by our Real Estate segment represents property in western Washington that has been deemed suitable for residential and commercial building sites. Land held for sale represents those properties in the development portfolio that we expect to sell in the next year.

Our consolidated revenue in 2016, 2015, and 2014, on a percentage basis by segment, was as follows:

Segment	2016	2015	2014
Fee Timber	71%	67%	75%
Timberland Investment Management	—%	—%	—%
Real Estate	29%	33%	25%

Additional segment financial information is presented in Note 11 to the Partnership’s Consolidated Financial Statements included with this report.

Highlights for the quarter and year ended December 31, 2016

- Harvest volume was 37.7 million board feet (MMBF) in Q4 2016 compared to 25.7 MMBF in Q4 2015, a 47% increase. These harvest volume figures do not include timber deed sales of 4.7 MMBF in Q4 2016. Harvest volume for the full year 2016 was 91.3 MMBF compared to 83.1 MMBF for 2015, a 10% increase. These full-year harvest volume figures do not include timber deed sales of 5.9 MMBF in 2016 and 0.6 MMBF in 2015. The harvest volume and log price realization metrics cited below also exclude these timber deed sales.
- Average realized log price per thousand board feet (MBF) was \$588 in Q4 2016 compared to \$577 per MBF in Q4 2015, a 2% increase. For the full year 2016, the average realized log price was \$580 per MBF compared to \$584 per MBF for 2015, a nominal decrease.
- As a percentage of total harvest, volume sold to domestic markets in Q4 2016 increased to 68% from 65% in Q4 2015, while the mix of volume sold to export markets decreased to 17% in Q4 2016 compared to 20% in Q4 2015. Pulpwood and hardwood volume were unchanged at 15% of log sales in both in Q4 2016 and Q4 2015. For the full year 2016, the relative percentages of volume sold to domestic and export markets were 66% and 17%, respectively, compared to 61% and 20%, respectively, in 2015. Pulpwood and hardwood log sales make up the balance of total year-to-date harvest volume.
- In December 2016, we closed on sales of 127 single-family lots from our Harbor Hill project in Gig Harbor, Washington for a combined \$14.3 million.
- In December 2016, we closed on three conservation transactions: the sale of 1,356 acres of timberland to Kitsap County for \$2.3 million, though we retained the right to harvest timber on that parcel for 25 years, a conservation easement on 1,497 acres to The Trust for Public Land for \$2.1 million, and a sale of 159 acres of timberland to the Washington State Department of Natural Resources for \$899,000.
- We substantially completed the in-water portion of the environmental remediation at Port Gamble and recorded a \$7.7 million increase to our environmental liability to reflect additional cleanup costs.

Outlook

In total, we expect our 2017 harvest and stumpage sale volume to be between 110 and 120 MMBF. We expect approximately 48% of this volume to come from the Partnership’s tree farms and 52% from the Funds’ tree farms. We will continue to monitor log markets and adjust our harvest levels as the year progresses.

The Puget Sound housing market remains strong and we anticipate additional residential and commercial lot sales from our Harbor Hill project in 2017, along with conservation-related land and easement sales.

RESULTS OF OPERATIONS

The following table reconciles net income attributable to Pope Resources' unitholders for the years ended December 31, 2016 to 2015 and 2015 to 2014. In addition to the table's numeric analysis, the explanatory text that follows describes many of these changes by business segment.

YEAR TO YEAR COMPARISONS (in thousands)

	2016 vs. 2015	2015 vs. 2014
	Total	Total
Net income attributable to Pope Resources' unitholders:		
2016	\$ 5,942	
2015	10,943	\$ 10,943
2014		12,415
Variance	<u>\$ (5,001)</u>	<u>\$ (1,472)</u>
Detail of earnings variance:		
Fee Timber		
Log volumes (A)	\$ 4,789	\$ (6,538)
Log price realizations (B)	(365)	(4,737)
Gain on sale of timberland	2,098	(24,853)
Timber deed sales	1,557	(1,328)
Production costs	168	4,405
Depletion	(2,721)	2,292
Other Fee Timber	(1,561)	(569)
Timberland Investment Management	5	(296)
Real Estate		
Land sales	1,073	(5,118)
Conservation easement sales	(2,231)	3,568
Environmental remediation	(7,700)	10,000
Other Real Estate	(64)	(417)
General and administrative costs	(104)	(1,191)
Net interest expense	(436)	(366)
Income taxes	(45)	777
Noncontrolling interest	536	22,899
Total variances	<u>\$ (5,001)</u>	<u>\$ (1,472)</u>

(A) Volume variance calculated by extending change in sales volume by the average log sales price for the comparison period.

(B) Price variance calculated by extending the change in average price realized by current period volume.

Fee Timber

Fee Timber results include operations on 118,000 acres of timberland owned by the Partnership and 94,000 acres of timberland owned by the Funds as of December 31, 2016. Fee Timber revenue is earned primarily from the harvest and sale of logs from these timberlands which are located in western Washington, northwestern Oregon, and northern California. This revenue source is driven primarily by the volume of timber harvested and the average log price realized on the sale of that timber. Our harvest volume is based typically on manufactured log sales to domestic mills and log export brokers. We also occasionally sell rights to harvest timber (timber deed sale) from the Combined tree farms. The metrics used to calculate volumes sold and average price realized during the reporting periods exclude the timber deed sales, except where stated otherwise. Harvest volumes are generally expressed in million board feet (MMBF) increments while harvest revenue and related costs are generally expressed in terms of revenue or cost per thousand board feet (MBF).

Fee Timber revenue is also derived from commercial thinning operations, ground leases for cellular communication towers, and royalties from gravel mines and quarries, all of which, along with timber deed sales, are included in other revenue below. Commercial thinning consists of the selective cutting of timber stands not yet of optimal harvest age. However, they do have some commercial value, thus allowing us to earn revenue while at the same time improving the projected value at harvest of the remaining timber in the stand.

Revenue and operating income for the Fee Timber segment for each year in the three-year period ended December 31, 2016, are as follows:

(in millions) Year ended	Log Sale Revenue	Other Revenue	Total Fee Timber Revenue	Gain (loss) on Sale of Timberland	Operating Income	Harvest Volume (MMBF)	Timber Deed Sale Volume (MMBF)
Partnership	\$ 33.8	\$ 2.5	\$ 36.3	\$ 0.8	\$ 15.5	57.1	0.6
Funds	19.1	1.9	21.0	0.2	1.4	34.2	5.3
Total 2016	\$ 52.9	\$ 4.4	\$ 57.3	\$ 1.0	\$ 16.9	91.3	5.9
Partnership	\$ 26.2	\$ 2.7	\$ 28.9	\$ —	\$ 11.7	42.6	—
Funds	22.4	0.9	23.3	(1.1)	1.3	40.5	0.6
Total 2015	\$ 48.6	\$ 3.6	\$ 52.2	\$ (1.1)	\$ 13.0	83.1	0.6
Partnership	\$ 30.9	\$ 2.9	\$ 33.8	\$ —	\$ 14.4	47.1	—
Funds	28.9	2.5	31.4	23.8	29.9	46.2	4.0
Total 2014	\$ 59.8	\$ 5.4	\$ 65.2	\$ 23.8	\$ 44.3	93.3	4.0

Operating Income

Fiscal Year 2016 compared to 2015. Operating income increased by \$3.9 million, or 30% in 2016 primarily as a result of a 16% increase in harvest and timber deed sale volume plus a \$2.1 million favorable variance in timberland sales. In 2015, our results included a \$1.1 million loss on sale of 858 acres from Fund III's timberland, whereas our 2016 results include gains totaling \$1.0 million on sales of 159 acres of Partnership timberland and 205 acres of Fund timberland. Contributing further to the rise in operating income was an \$800,000 increase in Other Revenue. These favorable variances in operating income components were offset partially by a 1% decrease in average realized log prices, an 8% increase in cost of sales, and a \$717,000 increase in operating expenses.

Fiscal Year 2015 compared to 2014. Operating income decreased by \$31.3 million, or 71% in 2015 primarily as a result of: the \$23.8 million gain on the sales of Fund I's two tree farms in 2014; an 11% decrease in harvest volume; a 9% decrease in average realized log prices; a \$1.8 million decrease in Other Revenue; and a \$135,000 increase in operating expenses. This was offset partially by an 18% decrease in cost of sales.

Revenue

Fiscal Year 2016 compared to 2015. Fee Timber revenue increased by \$5.1 million, or 10%, in 2016, primarily from a \$4.3 million, or 9%, increase in log sale revenue. Log sale revenue increased due to a 10% increase in harvest volume, which was offset partially by a 1% decrease in average realized log prices. We backloaded 44% of our 2016 harvest volume into the fourth quarter at prices that were 2% above Q4 2015 average prices. This raised our average log price up to nearly the same level we achieved in 2015. The volume increase in 2016 came primarily from the Partnership's tree farms, where we harvested 3.6 MMBF during 2016 from the Q3 2016 acquisition of the Carbon River block of the Columbia tree farm as well as additional volume from recent small tract timberland purchases. Our realized log prices during 2016 were comparable to those achieved in 2015. Following the expiration of the Softwood Lumber Agreement between the United States and Canada in October 2015, Canada has been able to sell lumber duty-free into the United States. Combined with a weak Canadian currency, this led to a 23% increase in softwood lumber imports from Canada, according to the United States Census Bureau, compared to 2015. Other revenue increased \$800,000 in 2016 due to the net result of a \$1.6 million increase in timber deed sales and a \$487,000 increase in sales from a variety of other forest products, offset partially by \$1.4 million of commercial thinning sales in 2015 that had no counterpart in 2016.

Fiscal Year 2015 compared to 2014. Fee Timber revenue decreased by \$13.0 million, or 20%, in 2015. The decrease is attributable to lower log sale revenue due to a 10.2 MMBF, or 11%, decrease in harvest volume, combined with a \$57/MBF, or 9%, decrease in realized log prices. Domestic log markets were affected by unseasonably mild weather in the Pacific Northwest in early 2015, high log and lumber inventories, slower than expected recovery in the U.S. housing market, and uncertainty in log markets during the first three quarters of the year surrounding the October expiration of the Softwood Lumber Agreement between the U.S. and Canada. Export markets in 2015 were impacted negatively by a strong U.S. dollar and a construction slowdown in China that led to high log inventories at China's ports. In contrast, log markets during the first half of 2014, particularly in the first quarter, were at a multi-year cyclical high during which time we sold a large portion of our 2014 volume. Strong demand from Asia, combined with a slowly strengthening domestic market as U.S. housing starts rose to a rate of 1 million units per year, drove the higher log prices in 2014. In addition, other revenue decreased by \$1.8 million in 2015 compared to 2014 due primarily to a decrease in commercial thinning activity and timber deed sales.

Log Volume

In any given year or quarter, we may adjust harvest volume from our plan based on the prevailing price of timber and strength of market demand. Harvest volume is also subject to seasonality and weather conditions which may affect access to higher elevation stands. Log volume sold for each year in the three-year period ended December 31, 2016 was as follows, exclusive of the aforementioned timber deed sales:

Volume (in MMBF)									
		2016	% Total		2015	% Total		2014	% Total
Sawlogs	Douglas-fir	51.0	56%		40.0	48%		45.0	48%
	Whitewood	19.2	22%		21.1	26%		28.6	31%
	Pine	2.2	2%		2.5	3%		3.2	3%
	Cedar	3.0	3%		3.3	4%		2.2	2%
	Hardwoods	2.8	3%		3.6	4%		2.4	3%
	Pulpwood	All Species	13.1	14%		12.6	15%		11.9
Total		91.3	100%		83.1	100%		93.3	100%
Average Price/MBF		\$ 580			\$ 584			\$ 641	

Fiscal Year 2016 compared to 2015. Harvest volume increased 8.2 MMBF, or 10%, in 2016. The higher volume in 2016 was the result of a 14.5 MMBF increase in Partnership harvest volume, offset partially by a 6.3 MMBF decrease in Fund harvest volume. In addition to the delivered log volume displayed in the above table, we sold 5.9 MMBF of volume via timber deed sales in 2016 (5.3 MMBF from the Funds and 0.6 MMBF from the Partnership) compared to 0.6 MMBF from the Funds in 2015. Douglas-fir harvest volume, as a percentage of overall harvest, increased to 56% in 2016 from 48% in 2015. Conversely, whitewood harvest volume decreased to 22% in 2016 from 26% in 2015, with the minor species and pulpwood decreasing to 22% in 2016 from 26% in 2015. The overall shifts in species mix were the result of the increased share of relative harvest volume from the Partnership's tree farms, which have a higher proportion of Douglas-fir relative to the Funds' tree farms.

Fiscal Year 2015 compared to 2014. Harvest volume decreased 10.2 MMBF, or 11%, in 2015. The decrease is attributable to weaker demand in export markets, particularly in the first half of the year. Douglas-fir harvest volume, as a percentage of overall harvest, remained steady at 48% for both 2014 and 2015. The component of whitewood and pine harvest volume decreased from 34% in 2014 to 29% in 2015. The component of the minor species of cedar, hardwoods, and pulpwood increased from 18% in 2014 to 23% in 2015. This shift in mix is attributable to weaker whitewood prices in 2015 due to reduced demand from China.

Log Prices

For each year in the three-year period ended December 31, 2016, the table below shows the average realized log price by species, as well as the dollar and percentage change in price from 2015 to 2016 and 2014 to 2015.

		Fiscal Year						
		Δ from 2015 to 2016			Δ from 2014 to 2015			
		2016	\$/MBF	%	2015	\$/MBF	%	2014
Sawlogs	Douglas-fir	\$ 632	\$ 9	1 %	\$ 623	\$ (94)	(13)%	\$ 717
	Whitewood	529	(13)	(2)%	542	(95)	(15)%	637
	Pine	473	(59)	(11)%	532	16	3 %	516
	Cedar	1,340	(38)	(3)%	1,378	118	9 %	1,260
	Hardwood	587	(10)	(2)%	597	(13)	(2)%	610
Pulpwood	All Species	293	(38)	(11)%	331	39	13 %	292
Overall		580	(4)	(1)%	584	(57)	(9)%	641

Overall realized log prices decreased 1% in 2016. Our overall average is influenced heavily by price movements for our two most prevalent species on the Combined tree farms, Douglas-fir and whitewood, and the relative mix of harvest volume between those two species. The weighted average price declined 6% in 2016 for whitewood, the minor species, and pulpwood. This was offset partially by the shift in species mix towards Douglas-fir in 2016, for which prices increased 1%. Pine prices declined 11% in 2016 from 2015 due to a large supply of pine logs produced from salvage logging operations in California following the severe 2015 fire season. Pulpwood prices declined 11% in 2016 due to a reduction in export demand for pulpwood and wood chips, as well as an increase in residual wood chips in the market resulting from a slow but steady increase in lumber production at sawmills. These factors combined to reduce the demand for pulpwood to produce chips.

Overall realized log prices decreased 9% in 2015. Our overall average is influenced heavily by price movements for our two most prevalent species on the Combined tree farms, Douglas-fir and whitewood, and the relative mix of harvest volume between those two species. Douglas-fir and whitewood log prices were down 13% and 15%, respectively, in 2015 compared to 2014. Increases in the prices of our minor species such as cedar and pine, combined with pulpwood, served to offset a portion of the declines in Douglas-fir and whitewood.

Customers

Annual harvest volume and average price paid for each year in the three-year period ended December 31, 2016 was as follows:

Destination	2016			2015			2014		
	Volume	%	Price	Volume	%	Price	Volume	%	Price
Export brokers	15.4	17%	\$ 641	16.7	20%	\$ 631	30.4	32%	\$ 735
Domestic mills	60.0	66%	627	50.2	61%	631	48.6	52%	670
Hardwood	2.8	3%	587	3.6	4%	597	2.4	3%	610
Pulpwood	13.1	14%	293	12.6	15%	331	11.9	13%	292
Total	91.3	100%	\$ 584	83.1	100%	584	93.3	100%	641
Timber deed sales	5.9		301	0.6		389	4.0		392
Total	97.2			83.7			97.3		

Fiscal Year 2016 compared to 2015. Volume sold to export brokers as a percentage of total harvest declined from 20% in 2015 to 17% in 2016, while volume sold to the domestic market increased from 61% in 2015 to 66% in 2016. This shift in customer mix resulted from higher demand from lumber mills as they increased production to keep pace with the continued gradual improvement in the U.S. housing market, while a relatively strong U.S. dollar has impacted the export market. The timber deed sales volume in 2016 was comprised of 5.3 MMBF from Fund III and 0.6 MMBF from the Partnership's Hood Canal tree farm. The timber deed sales volume of 0.6 MMBF in 2015 occurred in the first quarter from Fund III's Willapa tree farm.

Fiscal Year 2015 compared to 2014. Volume sold to export brokers as a percentage of total harvest declined from 32% in 2014 to 20% in 2015, with a commensurate increase in volume sold into the domestic market from 55% in 2014 to 65% in 2015, reflecting the weaker demand from the export market and a very narrow premium on export logs versus domestic logs. The timber deed sales volume of 0.6 MMBF in 2015 occurred in the first quarter and represented the conclusion of timber deed sale activity on Fund III's Willapa tree farm that started in Q3 2014, as that tree farm transitioned to delivered log sales.

Cost of Sales

Fee Timber cost of sales, which consist predominantly of harvest, haul and depletion costs, vary primarily with harvest volume. Harvest costs are also affected by terrain, with steeper slopes requiring more expensive cable systems and a high labor component relative to more moderate slopes. Haul costs vary with the distance traveled from the logging site to the customer, and will also reflect the volatility of fuel costs. Because of the relatively recent acquisition dates of the Funds' tree farms, the depletion rates associated with harvests from those properties are considerably higher than for harvests from the Partnership's tree farms. Similarly, the acquisition of over 9,000 acres that we added to the Partnership's tree farms in 2016 increased the depletion rate for the Partnership's tree farms, though it is still well below the depletion rates for the Funds' tree farms. Commercial thinning costs are a primary component of other cost of sales for 2015 and 2014 in the tables below.

Fee Timber cost of sales for each year in the three-year period ended December 31, 2016 is as follows, with the first table expressing these costs in total dollars and the second table expressing those costs that are driven by volume on a per MBF basis:

(in thousands)	Harvest, Haul and Tax	Depletion	Other	Total Fee Timber Cost of Sales	Harvest Volume (MMBF)	Timber Deed Sale Volume (MMBF)
Partnership tree farms	\$ 11,875	\$ 3,550	\$ 72	\$ 15,497	57.1	0.6
Funds' tree farms	8,022	9,071	52	17,145	34.2	5.3
Total 2016	\$ 19,897	\$ 12,621	\$ 124	\$ 32,642	91.3	5.9
Partnership tree farms	\$ 9,143	\$ 1,880	\$ 852	\$ 11,875	42.6	—
Funds' tree farms	9,736	8,020	458	18,214	40.5	0.6
Total 2015	\$ 18,879	\$ 9,900	\$ 1,310	\$ 30,089	83.1	0.6
Partnership tree farms	\$ 10,992	\$ 2,244	\$ 1,161	\$ 14,397	47.1	—
Funds' tree farms	11,839	9,948	602	22,389	46.2	4.0
Total 2014	\$ 22,831	\$ 12,192	\$ 1,763	\$ 36,786	93.3	4.0

(Amounts per MBF)	Harvest, Haul and Tax *	Depletion *
Partnership tree farms	\$ 208	\$ 62
Funds' tree farms	235	230
Total 2016	\$ 218	\$ 130
Partnership tree farms	\$ 215	\$ 44
Funds' tree farms	240	195
Total 2015	\$ 227	\$ 118
Partnership tree farms	\$ 233	\$ 48
Funds' tree farms	256	198
Total 2014	\$ 245	\$ 125

* Timber deed sale volumes are excluded in the per MBF computation for harvest, haul and tax costs but included in the per MBF computation for depletion.

Fiscal Year 2016 compared to 2015. Cost of sales increased \$2.6 million, or 8%, in 2016 primarily due to the 16% increase in harvest volume (including timber deed sales) from 2015 to 2016 and a 10% increase in the combined depletion rate which was impacted by two factors. First, the Partnership's pooled depletion rate was 39% higher in 2016 compared to 2015 due to the Q3 2016 acquisition of the Carbon River block of the Columbia tree farm. Partially offsetting this was a decrease in the Funds' relative share of harvest volume (including timber deed sales) from 49% in 2015 to 41% in 2016. The Funds' tree farms have higher depletion rates because they were purchased more recently at higher timberland valuations. Finally, the

aforementioned net increases to cost of sales were offset partially by \$1.2 million of costs associated with commercial thinning operations in 2015 that had no counterpart in 2016.

Fiscal Year 2015 compared to 2014. Cost of sales decreased \$6.7 million, or 18%, in 2015 primarily due to the 11% decrease in harvest volume from 2014 to 2015. In addition, harvest, haul, and harvest tax costs declined 9% on a per MBF basis from 2014 to 2015 due primarily to lower hauling rates based on the location of harvest units in 2015 compared to 2014, as well as lower fuel costs. The depletion rate declined 8% due to a decrease in the share of harvest volume coming from Fund properties, including timber deed sales, from 52% in 2014 to 49% in 2015.

Operating Expenses

Fee Timber operating expenses include the cost of both maintaining existing roads and building temporary roads for harvesting, silviculture costs, and other management expenses.

Fiscal Year 2016 compared to 2015. Fee Timber operating expenses increased \$717,000, or 9%, from \$8.0 million in 2015 to \$8.7 million in 2016. All components of operating expenses contributed to the increase, with the largest portion attributable to a \$376,000 rise in road expenses on the Partnership tree farms from the higher harvest volume during 2016.

Fiscal Year 2015 compared to 2014. Fee Timber operating expenses increased \$140,000, or 2%, from \$7.9 million in 2014 to \$8.0 million in 2015. The largest portion of the increase is attributable to a rise in silviculture expenditures on both the Partnership's and the Funds' tree farms, as we increased our investments in pre-commercial thinning treatments in 2015. These increases were offset partially by a decline in road expenditures due to the decrease in harvest volume.

Timberland Investment Management (TIM)

Fund Distributions and Fees Paid to the Partnership

The Partnership received combined distributions from the Funds of \$548,000, \$2.2 million, and \$13.3 million in 2016, 2015, and 2014, respectively. Fund distributions are paid from available Fund cash, generated primarily from the harvest and sale of timber after paying Fund expenses, management fees, and recurring capital costs. In addition, Fund distributions received by the Partnership during 2015 and 2014 included \$1.8 million and \$11.9 million, respectively, from Fund I generated by the sale of its two tree farms in the second half of 2014, a portion of which was deferred to 2015 because of customary post-closing holdbacks.

The Partnership earned investment and timberland management fees from the Funds which totaled \$3.3 million, \$2.2 million, and \$3.3 million in 2016, 2015, and 2014, respectively. These fees are eliminated in the Partnership's consolidated financial statements.

See Accounting Matters ~ Critical Accounting Policies and Estimates ~ Timber Fund Management Fees for more information on accounting for management fees paid by third-party investors.

Revenue and Operating Loss

The fees earned from managing the Funds include a fixed component related to invested capital and acres under management, and a variable component related to harvest volume from the Funds' tree farms. As all fee revenue is eliminated in consolidation, operating losses consist almost entirely of operating expenses incurred by the TIM segment.

Revenue and operating loss for the TIM segment for each year in the three-year period ended December 31, 2016, were as follows:

(in millions, except acre and volume data)	Year ended December 31,		
	2016	2015	2014
Revenue - internal	\$ 3.3	\$ 2.2	\$ 3.3
Intersegment eliminations	(3.3)	(2.2)	(3.3)
Revenue - external	\$ —	\$ —	\$ —
Operating income - internal	\$ 0.4	\$ (0.7)	\$ 0.4
Intersegment eliminations	(3.0)	(1.9)	(2.7)
Operating loss - external	\$ (2.6)	\$ (2.6)	\$ (2.3)
Invested capital	\$ 258	\$ 259	\$ 253
Acres under management	94,000	94,000	80,000
Harvest volume - Funds (MMBF) *	39.5	41.1	50.2

* Volume includes 5.3, 0.6 and 4.0 MMBF from timber deed sales in 2016, 2015 and 2014, respectively. In addition to these volumes, we harvested 1.2, and 1.8 MMBF from commercial thinning activity in 2015 and 2014, respectively

Fiscal Year 2016 compared to 2015. TIM generated management fee revenue of \$3.3 million and \$2.2 million from managing the Funds in 2016 and 2015, respectively. The increase in fees is attributable primarily to a Q4 2015 correction to asset management fees charged to the Funds in prior periods of \$899,000, of which the Partnership's portion was \$120,000. Operating expenses were flat from 2015 to 2016.

Fiscal Year 2015 compared to 2014. TIM generated management fee revenue of \$2.2 million and \$3.3 million from managing the Funds in 2015 and 2014, respectively. The decrease in fees in 2015 is due primarily to a Q4 2015 correction to asset management fees charged to the Funds in prior periods of \$899,000, of which the Partnership's portion was \$120,000. The Fund II correction was \$498,000, covering the period from 2010 through Q3 2015, and the Fund III correction was \$401,000, covering the period from 2012 through Q3 2015. The \$779,000 attributable to outside investors was refunded in the fourth quarter of 2015.

The correction stems from a Q4 2015 discovery of an error in the calculation of invested capital, upon which the asset management fee is based. Prior to the correction, we were incorrectly including debt capital used to finance timberland acquisitions in determining invested capital when in fact we should have only included equity capital used to finance timberland acquisitions. Notwithstanding this correction, management fee revenue also declined as a result of a reduction in harvest activity for the Funds as a portion of our management fees are based on harvest volume.

Operating expenses incurred by the TIM segment totaled \$2.6 million and \$2.3 million in 2015 and 2014, respectively. The increase in operating expenses is attributable to growth in the Funds' acres under management and consequently the opening of a timber field office in Oregon in December 2014, as well as increased costs associated with placing Fund III's remaining capital, which culminated in the December 2015 acquisition of a 15,100-acre tree farm in the southern Puget Sound region of Washington.

Real Estate

Revenue and Operating Income

The Real Estate segment's activities consist of investing in and later reselling improved properties, holding properties for later development and sale, and managing commercial properties. Revenue is generated primarily from the sale of land within our 2,200-acre portfolio, sales of development rights, known as conservation easements (CE's), sales of tracts from the Partnership's timberland portfolio, and residential and commercial rents from our Port Gamble and Poulsbo properties. The CE sales allow us to conduct forestry operations on timberland. The Partnership's Real Estate holdings are located primarily in the Washington counties of Pierce, Kitsap, and Jefferson with sales of land for this segment typically falling into one of three general types:

- Commercial, business park, and residential plat land sales represent land sold after development rights have been obtained and generally are sold with prescribed infrastructure improvements.

- Rural residential lot sales that generally require some capital improvements such as zoning, road building, or utility access improvements prior to completing the sale.
- The sale of unimproved land, which generally consists of larger acreage sales rather than single lot sales, and is normally completed with very little capital investment prior to sale and may or may not have a conservation flavor.

As indicated above, conservation sales take two primary forms for us, either an outright sale of land to a conservation entity or a conservation easement sale that extinguishes future development rights on a parcel of timberland but we retain the ability to conduct forestry operations.

Real Estate operations also include development, commercial real estate, and environmental remediation activities in connection with our ownership the Port Gamble, Washington townsite and former millsite as discussed in greater detail in “Business – Real Estate – Port Gamble,” and “– Environmental Remediation.”

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. Further, Real Estate results will vary as a result of adjustments to our environmental remediation liability related to Port Gamble. These adjustments are reflected in our Real Estate segment within operating expenses. Real Estate segment revenue and gross margin for each year in the three-year period ended December 31, 2016 consisted of the following components:

(in thousands except acres)					Per acre/lot *		
Description	Revenue	Gross margin	Gross margin %	Units Sold	Revenue	Gross margin	
Conservation land sales	\$ 2,360	\$ 2,152	91%	Acres: 1,356	\$ 1,740	\$ 1,587	
Development rights (CE)	2,080	1,880	90%	Acres: 1,497	1,389	1,256	
Gig Harbor residential	15,247	2,719	18%	Lots: 136	112,110	19,993	
Unimproved land	1,784	1,503	84%	Acres: 264	6,758	5,693	
Total land	<u>21,471</u>	<u>8,254</u>	38%				
Rentals and other	1,645	324					
2016 Total	<u>\$ 23,116</u>	<u>\$ 8,578</u>	37%				
Conservation land sales	\$ 2,504	\$ 1,393	56%	Acres: 716	\$ 3,497	\$ 1,946	
Development rights (CE)	4,311	4,311	100%	Acres: 3,392	1,271	1,271	
Gig Harbor residential	13,701	3,006	22%	Lots: 119	115,134	25,261	
Gig Harbor multi-family	4,096	609	15%	Acres: 18	227,556	33,833	
Total land	<u>24,612</u>	<u>9,319</u>	38%				
Rentals and other	1,252	30					
2015 Total	<u>\$ 25,864</u>	<u>\$ 9,349</u>	36%				
Conservation land sales	\$ 6,960	\$ 5,781	83%	Acres: 1,111	\$ 6,265	\$ 5,203	
Development rights (CE)	743	743	100%	Acres: 2,878	258	258	
Gig Harbor residential	13,171	4,295	33%	Lots: 133	99,030	32,293	
Unimproved land	52	50	96%	Acres: 4	13,000	12,500	
Total land	<u>20,926</u>	<u>10,869</u>	52%				
Rentals and other	1,340	93					
2014 Total	<u>\$ 22,266</u>	<u>\$ 10,962</u>	49%				

* Lots represent residential single-family lots

Revenue

Land transactions. In the fourth quarter of 2016, we closed on a conservation land sale of 1,356 acres for \$2.4 million. Under this sale, we retained the right to harvest timber for a period of 25 years. Also in the fourth quarter of 2016, we closed on a conservation easement sale covering 1,497 acres of timberland for \$2.1 million. Over the course of the year, we closed on the sale of 136 single-family residential lots (nine in the first quarter and 127 in the fourth quarter) from our Harbor Hill project for \$15.2 million and on sales of 267 acres of unimproved land for \$1.8 million in the third quarter. We have post-closing obligations on some of the Harbor Hill closings and are recognizing revenue utilizing the percentage of completion method. The remaining revenue from these transactions, which we expect to recognize in the first half of 2017, is approximately \$285,000.

In 2015, we closed on four conservation land sales, two in the first quarter and one in each of the second and fourth quarters, totaling \$2.5 million for 716 acres. In the second quarter, we closed on a conservation easement sale covering 3,392 acres for \$4.3 million. Over the course of the year, we closed on the sale of 119 single-family residential lots for \$13.7 million and a multi-family residential parcel for \$4.1 million from our Harbor Hill project. We had post-closing obligations on some of the Harbor Hill closings and recognized revenue utilizing the percentage of completion method. The remaining revenue from these transactions, which we recognized in the first quarter of 2016, was approximately \$253,000.

In 2014, we closed on three conservation land sales, one in the first quarter for \$4.6 million covering 535 acres and two in the fourth quarter for \$2.4 million covering 576 acres. Part of one of the fourth quarter sales included a 2,878-acre conservation easement sale for \$743,000. Over the course of 2014, we sold 133 residential lots from our Harbor Hill development for \$13.2 million.

Rentals and other. Rental and other activities in our Real Estate segment are much less volatile from year-to-year than land sales. The increase in rentals and other in 2016 is due primarily to the forfeiture of an earnest money deposit from our Harbor Hill project. The decrease from 2014 to 2015 is due primarily to the loss of the primary tenant of our commercial office building in Poulsbo, Washington in April 2015. We have taken over the basement floor of the building for our own operations, leased a portion of the first floor, and are seeking replacement tenants for the remaining first-floor space.

Cost of Sales

Real Estate cost of sales for each of the three years ended December 31, 2016, 2015, and 2014 was \$14.6 million, \$16.5 million, and \$11.3 million, respectively, with these amounts comprised of land basis, legal, other closing costs, and costs incurred in the generation of rental revenue. Unlike fee simple sales which include land basis in cost of sales, CE sales typically have little or no cost basis as part of the transaction. The changes in cost of sales from year-to-year are driven directly by the volume and types of sales.

Operating Expenses

Real Estate operating expenses for each of the three years ended December 31, 2016, 2015, and 2014 were \$12.1 million, \$4.0 million, and \$13.7 million, respectively. Excluding environmental remediation charges, described below, Real Estate operating expenses for each of the three years ended December 31, 2016, 2015, and 2014 were \$4.4 million, \$4.0 million, and \$3.7 million, respectively. The increases in operating expenses increased from year-to-year are due to primarily to costs for long-term planning and development for properties where entitlements have not yet been obtained, as well as for legal and professional fees in connection with the negotiations and legal action discussed below with respect to the Washington Department of Natural Resources.

Environmental Remediation

The environmental remediation liability represents estimated costs to remediate and monitor certain areas in and around the townsite/millsite of Port Gamble, Washington. The history of that site is summarized at "Business – Real Estate – Environmental Remediation." As noted in that summary, in December of 2013 a consent decree (CD) and Clean-up Action Plan (CAP) were finalized with the Washington State Department of Ecology (DOE) and filed with Kitsap County Superior Court. Pursuant to the CD and CAP, an engineering design report (EDR) was submitted to DOE in November 2014, followed by other supplemental materials establishing our proposed means for complying with the CAP, and we recorded a \$10.0 million increase to our environmental remediation liability in December 2014. The EDR was finalized in the summer of 2015.

The required in-water remediation activity was completed in January 2017 and we recorded a \$7.7 million increase to our liability at December 31, 2016 to reflect additional costs resulting primarily from four categories:

- increased in-water remediation activity driven by the discovery of a significantly greater number of pilings to remove, volume of sediments to dredge and resulting increase in the amount of capping material to place,
- estimated transportation and site preparation costs to permanently store the bulk of the dredged material at a different location than expected originally,
- increased long-term monitoring costs, and
- consulting and professional fees for natural resource damages.

In the fourth quarter of 2016, our contractor encountered subtidal areas containing a significantly greater number of pilings and a much higher volume of wood waste than we had anticipated. This resulted in both the total number of pilings and the volume of wood waste for the entire project to be over 50% greater than our original expectations. With respect to the pilings, most of these were buried in the mud at the bottom of Port Gamble Bay and thus were not detected until dredging operations were conducted in November 2016 through January 2017.

An additional factor for the increase in the liability was the decision reached in February 2017 to utilize property we own a short distance from the town of Port Gamble as the primary permanent location for the dredged sediments rather than leaving them on the millsite. This decision was influenced by a number of factors, such as:

- the now much greater volume of material to be disposed of,
- consideration of the risk of future contamination from this material if stored on the millsite given its proximity to Port Gamble Bay, and
- the potential benefits of alternative uses of the millsite afforded by not storing the sediments there.

These factors (and others) pointed to our nearby property as a more viable permanent storage location for the material. By placing these materials on our nearby property, which is much less valuable than the waterfront millsite land, the cost of moving the material now may be offset to some degree by the economic value we expect to capture from the millsite in the future.

With the completion of the in-water portion of the project, and the new facts we have learned, we have reassessed our estimated long-term monitoring costs, taking in to account the higher volume of material and the new expected storage location, and determined that our earlier cost estimates were no longer sufficient to meet this new set of conditions. Another longer term factor was an update to our estimates for consulting and professional fees to address the natural resource damages claim associated with the project.

As noted above, the required dredging activity was completed in January 2017. The sediments now stockpiled on the millsite must remain there for a brief time to allow the saltwater in the sediments to rinse out. The stockpiles will then be tested to determine their level of contamination, which will ultimately determine whether a portion of the material must be relocated to a commercial landfill, and if so, how much of the material. To the extent that a greater volume of sediments than we have estimated must be relocated to a commercial landfill, we will incur additional costs. The array of testing will begin in the first quarter of 2017 and we expect to receive the testing results over the course of the second and third quarters.

In addition to the handling of the sediments, there will be a modest amount of cleanup activity on the millsite itself in 2018. The scope of this activity will be influenced by the results of testing to be conducted on the millsite following the removal of the dredged material and our liability includes an estimate of the costs for this activity.

Costs may still vary as the project progresses due to a number of factors, some of which are outlined as follows:

Handling of dredged material: As noted above, to the extent we must relocate more material to a commercial landfill than we have estimated, we will incur additional costs. In addition, we have not yet engaged a contractor to relocate the bulk of dredged material to our property near Port Gamble and the actual per unit cost for this work may differ from our current estimates.

Natural Resource Damages (NRD): Certain environmental laws allow state, federal, and tribal trustees (collectively, the Trustees) to bring suit against property owners to recover damages for injuries to natural resources. Like the liability that attaches to current property owners in the cleanup context, liability for natural resource damages can attach to a property owner simply because an injury to natural resources resulted from releases of hazardous substances on that owner's property, regardless of culpability for the release. The Trustees are alleging that Pope Resources has NRD liability because of releases that occurred on its property. We have been in discussions with the Trustees regarding their claims, and the alleged conditions in Port Gamble Bay. We have also been discussing restoration alternatives that might address the damages the Trustees allege.

Discussions with the Trustees may result in an obligation for us to fund NRD restoration activities and past assessment costs that are greater than we have estimated.

Unforeseen conditions: While the required in-water construction activity has been completed, there may be uncertainties with respect to the remaining cleanup on the millsite as the scope of this portion of the cleanup will be influenced by the results of testing to be conducted there following the removal of the sediments. Moreover, as we transition to the monitoring phase of the project, conditions may arise in the future that require us to incur costs to conduct additional cleanup activity. Likewise, we cannot accurately predict the impacts, if any, of potential NRD actions.

Should any future circumstances result in a change to the estimated cost of the project, we will record an appropriate adjustment to the liability in the period it becomes known and we can reasonably estimate the amount.

General & Administrative (G&A)

G&A expenses for 2016 and 2015 were \$5.1 million and \$5.0 million, respectively. G&A expenses were largely consistent from 2015 to 2016, with the current year increase due primarily to higher personnel costs and professional fees.

G&A expenses increased from \$3.8 million in 2014 to \$5.0 million in 2015. The 2014 amounts were lower primarily due to reversals of incentive compensation accruals as a result of the second quarter 2014 departure of a former executive. Without these reversals, G&A expense for 2014 would have been \$4.4 million. More broadly, the increases in G&A expense are related primarily to personnel costs for being fully staffed in 2015 relative to 2014.

Interest Income and Expense

(in thousands)	<u>2016</u>	<u>2015</u>	<u>2014</u>
Interest income	\$ 11	\$ 24	\$ 25
Interest expense	(4,150)	(3,854)	(3,539)
Capitalized interest expense	733	860	910
Net interest expense	<u>\$ (3,406)</u>	<u>\$ (2,970)</u>	<u>\$ (2,604)</u>

The increases in interest expense are due to increasing debt balances for the Partnership, which borrowed \$32.0 million to fund the acquisition of the Carbon River block of the Columbia tree farm in July 2016. The Partnership also borrowed \$6.0 million on a new credit facility in the fourth quarter of 2016 and carried outstanding balances on its operating line of credit starting in the second quarter to fund expenditures for environmental remediation and development of residential lots in our Harbor Hill project until the lots were sold in December. The Partnership's and Fund III's debt arrangements with Northwest Farm Credit Services (NWFCFS) include an annual rebate of a portion of interest expense paid in the prior year (patronage). This NWFCFS patronage program is a feature common to most of this lender's customer loan agreements. The patronage program reduced interest expense by \$810,000, \$478,000 and \$395,000 in 2016, 2015, and 2014, respectively. The increase in the patronage rebate is due to the higher debt balances as well as a higher patronage rate in 2016.

Capitalized interest relates to our Harbor Hill project. The changes in capitalized interest from year-to-year are due to the reduction in basis from completed construction activity at Harbor Hill.

Income Taxes

We recorded income tax expense of \$252,000, \$207,000 and \$984,000 in 2016, 2015 and 2014, respectively, based on taxable income or loss in taxable corporate subsidiaries.

Pope Resources is a limited partnership and is, therefore, not subject to income tax. Instead, most taxable income or loss is passed through and reported to unitholders each year on a Form K-1 for inclusion in each unitholder's income tax return. Pope Resources does, however, have certain corporate subsidiaries that are subject to income tax. The corporate tax-paying entities are utilized for the Funds and certain activities of the Partnership.

Noncontrolling interests-ORM Timber Funds

Noncontrolling interests-ORM Timber Funds represented the portion of 2016, 2015, and 2014 net (income) losses of the Funds attributable to third-party owners of the Funds. The Funds' timberlands carry a higher depletion cost than the

Partnership's timberland and as a result often generate losses during the early years of the Fund life. Included in these results are the management fees charged by ORM LLC to the Funds, interest and income taxes. The portion of the loss or (income) attributable to these third-party investors is added back or deducted to determine "Net and comprehensive (income) loss attributable to unitholders" as follows:

(in thousands)

Noncontrolling interest-2016	Fund I *	Fund II	Fund III	Total
Management fees paid to ORM LLC	\$ —	\$ (1,200)	\$ (2,067)	\$ (3,267)
Forest operations	—	2,023	(619)	1,404
Fund operating income (loss) - internal	—	823	(2,686)	(1,863)
Interest expense	—	(1,087)	(1,169)	(2,256)
Income tax expense	—	(121)	(9)	(130)
Fund net loss - internal	—	(385)	(3,864)	(4,249)
Net loss attributed to noncontrolling interest	\$ —	\$ (307)	\$ (3,672)	\$ (3,979)

Noncontrolling interest-2015	Fund I	Fund II	Fund III	Total
Management fees paid to ORM LLC	\$ —	\$ (828)	\$ (1,402)	\$ (2,230)
Forest operations	(3)	1,812	(526)	1,283
Fund operating income (loss) - internal	(3)	984	(1,928)	(947)
Interest expense	—	(1,072)	(1,318)	(2,390)
Income tax expense	1	(139)	(188)	(326)
Fund net loss - internal	(2)	(227)	(3,434)	(3,663)
Net income (loss) attributed to noncontrolling interest	\$ 1	\$ (181)	\$ (3,263)	\$ (3,443)

Noncontrolling interest-2014	Fund I	Fund II	Fund III	Total
Management fees paid to ORM LLC	\$ (562)	\$ (1,459)	\$ (1,282)	\$ (3,303)
Forest operations	23,756	4,409	1,774	29,939
Fund operating income - internal	23,194	2,950	492	26,636
Interest expense	(1)	(1,071)	(893)	(1,965)
Income tax (expense) benefit	12	(164)	(104)	(256)
Fund net income (loss) - internal	23,205	1,715	(505)	24,415
Net income (loss) attributed to noncontrolling interest	\$ 18,564	\$ 1,372	\$ (480)	\$ 19,456

* Fund I's assets were sold in the second half of 2014 and the fund was dissolved in 2015.

Liquidity and Capital Resources

We ordinarily finance our business activities using operating cash flows and, where appropriate in management's assessment, commercial credit arrangements with banks or other financial institutions. We expect that funds generated internally from operations and externally through financing will provide the required resources for the Partnership's future operations and capital expenditures for at least the next twelve months.

The Partnership's debt consists of mortgage debt with fixed and variable interest rate tranches and an operating line of credit with Northwest Farm Credit Services (NWFCFS). The mortgage debt at December 31, 2016 includes \$56.8 million in term loans with NWFCFS structured in six tranches that mature from 2017 through 2028 and is collateralized by portions of the Partnership's timberland. In addition, our commercial office building in Poulsbo, Washington is collateral for a \$2.6 million amortizing loan from NWFCFS that matures in 2023. We also have available, through March 31, 2017, a \$21.0 million facility with NWFCFS that will mature in 2027. At December 31, 2016, \$6.0 million was outstanding under this facility at a variable rate based on the one-month LIBOR rate plus 1.85%. Our \$20.0 million operating line of credit matures in April 2020 and we had \$8.0 million drawn as of December 31, 2016 with no amount outstanding as of December 31, 2015. The line of credit carries a variable interest rate that is based on the one-month LIBOR rate plus 1.5%.

These debt agreements contain covenants that are measured quarterly. Among the covenants measured is a requirement that the Partnership maintain an interest coverage ratio of 3:1 and not exceed a maximum debt-to-total-capitalization ratio of

30%, with total capitalization calculated using fair market (vs. carrying) value of timberland, roads and timber. The Partnership is in compliance with these covenants as of December 31, 2016 and expects to remain in compliance for at least the next twelve months.

Mortgage debt within our private equity funds is collateralized by Fund properties only. Fund II has a timberland mortgage comprised of two fixed-rate tranches totaling \$25.0 million with MetLife Insurance Company. The tranches are non-amortizing and both mature in September 2020. The loans allow for, but do not require, annual principal payments of up to 10% of outstanding principal without incurring a make-whole premium. This mortgage is collateralized by a portion of Fund II's timberland portfolio. Fund III has a timberland mortgage comprised of two fixed rate tranches totaling \$32.4 million with NWFCS. The mortgage is collateralized by a portion of Fund III's timberland, is non-amortizing with an \$18.0 million tranche maturing in December 2023 and a \$14.4 million tranche maturing in 2024. Fund III's loan contains covenants, measured annually, that require Fund III to maintain a debt coverage ratio of 1:1. Fund III is in compliance with these covenants as of December 31, 2016 and expects to remain in compliance for at least the next twelve months.

The Partnership's and Fund III's debt arrangements with Northwest Farm Credit Services (NWFCS) include an annual rebate of a portion of interest expense paid in the prior year (patronage). The weighted average interest rates on debt for the Partnership and Funds were as follows at December 31, 2016:

	Weighted Average Interest Rate	
	Gross	Net After Patronage
Partnership debt	4.17%	3.30%
Funds debt	4.58%	4.02%
Combined	4.35%	3.62%

The change in cash flows from 2016 to 2015 and 2015 to 2014, respectively, is broken down in the following table:

(in thousands)	2016	Change	2015	Change	2014
Cash provided by operations	\$ 5,146	\$ (15,024)	\$ 20,170	\$ (10,625)	\$ 30,795
Investing activities					
Purchase of short-term investments	—	—	—	4,000	(4,000)
Maturity of short-term investments	—	(1,000)	1,000	(2,000)	3,000
Proceeds from sale of fixed assets	(1,973)	576	(2,549)	(214)	(2,335)
Capital expenditures	25	25	—	(37)	37
Proceeds from sale of timberland	1,603	602	1,001	(67,875)	68,876
Acquisition of timberland - Partnership	(39,796)	(34,792)	(5,004)	(3,178)	(1,826)
Acquisition of timberland - Funds	—	50,556	(50,556)	21,469	(72,025)
Cash used in investing activities	(40,141)	15,967	(56,108)	(47,835)	(8,273)
Financing activities					
Line of credit borrowings	23,326	23,326	—	—	—
Line of credit repayments	(15,326)	(15,326)	—	—	—
Repayment of long term debt	(114)	4,995	(5,109)	(5,000)	(109)
Proceeds from issuance of long-term debt	38,000	38,000	—	(14,400)	14,400
Debt issuance costs	(176)	(156)	(20)	2	(22)
Unit repurchases	—	—	—	7,363	(7,363)
Payroll taxes paid on unit net settlements	(152)	(45)	(107)	89	(196)
Excess tax benefit from equity-based compensation	53	41	12	(73)	85
Cash distributions to unitholders	(12,177)	(469)	(11,708)	(671)	(11,037)
Cash distributions - ORM Timber Funds, net of distributions to Partnership	(5,208)	4,227	(9,435)	46,622	(56,057)
Capital call - ORM Timber Funds, net of Partnership contribution	—	(47,983)	47,983	(6,737)	54,720
Preferred stock issuance - ORM Timber Funds	—	—	—	(125)	125
Cash provided by (used in) financing activities	28,226	6,610	21,616	27,070	(5,454)
Net increase (decrease) in cash and cash equivalents	\$ (6,769)	\$ 7,553	\$ (14,322)	\$ (31,390)	\$ 17,068

Operating cash activities. The decrease in cash provided by operating activities of \$15.0 million from 2015 to 2016 resulted primarily from a \$6.8 million increase in environmental remediation expenditures and a \$4.9 million increase in real estate project expenditures. In addition, \$5.1 million of sale proceeds for Real Estate sales that closed on the last business day of 2016 had not yet been received from escrow at December 31, 2016. These factors were offset partially by a 10% increase in timber harvest volume in 2016.

The decrease in cash provided by operating activities of \$10.6 million from 2014 to 2015 resulted primarily from the 9% decrease in log prices and 11% decrease in timber harvest volume, a \$4.1 million increase in real estate project expenditures, and a \$3.3 million increase in environmental remediation expenditures as cleanup activities began in late September 2015.

Investing cash activities. The \$16.0 million decrease in cash used in investing activities from 2015 to 2016 was due primarily to sales and acquisitions of timberland by the Partnership and Funds.

The \$47.8 million increase in cash used in investing activities from 2014 to 2015 was due primarily to sales and acquisitions of timberland by the Partnership and Funds.

Financing activities. The \$6.6 million increase in cash from financing activities from 2015 to 2016 resulted primarily from a \$51.0 million increase in net borrowings on credit facilities in 2016 and a \$3.8 million net decrease in distributions, offset by the \$48.0 million capital call for Fund III in 2015 that had no counterpart in 2016. The proceeds from borrowings in 2016 were used primarily to fund the acquisition of timberland, environmental remediation expenditures and development of residential lots in our Harbor Hill project. The decrease in net distributions for 2016 was due to 2015 including the final

distribution to Fund I's investors upon that fund's dissolution, offset partially by an increase in distributions to Pope Resources' unitholders.

The \$27.1 million change in cash from financing activities from 2014 to 2015 resulted primarily from the \$46.6 million decrease in Fund distributions. The bulk of the proceeds from the sale of Fund I's two tree farms were distributed to its investors in 2014, so distributions in 2015 were much lower by comparison. This decline in Fund distributions was offset partially by Fund III's \$14.4 million borrowing for the acquisition of timberland, a \$6.7 million decrease in capital calls by Fund III in 2015 compared to 2014 for the acquisition of timberland, and the Partnership's \$5.0 million repayment of long-term debt on its maturity in 2015.

Expected Future Changes to Cash Flows

Operating activities. We expect total annual log harvest and stumpage sale volume of approximately 110 - 120 MMBF for 2017, though changing log markets could cause us to deviate from this projection as the year unfolds.

Based on budget plans, we currently expect our Real Estate 2017 capital expenditures to total \$10.9 million in 2017, with \$5.5 million for building out lots for sale from our Harbor Hill project, \$2.0 million for a new wastewater treatment plant for the town of Port Gamble, and \$3.4 million for other projects.

Investing activities. We have budgeted \$3.1 million of capital expenditures for 2017, excluding any potential timberland acquisitions. These expenditures are comprised primarily of reforestation and mainline road construction costs on the Combined tree farms to support future harvest operations.

Financing activities. Management is currently projecting that cash on hand, cash generated from operating activities, and financing available from our existing credit facilities will be sufficient to meet our needs for the coming year. To date, the Partnership's strong financial position has enabled fairly easy access to credit at reasonable terms when needed.

Seasonality

Fee Timber. The elevation and terrain characteristics of our timberlands are such that we can conduct harvest operations virtually year-round on a significant portion of our tree farms. Generally, we concentrate our harvests from these areas in those months when weather limits operations on other properties, thus taking advantage of reduced competition for log supply to our customers and improving prices realized. As such, on a combined basis the pattern of quarterly volumes harvested is flatter than would be the case if looking at one tree farm in isolation. However, this pattern may not hold true during periods of comparatively soft log prices, when we may defer harvest volume to capture greater value when log prices strengthen.

The percentage of annual harvest volume, excluding timber deed sales, by quarter for each year in the three-year period ended December 31, 2016 was as follows:

Year ended	Q1	Q2	Q3	Q4
2016	17%	23%	19%	41%
2015	30%	18%	21%	31%
2014	32%	28%	20%	20%

Timberland Investment Management. Management revenue generated by this segment consists of asset and timberland management fees. These fees, which relate primarily to our activities on behalf of the Funds and are eliminated in consolidation, vary based upon the amount of invested capital, the number of acres owned by the Funds, and the volume of timber harvested from properties owned by the Funds and are not expected to be significantly seasonal.

Real Estate. While Real Estate results are not normally seasonal, the nature of the activities in this segment will likely result in periodic large transactions that will have significant positive impacts on both revenue and operating income of the Partnership in periods in which these transactions close, and much lower revenue and income (or losses) in other periods. While the variability of these results is not primarily a function of seasonal weather patterns, we do expect to see some seasonal fluctuations in this segment because of the general effects of weather on development activities in the Pacific Northwest.

Contractual Obligations, Commercial Commitments and Contingencies

Our commitments at December 31, 2016 consist of operating leases, and other obligations entered into in the normal course of business.

(in thousands)

Obligation or Commitment	Payments Due By Period /Commitment Expiration Date				
	Total	Less than 1 year	1-3 years	4-5 years	After 5 years
Total debt	\$ 130,758	\$ 5,119	\$ 10,051	\$ 33,270	\$ 82,318
Operating leases	235	174	55	6	—
Interest on debt	36,381	5,562	9,679	7,464	13,676
Environmental remediation	12,770	8,650	1,730	988	1,402
Other long-term obligations	151	25	50	50	26
Total contractual obligations or commitments	\$ 180,295	\$ 19,530	\$ 21,565	\$ 41,778	\$ 97,422

Environmental remediation represents our estimate of potential liability associated with environmental contamination at Port Gamble. Other long-term obligations consist of a \$126,000 liability for a supplemental employment retirement plan.

The impact of inflation on our consolidated financial condition and consolidated results of operations for each of the periods presented was not material.

Off-Balance Sheet Arrangements

The Partnership is not a party to any material off-balance sheet arrangements other than the operating leases disclosed above and does not hold any variable interests in unconsolidated entities.

Capital Expenditures and Commitments

Projected capital expenditures in 2017 are \$14.0 million, of which \$5.5 million relates to our Harbor Hill project, \$2.0 million for a new wastewater treatment plant for the town of Port Gamble, \$3.4 million for other Real Estate development projects, and \$3.1 million for reforestation and mainline road construction costs on the Combined tree farms to support future harvest operations. These expenditures could be increased or decreased as a consequence of future economic conditions. Projected capital expenditures are subject to permitting timetables and progress towards closing on specific land sale transactions. See “Business - Government Regulation” and “Risk Factors -- We are subject to statutory and regulatory restrictions that currently limit, and may increasingly limit, our ability to generate income,” above.

Government Regulation

Compliance with laws, regulations, and demands usually involves capital expenditures as well as operating costs. We cannot reasonably 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 reforestation costs, Endangered Species Act 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 will ultimately 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

On May 28, 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers*, which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The ASU will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective on January 1, 2018. Early application is not permitted. The standard permits the use of either the retrospective or cumulative effect transition method. The Partnership will adopt this standard using the cumulative effect transition method applied to uncompleted contracts as of the date of adoption. Under this method, the cumulative effect of initially applying the standard is recorded as an adjustment to partners' capital. This new standard may have the impact of delaying the recognition of a portion of revenue from those Real Estate sales for which we have post-closing obligations.

In February 2016, the FASB issued ASU 2016-02, *Leases*, which requires substantially all leases to be reflected on the balance sheet as a liability and a right-of-use asset. The ASU will replace existing lease accounting guidance in U.S. GAAP when it becomes effective on January 1, 2019, though early application is permitted. The standard will be applied on a modified retrospective basis in which certain optional practical expedients may be applied. Due to the Partnership's limited leasing activity, we do not expect the effect of this standard to be material to our ongoing financial reporting.

In March 2016, FASB issued ASU 2016-09, which simplifies several aspects of accounting for share-based payment transactions, including income tax consequences, award classification, cash flows reporting, and forfeiture rate application. Specifically, the update requires all excess tax benefits and tax deficiencies to be recognized as income tax expense or benefit in the income statement with a cumulative-effect adjustment to equity as of the beginning of the period of adoption. The update allows excess tax benefits to be classified along with other income tax cash flows as an operating activity on the statement of cash flows. When accruing compensation cost, an entity can make an entity-wide accounting policy election to either estimate the number of awards expected to vest or to account for forfeitures as they occur with a cumulative-effect adjustment to equity as of the beginning of the period of adoption. The update requires cash paid by an employer when directly withholding shares for tax-withholding purposes to be classified as a financing activity on the statement of cash flows, applied retrospectively. This guidance is effective for fiscal years beginning after December 15, 2016. We will adopt the standard effective January 1, 2017 and do not expect it to have a material impact on our consolidated financial statements.

Critical Accounting Policies and Estimates

Management believes its most critical accounting policies and estimates are as follows:

Purchased timberland cost allocation. When the Partnership acquires timberlands, a purchase price allocation is performed that allocates cost between the categories of merchantable timber, pre-merchantable timber, and land based upon the relative fair values pertaining to each of the categories. Land value may include uses other than timberland, including potential CE sales and development opportunities.

Depletion. Depletion represents the cost of timber harvested and the cost of the permanent road system that 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 and the cost of the permanent road system by the volume of merchantable timber. For purposes of the depletion calculation, merchantable timber is defined as timber that is equal to or greater than 35 years of age for all of our tree farms except California, for which merchantable timber is defined as timber with a diameter at breast height (DBH) of 16 inches or greater.

To calculate the depletion rate, the Partnership uses a combined pool as the Partnership's timberlands are managed as one unit and the characteristics of the individual tree farms are substantially similar to one another. Depletion rate calculations on Funds timberlands are made on a tree farm specific basis as each tree farm is managed individually and they tend to have a more diverse set of characteristics.

Timber inventory volumes include only timber whose eventual harvest is not constrained by the applicable state and federal regulatory limits on timber harvests as applied to the Partnership's properties. Timber inventory volume is accounted for by periodic statistical sampling of the harvestable timbered acres. Since timber stands can be very heterogeneous, the accuracy of the statistical sampling, known as a "timber cruise" or "cruising," of a timber stand can vary. The inventory system is designed in such a way that the accuracy of the whole is very reliable while any subset, or individual timber stand, will have a wider range of accuracy.

The standing inventory system is subject to three processes each quarter to monitor and maintain accuracy. The first is the cruise update process, the second is a comparison of the volume actually extracted by harvest to the inventory in the standing inventory system at the time of the harvest (otherwise known as “cutout analysis”), and the third is necessary adjustments to productive acres based on actual acres harvested. The portion of productive acres of timber stands on the Combined tree farms that are physically measured or re-measured each by cruising is such that generally no “cruise” for stands with actual volume is ever more than seven years old. 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. Only stands older than 20 years are selected as subject to a cruise and, as the cruise is being performed, only those trees with a breast height diameter (approximately 4.5 feet from the ground) of at least 5.6 inches are measured for inclusion in the inventory. For younger stands, all trees are tallied during the cruise process so that growth models can accurately predict how future stands will develop. The cutout analysis compares the total inventory for a stand which was grown annually using systems designed to predict future yields to actual harvest volumes. Due to the nature of statistical sampling, the results of the quarterly cutout analysis is meaningful only in the context of accumulated results over several years for a whole tree farm, and not in the context of a single harvest unit. Minor adjustments both up and down to productive acres are made quarterly after foresters and managers accurately map those harvested acres in the Geographic Information System (GIS). These adjusted acres are linked to the inventory system and are used to drive the future available volume. A hypothetical 5% change in estimated timber inventory volume would have changed 2016 depletion expense by approximately \$600,000.

Environmental remediation. The Partnership has an accrual for estimated environmental remediation costs of \$12.8 million and \$16.8 million as of December 31, 2016 and 2015, respectively. The environmental remediation liability represents estimated payments to be made to monitor and remedy certain areas in and around the Port Gamble Bay. Additional information about the Port Gamble site is presented in “Business – Real Estate – Environmental Remediation” above. Additional information about the liability is presented in “Management’s Discussion and Analysis – Real Estate.”

In the second quarter of 2015, as a result of conducting a bidding process and engaging a contractor to perform the remediation work, we transitioned to estimating the liability based on amounts included in construction contracts or estimates of constructions costs and estimates for construction contingencies, project management and other professional fees. In prior periods, we evaluated our environmental remediation liabilities using a combination of methods, but most significantly using a “Monte Carlo” statistical simulation model for the Port Gamble project. This model took into account the estimated likelihood of a range of potential outcomes, coupled with the estimated cost associated with those outcomes. The model then produced a range of possible outcomes corresponding to a two standard deviation range from the mean. We supplemented this analysis with a forecast of costs using our best estimate of the most likely design scenarios for the various elements of the project.

As described in “Management’s Discussion and Analysis – Real Estate,” there are still a number of factors that could result in changes to the total project cost and, in turn, further adjustment to the liability.

Property development costs. The Partnership develops master planned communities and other real estate projects. Costs of development, including interest, are capitalized for these projects and allocated to individual lots based upon their relative pre-construction fair value. This allocation of basis supports, in turn, the computation of those amounts reported as a current vs. long-term asset based on our expectation of when the sales will occur (“Land Held for Sale” and “Land Held for Development”, respectively). As lot sales occur, the allocation of these costs becomes part of cost of sales attributed to individual lot sales.

Costs associated with land including acquisition, project design, architectural costs, road construction, capitalized interest and utility installation are accounted for as operating activities on our statement of cash flows.

Percentage of Completion Revenue Recognition. The partnership accounts for revenue recognized from development sales consistent with the accounting standards relating to the sales of real estate. When a real estate transaction is closed with obligations to complete infrastructure or other construction, revenue is recognized on a percentage of completion method by calculating a ratio of costs incurred to total costs expected. Revenue is deferred proportionately based on the remaining costs to complete the project.

Impairment of Long-Lived Assets. 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, for the difference between the carrying value and the fair value, and charge this amount against current operations. The land basis associated with most of our development properties is well below current market value; therefore, an asset impairment charge on one of our development projects is not likely. The long-term holding period of timberland properties, particularly those that have been transferred to our real estate development portfolio, makes an asset

impairment unlikely as the expected undiscounted cash flows from a timberland property would need to decrease very significantly to not exceed its carrying value.

Consolidation of ORM Timber Fund I, LP (Fund I), ORM Timber Fund II, Inc. (Fund II), and ORM Timber Fund III (REIT) Inc. (Fund III). Olympic Resource Management LLC (ORMLLC), a subsidiary of the Partnership, owns 1% of each of the funds, was the general partner of Fund I, and is manager of Funds II and III. Fund I sold its assets in 2014 and was dissolved in 2015. The Partnership owns 19% of Fund II and 4% of Fund III. Third-party investors do not have the right to dissolve these Funds or otherwise remove the general partner/manager without cause or a super-majority vote of the third-party investors, nor do they have substantive participating rights in major decisions of the Funds. The Funds are considered variable interest entities because their organizational and governance structures are the functional equivalent of a limited partnership. As the general partner or managing member of the Funds, the Partnership is the primary beneficiary of the Funds as it has the authority to direct the activities that most significantly impact their economic performance, as well as the right to receive benefits and obligation to absorb losses that could potentially be significant to the Funds. Accordingly, the Funds are consolidated into the Partnership's financial statements.

Timber Fund Management Fees. The Partnership's wholly owned subsidiary, ORMLLC, earns management fees related to managing the Funds. As a result, the Partnership's financial statements, excluding the Funds, include 100% of these management fees as revenue. The stand-alone financial statements for the Funds include 100% of these management fees as expenses. The dollar amounts are the same, allowing for elimination of these two amounts in consolidation, and initially, no income impact in consolidation. However, Fund I was 80% owned by third-party investors, and Fund II and Fund III are 80% and 95% owned, respectively, by third-party investors. As a result, 80% and 95% of these management fees are paid by these third-party investors, respectively. The management fees paid by third-party investors flows to the Partnership's Statement of Operations as a component of the caption "Net (income) loss attributable to noncontrolling interest-ORM Timber Funds," effectively bringing management fees paid by third-party investors back into consolidated income of the Partnership as described in Part II, Item 7: "Management's Discussion and Analysis of Financial Condition and Results of Operations – Timberland Management" and "—Noncontrolling Interests-ORM Timber Funds".

Incentive Compensation. The Human Resources Committee adopted the current incentive compensation program in 2010. The program has two components – the Performance Restricted Unit ("PRU") plan and the Long-Term Incentive Plan ("LTIP"). Both components have a long-term emphasis, with the PRU plan focused on annual decision making, and the LTIP focused on 3-year performance of the Partnership's publicly traded units relative to a group of peer companies. Compensation expense relating to the equity component of the PRU is recognized over the four-year future service period beginning with the date of grant.

Item 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rate Risk

At December 31, 2016, we had \$106.8 million of fixed-rate debt outstanding with a fair value of approximately \$111.0 million based on the current interest rates for similar financial instruments. A change in the interest rate on fixed-rate debt will affect the fair value of the debt, whereas a change in the interest rate on variable-rate debt will affect interest expense and cash flows. A hypothetical 1% change in prevailing interest rates would change the fair value of our fixed-rate long-term debt obligations by \$3.6 million and result in a \$240,000 change in annual interest expense from our variable-rate debt.

**POPE RESOURCES
A DELAWARE LIMITED PARTNERSHIP**

YEARS ENDED DECEMBER 31, 2016, 2015, AND 2014

POPE RESOURCES, A DELAWARE LIMITED PARTNERSHIP
YEARS ENDED DECEMBER 31, 2016, 2015, AND 2014

CONTENTS

	<u>Page</u>
<u>Reports of independent registered public accounting firm</u>	<u>53</u>
Financial statements:	
<u>Consolidated balance sheets</u>	<u>55</u>
<u>Consolidated statements of comprehensive income</u>	<u>56</u>
<u>Consolidated statements of partners' capital</u>	<u>57</u>
<u>Consolidated statements of cash flows</u>	<u>58</u>
<u>Notes to consolidated financial statements</u>	<u>60</u>

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 (the Partnership), and subsidiaries as of December 31, 2016 and 2015, and the related consolidated statements of comprehensive income, partners' capital, and cash flows for each of the years in the three-year period ended December 31, 2016. These consolidated financial statements are the responsibility of the Partnership's management. Our responsibility is to express an opinion on these consolidated financial statements 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 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, 2016 and 2015, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2016, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Pope Resources', a Delaware Limited Partnership, internal control over financial reporting as of December 31, 2016, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 1, 2017 expressed an unqualified opinion on the effectiveness of the Partnership's internal control over financial reporting.

/s/ KPMG LLP

Seattle, Washington
March 1, 2017

Report of Independent Registered Public Accounting Firm

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

We have audited Pope Resources', A Delaware Limited Partnership (the Partnership), internal control over financial reporting as of December 31, 2016, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Pope Resources', A Delaware Limited Partnership, management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying "Management's Report on Internal Control Over Financial Reporting". Our responsibility is to express an opinion on the Partnership's internal control over financial reporting based on our audit.

We conducted our audit 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 effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Pope Resources, A Delaware Limited Partnership, maintained, in all material respects, effective internal control over financial reporting as of December 31, 2016, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Pope Resources, A Delaware Limited Partnership, and subsidiaries as of December 31, 2016 and 2015, and the related consolidated statements of comprehensive income, partners' capital, and cash flows for each of the years in the three-year period ended December 31, 2016, and our report dated March 1, 2017, expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG LLP

Seattle, Washington
March 1, 2017

POPE RESOURCES, A DELAWARE LIMITED PARTNERSHIP
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2016 AND 2015
(IN THOUSANDS)

ASSETS	2016	2015
Current assets		
Partnership cash and cash equivalents	\$ 1,871	\$ 6,310
ORM Timber Funds cash and cash equivalents	1,066	3,396
Cash and cash equivalents	2,937	9,706
Accounts receivable, net	4,381	3,238
Land and timber held for sale	20,503	3,642
Prepaid expenses and other	4,385	810
Total current assets	32,206	17,396
Properties and equipment, at cost		
Timber and roads, net of accumulated depletion (2016 - \$110,533; 2015 - \$103,378)	279,793	266,104
Timberland	54,369	53,879
Land held for development	24,390	25,653
Buildings and equipment, net of accumulated depreciation (2016 - \$7,713; 2015 - \$7,251)	5,628	6,024
Total properties and equipment, at cost	364,180	351,660
Other assets		
Contracts receivable, net of current portion, and other assets	2,664	1,000
Total assets	\$ 399,050	\$ 370,056
 LIABILITIES, PARTNERS' CAPITAL AND NONCONTROLLING INTERESTS		
Current liabilities		
Accounts payable	\$ 2,620	\$ 1,384
Accrued liabilities	3,843	3,442
Current portion of long-term debt	5,119	114
Deferred revenue	418	278
Current portion of environmental remediation liability	8,650	11,200
Other current liabilities	398	322
Total current liabilities	21,048	16,740
Long-term debt, net of unamortized debt issuance costs and current portion	125,291	84,537
Environmental remediation and other long-term liabilities	4,247	5,713
Commitments and contingencies		
Partners' capital		
General partners' capital (units issued and outstanding 2016 - 60; 2015 - 60)	934	1,009
Limited partners' capital (units issued and outstanding 2016 - 4,255; 2015 - 4,240)	58,199	63,539
Noncontrolling interests	189,331	198,518
Total partners' capital and noncontrolling interests	248,464	263,066
Total liabilities, partners' capital, and noncontrolling interests	\$ 399,050	\$ 370,056

See accompanying notes to consolidated financial statements.

POPE RESOURCES, A DELAWARE LIMITED PARTNERSHIP
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
YEARS ENDED DECEMBER 31, 2016, 2015, AND 2014
(IN THOUSANDS, EXCEPT PER UNIT INFORMATION)

	2016	2015	2014
Revenue			
Fee Timber	\$ 57,304	\$ 52,164	\$ 65,204
Timberland Investment Management	8	—	—
Real Estate	23,116	25,864	22,266
Total revenue	<u>80,428</u>	<u>78,028</u>	<u>87,470</u>
Costs and expenses			
Cost of sales			
Fee Timber	(32,642)	(30,089)	(36,786)
Real Estate	(14,631)	(16,515)	(11,304)
Total cost of sales	<u>(47,273)</u>	<u>(46,604)</u>	<u>(48,090)</u>
Operating expenses			
Fee Timber	(8,731)	(8,011)	(7,879)
Timberland Investment Management	(2,628)	(2,625)	(2,329)
Real Estate	(4,394)	(4,036)	(3,682)
Environmental remediation (Real Estate)	(7,700)	—	(10,000)
General & Administrative	(5,076)	(4,972)	(3,781)
Total operating expenses	<u>(28,529)</u>	<u>(19,644)</u>	<u>(27,671)</u>
Gain (loss) on sale of timberland (Fee Timber)	995	(1,103)	23,750
Operating income (loss)			
Fee Timber	16,926	12,961	44,289
Timberland Investment Management	(2,620)	(2,625)	(2,329)
Real Estate	(3,609)	5,313	(2,720)
General & Administrative	(5,076)	(4,972)	(3,781)
Total operating income	<u>5,621</u>	<u>10,677</u>	<u>35,459</u>
Other income (expense)			
Interest expense	(4,150)	(3,854)	(3,539)
Interest capitalized to development projects	733	860	910
Interest income	11	24	25
Total other expense	<u>(3,406)</u>	<u>(2,970)</u>	<u>(2,604)</u>
Income before income taxes	<u>2,215</u>	<u>7,707</u>	<u>32,855</u>
Income tax expense	(252)	(207)	(984)
Net and comprehensive income	<u>1,963</u>	<u>7,500</u>	<u>31,871</u>
Net and comprehensive (income) loss attributable to noncontrolling interests-ORM Timber Funds	<u>3,979</u>	<u>3,443</u>	<u>(19,456)</u>
Net and comprehensive income attributable to unitholders	<u>\$ 5,942</u>	<u>\$ 10,943</u>	<u>\$ 12,415</u>
Allocable to general partners	<u>\$ 83</u>	<u>\$ 153</u>	<u>\$ 171</u>
Allocable to limited partners	<u>5,859</u>	<u>10,790</u>	<u>12,244</u>
Net and comprehensive income attributable to unitholders	<u>\$ 5,942</u>	<u>\$ 10,943</u>	<u>\$ 12,415</u>
Basic and diluted earnings per unit attributable to unitholders	<u>\$ 1.35</u>	<u>\$ 2.51</u>	<u>\$ 2.82</u>
Distributions per unit	<u>\$ 2.80</u>	<u>\$ 2.70</u>	<u>\$ 2.50</u>

See accompanying notes to consolidated financial statements.

POPE RESOURCES, A DELAWARE LIMITED PARTNERSHIP
CONSOLIDATED STATEMENTS OF PARTNERS' CAPITAL
YEARS ENDED DECEMBER 31, 2016, 2015, AND 2014
(IN THOUSANDS)

	Attributable to Pope Resources			Total
	General Partners	Limited Partners	Noncontrolling Interests	
December 31, 2013	\$ 974	\$ 68,471	\$ 145,169	\$ 214,614
Net income	171	12,244	19,456	31,871
Cash distributions	(152)	(10,885)	(56,057)	(67,094)
Capital call	—	—	125	125
Equity-based compensation	12	855	—	867
Indirect repurchase of units for minimum tax withholding	(3)	(193)	—	(196)
December 31, 2014	1,003	63,213	163,413	227,629
Net income (loss)	153	10,790	(3,443)	7,500
Cash distributions	(163)	(11,545)	(9,435)	(21,143)
Capital call	—	—	47,983	47,983
Equity-based compensation	12	852	—	864
Excess tax benefit from equity-based compensation	5	335	—	340
Indirect repurchase of units for minimum tax withholding	(1)	(106)	—	(107)
December 31, 2015	1,009	63,539	198,518	263,066
Net income (loss)	83	5,859	(3,979)	1,963
Cash distributions	(170)	(12,007)	(5,208)	(17,385)
Equity-based compensation	13	906	—	919
Excess tax benefit from equity-based compensation	1	52	—	53
Indirect repurchase of units for minimum tax withholding	(2)	(150)	—	(152)
December 31, 2016	\$ 934	\$ 58,199	\$ 189,331	\$ 248,464

See accompanying notes to consolidated financial statements.

POPE RESOURCES, A DELAWARE LIMITED PARTNERSHIP
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2016, 2015, AND 2014
(IN THOUSANDS)

	2016	2015	2014
Cash flows from operating activities:			
Cash received from customers	\$ 79,428	\$ 76,827	\$ 86,765
Cash paid to suppliers and employees	(56,807)	(44,187)	(48,344)
Interest received	11	24	25
Interest paid, net of amounts capitalized	(3,216)	(3,097)	(2,523)
Capitalized development activities	(13,989)	(9,052)	(4,967)
Income taxes received (paid)	(281)	(345)	(161)
Net cash provided by operating activities	<u>5,146</u>	<u>20,170</u>	<u>30,795</u>
Cash flows from investing activities:			
Purchase of short-term investments	—	—	(4,000)
Maturity of short-term investments	—	1,000	3,000
Capital expenditures	(1,973)	(2,549)	(2,335)
Proceeds from sale of fixed assets	25	—	37
Proceeds from sale of timberland	1,603	1,001	68,876
Acquisition of timberland - Partnership	(39,796)	(5,004)	(1,826)
Acquisition of timberland - Funds	—	(50,556)	(72,025)
Net cash used in investing activities	<u>(40,141)</u>	<u>(56,108)</u>	<u>(8,273)</u>
Cash flows from financing activities:			
Line of credit borrowings	23,326	—	—
Line of credit repayments	(15,326)	—	—
Repayment of long-term debt	(114)	(5,109)	(109)
Proceeds from issuance of long-term debt	38,000	—	14,400
Debt issuance costs	(176)	(20)	(22)
Unit repurchases	—	—	(7,363)
Payroll taxes paid on unit net settlements	(152)	(107)	(196)
Excess tax benefit from equity-based compensation	53	12	85
Cash distributions to unitholders	(12,177)	(11,708)	(11,037)
Cash distributions - ORM Timber Funds, net of distributions to Partnership	(5,208)	(9,435)	(56,057)
Capital call - ORM Timber Funds, net of Partnership contribution	—	47,983	54,720
Preferred stock issuance - ORM Timber Funds	—	—	125
Net cash provided by (used in) financing activities	<u>28,226</u>	<u>21,616</u>	<u>(5,454)</u>
Net increase (decrease) in cash and cash equivalents	(6,769)	(14,322)	17,068
Cash and cash equivalents:			
Beginning of year	9,706	24,028	6,960
End of year	<u>\$ 2,937</u>	<u>\$ 9,706</u>	<u>\$ 24,028</u>

See accompanying notes to consolidated financial statements.

POPE RESOURCES, A DELAWARE LIMITED PARTNERSHIP
SCHEDULE TO CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2016, 2015, AND 2014
(IN THOUSANDS)

Reconciliation of net income to net cash	2016	2015	2014
provided by operating activities:			
Net income	\$ 1,963	\$ 7,500	\$ 31,871
Depletion	12,621	9,900	12,192
Equity-based compensation	919	864	867
Excess tax benefit from equity-based compensation	(53)	(12)	(85)
Depreciation and amortization	755	736	727
(Gain) loss on sale of timberland	(995)	1,103	(23,750)
(Gain) loss on sale of property and equipment	(23)	—	(23)
Deferred taxes, net	67	(121)	643
Cost of land sold	12,439	14,057	9,160
Increase (decrease) in cash from changes in			
operating accounts:			
Accounts receivable	(1,143)	(810)	(918)
Prepaid expenses and other current assets	(3,575)	1,462	(1,693)
Real estate project expenditures	(13,989)	(9,052)	(4,967)
Accounts payable and accrued liabilities	1,691	(241)	(1,710)
Deferred revenue	141	(390)	116
Other current liabilities	76	75	(17)
Environmental remediation	(3,991)	(4,890)	8,410
Other noncurrent assets and liabilities	(1,757)	(11)	(28)
Net cash provided by operating activities	<u>\$ 5,146</u>	<u>\$ 20,170</u>	<u>\$ 30,795</u>

See accompanying notes to consolidated financial statements.

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 primarily in managing timber resources on its own properties as well as those owned by others. Pope Resources' active subsidiaries include the following: ORM, Inc., which is responsible for managing Pope Resources' timber properties; Olympic Resource Management LLC (ORMLLC), which provides timberland management activities and is responsible for developing the timber fund business; Olympic Property Group I LLC, which manages the Port Gamble townsite and millsite together with land that is held as development property; and OPG Properties LLC, which owns land that is held as development property. These consolidated financial statements also include ORM Timber Fund I, LP (Fund I), ORM Timber Fund II, Inc. (Fund II), and ORM Timber Fund III, Inc. (Fund III, and collectively with Fund I and Fund II, the Funds). ORMLLC owned 1% of Fund I and owns 1% of Funds II and III and was the general partner of Fund I and is the manager of Funds II and III. Pope Resources owned 19% of Fund I and owns 19% of Fund II and 4% of Fund III. The purpose of all three Funds is to invest in timberlands. See Note 2 for additional information.

The Partnership operates in three business segments: Fee Timber, Timberland Investment Management, and Real Estate. Fee Timber represents the growing and harvesting of trees from properties owned by the Partnership and the Funds. Timberland Investment Management represents management, acquisition, disposition, and consulting services provided to third-party owners of timberland and provides management services to the Funds. Real Estate consists of obtaining and entitling properties that have been identified as having value as developed residential or commercial property and operating the Partnership's existing commercial property in Kitsap County, Washington.

Principles of consolidation

The consolidated financial statements include the accounts of the Partnership, its subsidiaries, and the Funds. Intercompany balances and transactions, including operations related to the Funds, have been eliminated in consolidation.

The Funds are consolidated into Pope Resources' financial statements (see Note 2).

New accounting standards

On May 28, 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers*, which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The ASU will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective on January 1, 2018. Early application is not permitted. The Partnership will adopt this standard using the cumulative effect transition method applied to uncompleted contracts as of the date of adoption. Under this method, the cumulative effect of initially applying the standard is recorded as an adjustment to partners' capital. This new standard may have the impact of delaying the recognition of a portion of revenue from those Real Estate sales for which we have post-closing obligations.

In February 2016, the FASB issued ASU 2016-02, *Leases*, which requires substantially all leases to be reflected on the balance sheet as a liability and a right-of-use asset. The ASU will replace existing lease accounting guidance in U.S. GAAP when it becomes effective on January 1, 2019 and the Partnership will adopt it at that time. The standard will be applied on a modified retrospective basis in which certain optional practical expedients may be applied. Due to the Partnership's limited leasing activity, management does not expect the effect of this standard to be material to its ongoing financial reporting.

In March 2016, FASB issued ASU 2016-09, which simplifies several aspects of accounting for share-based payment transactions, including income tax consequences, award classification, cash flows reporting, and forfeiture rate application. Specifically, the update requires all excess tax benefits and tax deficiencies to be recognized as income tax expense or benefit in the income statement with a cumulative-effect adjustment to equity as of the beginning of the period of adoption. The update allows excess tax benefits to be classified along with other income tax cash flows as an operating activity on the statement of cash flows. When accruing compensation cost, an entity can make an entity-wide accounting policy election to either estimate the number of awards expected to vest or to account for forfeitures as they occur with a cumulative-effect adjustment to equity as of the beginning of the period of adoption. The update requires cash paid by an employer when directly withholding shares for tax-withholding purposes to be classified as a financing activity on the statement of cash flows, applied retrospectively. This

guidance is effective for fiscal years beginning after December 15, 2016. We will adopt the standard effective January 1, 2017 and do not expect it to have a material impact on our consolidated financial statements.

The Partnership adopted ASU 2015-17, Balance Sheet Classification of Deferred Taxes, effective January 1, 2016. In accordance with this standard, all deferred tax assets and liabilities are classified as noncurrent on the Partnership's condensed consolidated balance sheets. Our adoption of this ASU did not have a material impact on our consolidated financial statements and related disclosures.

General partner

The Partnership has two general partners: Pope MGP, Inc. and Pope EGP, Inc. In total, these two entities own 60,000 partnership units. The allocation of distributions, income and other capital related items between the general and limited partners is pro rata among all units outstanding. The managing general partner of the Partnership is Pope MGP, Inc.

Noncontrolling interests

Noncontrolling interests represents the portion of net income and losses of the Funds attributable to third-party owners of the Funds. In the case of Funds I and II, noncontrolling interests represent 80%, while noncontrolling interests represent 95% of Fund III ownership. To arrive at net and comprehensive income attributable to Partnership unitholders, the portion of the income attributable to these third-party investors is subtracted from net and comprehensive income or, in the case of a loss attributable to third-party investors, added back to net and comprehensive income.

Significant estimates and concentrations 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 revenue and expense during the reporting period. Actual results could differ from those estimates.

Depletion

Timber costs are combined into depletion pools based on how the tree farms are managed and on the common characteristics of the timber such as location and species mix. Each tree farm within the Funds is considered a separate depletion pool and timber harvested from the Funds' tree farms is accounted for and depleted separately from timber harvested from the Partnership's timberlands, which are considered one depletion pool. The applicable depletion rate is derived by dividing the aggregate cost of merchantable stands of timber, together with capitalized road expenditures, by the estimated volume of merchantable timber available for harvest at the beginning of that year. For purposes of the depletion calculation, merchantable timber is defined as timber that is equal to or greater than 35 years of age for all of the tree farms except California, for which merchantable timber is defined as timber with a diameter at breast height (DBH) of 16 inches or greater. The depletion rate, so derived and expressed in per MBF terms, is then multiplied by the volume harvested in a given period to calculate depletion expense for that period as follows:

$$\text{Depletion rate} = \frac{\text{Accumulated cost of timber and capitalized road expenditures}}{\text{Estimated volume of merchantable timber}}$$

Purchased timberland cost allocation.

When the Partnership or Funds acquire timberlands, a purchase price allocation is performed that allocates cost between the categories of merchantable timber, pre-merchantable timber, roads, and land based upon the relative fair values pertaining to each of the categories. Land value may include uses other than timberland including potential conservation easement (CE) sales and development opportunities.

Cost of sales

Cost of sales consists of the Partnership's cost basis in timber (depletion expense), real estate, and 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 land and lot sale transactions. Cost of sales also consists of those costs directly attributable to the Partnership's rental activities.

Cash and cash equivalents

Cash and cash equivalents include highly liquid investments with original maturities of three months or less at date of purchase.

Like-kind exchanges

In order to acquire and sell assets, primarily timberland and other real property, in a tax efficient manner, we sometimes utilize Internal Revenue Code (IRC) Section 1031 like-kind exchange transactions. There are two main types of like-kind exchange transactions: forward transactions, in which property is sold and the proceeds are reinvested by acquiring similar property; and reverse transactions, in which property is acquired and similar property is subsequently sold. We use qualified intermediaries to facilitate such transactions and proceeds from forward transactions are held by the intermediaries. Both types of transactions must be completed within prescribed periods under IRC 1031, generally 180 days. Any unused funds held by intermediaries at the expiration of these time periods revert to the Partnership. To the extent we have identified potential replacement properties to acquire, funds held by intermediaries are classified as non-current in other assets on the consolidated balance sheets. To the extent funds held by qualified intermediaries exceed the value of identified potential properties to acquire, the funds are included in prepaid expenses and other current assets. At December 31, 2016, prepaid expenses and other current assets included \$850,000 and other assets included \$1.9 million held by like-kind exchange intermediaries. Also included in prepaid expenses and other current assets at December 31, 2016 were \$2.3 million of funds held by intermediaries for completed forward exchanges that the Partnership received in January 2017. There were no amounts held by intermediaries at December 31, 2015.

Concentration of credit risk

Financial instruments that potentially subject the Partnership to concentrations of credit risk consist principally of accounts and contracts receivable. The Partnership limits its credit exposure by considering the creditworthiness of potential customers and utilizing the underlying land sold as collateral on real estate contracts. The Partnership's allowance for doubtful accounts is \$8,000 and \$13,000 at December 31, 2016 and 2015, respectively.

Income taxes

The Partnership itself is not subject to income taxes, but its corporate subsidiaries are subject to income taxes which 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 basis. Operating loss and tax credit carryforwards, if any, 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. The Partnership has concluded that it is more likely than not that its deferred tax assets will be realizable and thus no valuation allowance has been recorded as of December 31, 2016. This conclusion is based on anticipated future taxable income, the expected future reversals of existing taxable temporary differences, and tax planning strategies to generate taxable income, if needed. The Partnership will continue to reassess the need for a valuation allowance during each future reporting period. The Partnership is not aware of any tax exposure items as of December 31, 2016 and 2015 where the Partnership's tax position is not more likely than not to be sustained if challenged by the taxing authorities. The Partnership recognizes interest expense related to unrecognized tax benefits or underpayment of income taxes in interest expense and recognizes penalties in operating expenses.

Land and timber held for sale and Land held for development

Land and timber held for sale and Land held for development are recorded at the lower of cost or net realizable value. Costs of development, including interest, are capitalized for these projects and allocated to individual lots based upon their relative preconstruction fair value. This allocation of basis supports, in turn, the computation of those amounts reported as a current vs. long-term asset based on management's expectation of when the sales will occur (Land and timber held for sale and Land held for development, respectively). As lot sales occur, the allocation of these costs becomes part of cost of sales attributed to individual lot sales. Costs associated with land including acquisition, project design, architectural costs, road construction, capitalized interest and utility installation are accounted for as operating activities on our statement of cash flows.

Those properties that are for sale, under contract, and for which the Partnership has an expectation they will be sold within 12 months are classified on the balance sheet as a current asset under "Land and timber held for sale". The \$20.5 million in Land and timber held for sale at December 31, 2016 reflects a 6,400-acre tree farm sold by Fund II in January 2017 and our expectation of sales in 2017 of parcels comprising 30 acres from the Harbor Hill project

in Gig Harbor, Washington as well as a one-acre parcel in Kitsap County, Washington. Land held for sale of \$3.6 million as of December 31, 2015 represented expected sales in 2016 of 48 acres from the Harbor Hill project.

Land held for development on our balance sheet represents the Partnership's cost basis in land that has been identified as having greater value as development property rather than as timberland. Land development costs, including interest, clearly associated with development or construction of fully entitled projects are capitalized, whereas costs associated with projects that are in the entitlement phase are expensed. Interest capitalization ceases once projects reach the point of substantial completion or construction activity has been delayed intentionally.

Timberland, timber and roads

Timberland, timber and roads are recorded at cost. The Partnership capitalizes the cost of building permanent roads on the tree farms and expenses temporary roads and road maintenance. Timberland is not subject to depletion.

Buildings and equipment

Buildings and equipment depreciation is provided using the straight-line method over the estimated useful lives of the assets, which range from 3 to 39 years.

Buildings and equipment are recorded at cost and consisted of the following as of December 31, 2016 and 2015 (in thousands):

<u>Description</u>	<u>12/31/2016</u>	<u>12/31/2015</u>
Buildings	\$ 9,439	\$ 9,302
Equipment	3,239	3,320
Furniture and fixtures	663	653
Total	\$ 13,341	\$ 13,275
Accumulated depreciation	(7,713)	(7,251)
Net buildings and equipment	\$ 5,628	\$ 6,024

Impairment of long-lived assets

When facts and circumstances indicate the carrying value of properties may be impaired, an evaluation of recoverability is performed by comparing the currently recorded carrying value of the property to the projected future undiscounted cash flows of the same property or, in the case of land held for sale, fair market value less costs to sell. If it is determined that the carrying value of such assets may not be fully recoverable, we would recognize an impairment loss, adjusting for the difference between the carrying value and the estimated fair market value, and would recognize an expense in this amount against current operations.

Deferred revenue

Deferred revenue represents the unearned portion of cash collected. Deferred revenue of \$418,000 at December 31, 2016 reflects primarily deferred revenue associated with Real Estate sales recorded under the percentage of completion method and the unearned portion of rental payments received on cell tower leases. The deferred revenue balance of \$278,000 at December 31, 2015 represents mostly advance deposits received on real estate sales contracts and the unearned portion of rental payments received on cell tower leases.

Revenue recognition

Revenue on fee timber sales is recorded when title and risk of loss passes to the buyer, which typically occurs when delivered to the customer. 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 sufficient continuing payments towards the purchase of the property, provided the Partnership has no continuing involvement with the real estate sold. When a real estate transaction is closed with obligations to complete infrastructure or other construction, revenue is recognized on a percentage of completion method by calculating a ratio of costs incurred to total costs expected. Revenue is deferred proportionately based on the remaining costs to satisfy the obligation. Timberland management fees and consulting service revenues are recognized as the related services are provided.

Land and development rights or conservation easement (CE) sales

The Partnership considers the sale of land and development rights, or conservation easements (CE's), to be part of its normal operations and therefore recognizes revenue from such sales and cost of sales for the Partnership's basis in the property sold. CE sales allow us to retain harvesting and other timberland management rights, but bar any

future subdivision of or real estate development on the property. Cash generated from these sales is included in cash flows from operations on the Partnership's statements of cash flows.

In 2016, 2015, and 2014, the Partnership generated \$2.1 million, \$4.3 million, and \$743,000, respectively, from conservation easement sales.

Environmental remediation liabilities

Environmental remediation liabilities have been evaluated using a combination of methods. The liability is estimated based on amounts included construction contracts and estimates for construction contingencies, project management and other professional fees. See Note 9 for further discussion of environmental remediation liabilities.

Equity-based compensation

The Partnership issues restricted units to certain employees, officers, and directors of the Partnership as part of their annual compensation. Restricted units are valued on the grant date at the market closing price of the partnership units on that date. The value of the restricted units is amortized to compensation expense on a straight-line basis during the vesting period which is generally four years. Grants to retirement-eligible individuals on the date of grant are expensed immediately.

Income per partnership unit

Basic and diluted net earnings per unit are calculated by dividing net income attributable to unitholders, adjusted for non-forfeitable distributions paid out to unvested restricted unitholders and Fund II and Fund III preferred shareholders, by the weighted average units outstanding during the period.

The table below displays how we arrived at basic and diluted earnings per unit:

	Year Ended December 31,		
	2016	2015	2014
(in thousands, except per unit data)			
Net and comprehensive income attributable to unitholders	\$ 5,942	\$ 10,943	\$ 12,415
Less: Net and comprehensive income attributable to unvested restricted unitholders	(101)	(103)	(112)
Less: Dividends paid to Funds preferred shareholders	(31)	(31)	(31)
Net and comprehensive income attributable to unitholders	\$ 5,810	\$ 10,809	\$ 12,272
Basic and diluted weighted average units outstanding	4,313	4,289	4,353
Basic and diluted net earnings per unit	\$ 1.35	\$ 2.51	\$ 2.82

Fund II and Fund III Preferred Shares

Fund II and Fund III issued 125 par \$0.01 shares of its 12.5% Series A Cumulative Non-Voting Preferred Stock (Series A Preferred Stock) at \$1,000 per share. Each holder of the Series A Preferred Stock is entitled to a liquidation preference of \$1,000 per share. Dividends on each share of Series A Preferred Stock will accrue on a daily basis at the rate of 12.5% per annum. Upon a liquidation, the Series A Preferred Stock will be settled in cash and is not convertible into any other class or series of shares or Partnership units. The timing of such a redemption is controlled by the Funds. The maximum amount that each of the consolidated subsidiaries could be required to pay to redeem the instruments upon liquidation is \$125,000 plus accrued but unpaid dividends. The Series A Preferred Stock is recorded within noncontrolling interests on the consolidated balance sheets and are considered participating securities for purposes of calculating earnings per unit.

Fair Value Hierarchy

We use a fair value hierarchy in accounting for certain nonfinancial assets and liabilities including long-lived assets (asset groups) measured at fair value for an impairment assessment.

The fair value hierarchy is based on inputs to valuation techniques that are used to measure fair value that are either observable or unobservable. Observable inputs reflect assumptions market participants would use in pricing an asset or liability based on market data obtained from independent sources while unobservable inputs reflect a reporting entity's pricing based upon its own market assumptions.

The fair value hierarchy consists of the following three levels:

- Level 1-Inputs are quoted prices in active markets for identical assets or liabilities.
- Level 2-Inputs are: (a) quoted prices for similar assets or liabilities in an active market, (b) quoted prices for identical or similar assets or liabilities in markets that are not active, or (c) inputs other than quoted prices that are observable and market-corroborated inputs, which are derived principally from or corroborated by observable market data.
- Level 3-Inputs are derived from valuation techniques in which one or more significant inputs or value drivers are unobservable.

2. **ORM TIMBER FUND I, LP (FUND I), ORM TIMBER FUND II, INC. (FUND II), ORM TIMBER FUND III (REIT) INC. (FUND III), AND ORM TIMBER FUND IV (FUND IV) (COLLECTIVELY, “THE FUNDS”)**

The Funds were formed by ORMLLC for the purpose of attracting capital to purchase timberlands. The objective of these Funds is to generate a return on investments through the acquisition, management, value enhancement and sale of timberland properties. On December 30, 2016, ORM LLC secured commitments from investors totaling \$381 million for a new timber fund, ORM Timber Fund IV (Fund IV), followed by an additional \$7 million in January 2017, for total committed capital of \$388 million. The Partnership’s share of this commitment is \$58 million. Each Fund is organized to operate for a specified term from the end of its respective investment period; ten years for each of Fund II and Fund III, and fifteen years for Fund IV. Fund I sold all of its timberland holdings in 2014 and terminated in 2015. Fund II is scheduled to terminate in March 2021 and Fund III is scheduled to terminate in December 2025. Fund IV will terminate on the fifteenth anniversary of its drawdown period. Fund IV’s drawdown period will end on the earlier of placement of all committed capital or December 31, 2019, subject to certain extension provisions. Fund IV had no called capital or operations in any of the periods presented.

Pope Resources and ORMLLC together owned 20% of Fund I, own 20% of Fund II and 5% of Fund III and will own 15% of Fund IV. All Funds are consolidated into the Partnership’s financial statements. The Funds are considered variable interest entities because their organizational and governance structures are the functional equivalent of a limited partnership. As the general partner or managing member of the Funds, the Partnership is the primary beneficiary of the Funds as it has the authority to direct the activities that most significantly impact their economic performance, as well as the right to receive benefits and obligation to absorb losses that could potentially be significant to the Funds. Accordingly, the Funds are consolidated into the Partnership’s financial statements. Additionally, the obligations of each of the Funds do not have any recourse to the Partnership.

The consolidated financial statements exclude management fees paid by the Funds to ORMLLC as they are eliminated in consolidation. See note 11 for a breakdown of operating results before and after such eliminations. The portion of these fees, among other items of income and expense, attributed to third-party investors is reflected as an adjustment to income in the Partnership’s Consolidated Statement of Comprehensive Income under the caption “Net (income) loss attributable to noncontrolling interests - ORM Timber Funds.”

The table below outlines timberland acquisitions by the Funds for the years ended December 31, 2015 and 2014 (there were no timberland acquisitions by the Funds in 2016):

	2015	2014
Timing	Fourth Quarter	Fourth Quarter
Fund	Fund III	Fund III
Location	South Puget Sound WA	Northwestern OR
Acres	15,100	12,900
Purchase price allocation (in thousands)		
Land	\$ 6,053	\$ 7,730
Timber and roads	44,503	64,295
Total purchase price	<u>\$ 50,556</u>	<u>\$ 72,025</u>

In September and October 2014, Fund I sold its two tree farms, located in western Washington, in two transactions for a combined \$70.5 million and recognized a gain on the sales of \$23.8 million. The combined carrying value of these tree farms consisted of \$40.2 million for timber and roads and \$5.0 million for the land. The Partnership’s share of the

pretax profit generated by Fund I was \$4.7 million in 2014, which includes the Partnership's share of the gain on sale of the tree farms.

In December 2016, Fund II entered into an agreement to sell one of its tree farms, located in northwestern Oregon, for \$26.5 million. The sale closed in January 2017. The carrying value of this tree farm, consisting of \$11.1 million for timber and roads and \$2.8 million for land, has been reclassified to land and timber held for sale on the consolidated balance sheet as of December 31, 2016. The Partnership's share of the pretax profit or loss generated by this tree farm was a loss of \$23,000 and \$9,000 for the years ending December 31, 2016 and 2015, respectively, and a profit of \$112,000 for the year ended December 31, 2014.

The Partnership's consolidated balance sheets include Fund II and Fund III assets and liabilities at December 31, 2016 and 2015, which were as follows (Fund IV had no assets or liabilities for either period):

(in thousands)	<u>2016</u>	<u>2015</u>
Cash	\$ 1,066	\$ 3,396
Land and timber held for sale	13,941	—
Other current assets	2,195	602
Total current assets	<u>17,202</u>	<u>3,998</u>
Properties and equipment (net of accumulated depletion and depreciation in 2016 and 2015 of \$38,306 and \$34,757)	249,197	271,850
Total assets	<u>\$ 266,399</u>	<u>\$ 275,848</u>
Current liabilities	\$ 2,256	\$ 1,723
Long-term debt	57,268	57,246
Funds' equity	206,875	216,879
Total liabilities and equity	<u>\$ 266,399</u>	<u>\$ 275,848</u>

The table above includes management fees and other expenses payable to the Partnership of \$691,000 and \$630,000 as of December 31, 2016 and 2015, respectively. These amounts are eliminated in the Partnership's consolidated balance sheets.

3. Partnership timberland acquisitions

In July 2016, the Partnership closed on the acquisition of a 7,324-acre tree farm in western Washington for \$32.0 million. It consists of 6,746 owned acres and a timber deed on 578 acres that expires in 2051. The purchase price was allocated \$2.7 million to timberland and \$29.3 million to timber and roads.

In October 2016, the Partnership closed on two timberland acquisitions for a combined \$6.7 million comprising 1,967 acres. The combined purchase price was allocated \$719,000 to timberland and \$6.0 million to roads and timber. The acquired sets of timberland are adjacent to the Partnership's existing Washington State timberland holdings in Jefferson and Skamania counties.

4. LONG-TERM DEBT

(in thousands)	At December 31,	
	2016	2015
Partnership debt:		
\$20.0 million operating line of credit with NorthWest Farm Credit Services (NWFCS), variable interest based on LIBOR plus margin of 1.50% (2.15% at December 31, 2016) with quarterly interest-only payments and collateralized by timberlands (matures April 2020)	\$ 8,000	—
Mortgage payable to NWFCS, collateralized by Poulsbo headquarters:		
Interest at 3.80%, monthly principal and interest payments (matures January 2023)	2,578	2,692
Mortgage payable to NWFCS, collateralized by Partnership timberlands, as follows:		
Seven-year tranche, interest at 4.85% with quarterly interest payments (matures July 2017)	5,000	5,000
Ten-year tranche, interest at 6.40% with monthly interest payments (matures September 2019)	9,800	9,800
Fifteen-year tranche, interest at 6.05% with quarterly interest payments (matures July 2025)	10,000	10,000
Mortgage payable to NWFCS, collateralized by timberlands, as follows:		
Seven-year tranche, variable interest based on LIBOR plus margin of 2.20% (2.85% at December 31, 2016) with quarterly interest-only payments (matures July 2023)	10,000	—
Ten-year tranche, interest at 3.89% with quarterly interest-only payments (matures July 2026)	11,000	—
12-year tranche, interest at 4.13% with quarterly interest-only payments (matures July 2028)	11,000	—
Mortgage payable to NWFCS, collateralized by timberlands. \$21.0 million available to borrow through March 31, 2017. Outstanding at December 31 as follows:		
11-year tranche, variable interest based on LIBOR plus margin of 1.85% (2.5% at December 31, 2016), with quarterly interest payments (matures July 2027)	6,000	—
Total Partnership debt	<u>73,378</u>	<u>27,492</u>
ORM Timber Funds debt:		
Fund II Mortgages payable to MetLife, collateralized by Fund II timberlands with quarterly interest payments (matures September 2020), as follows:		
4.85% interest rate tranche	11,000	11,000
3.84% interest rate tranche	14,000	14,000
Fund III mortgages payable to NWFCS, collateralized by Fund III timberlands with quarterly interest payments, as follows:		
5.10% interest rate tranche (matures December 2023)	17,980	17,980
4.45% interest rate tranche (matures October 2024)	14,400	14,400
Total ORM Timber Funds debt	<u>57,380</u>	<u>57,380</u>
Consolidated principal amount	130,758	84,872
Less unamortized debt issuance costs	(348)	(221)
Less current portion	(5,119)	(114)
Consolidated long-term debt, less unamortized debt issuance costs and current portion	<u>\$ 125,291</u>	<u>\$ 84,537</u>

The Partnership's debt agreements have covenants which are measured either quarterly or annually. Among the covenants measured is an interest coverage ratio and a requirement that the Partnership not exceed a maximum debt-to-total-capitalization ratio of 30%, with total capitalization calculated using fair market (vs. carrying) value of timberland, roads and timber. The Partnership is in compliance with these covenants as of December 31, 2016.

Fund II's debt agreement contains a requirement to maintain a loan-to-value ratio of less than 40%, with the denominator defined as fair market value. Fund II is in compliance with this covenant as of December 31, 2016.

Fund III's debt agreement contains a requirement to maintain a minimum debt coverage ratio and a loan-to-value ratio of less than 50%, with the denominator defined as fair market value. Fund III is in compliance with this covenant as of December 31, 2016.

At December 31, 2016, principal payments on long-term debt for the next five years and thereafter are due as follows (in thousands):

	Partnership	Funds	Consolidated
2017	\$ 5,119	\$ —	\$ 5,119
2018	123	—	123
2019	9,928	—	9,928
2020	8,133	25,000	33,133
2021	138	—	138
Thereafter	49,937	32,380	82,317
Total	\$ 73,378	\$ 57,380	\$ 130,758

The debt arrangements between NWFCs and the Partnership and Fund III include an annual rebate of interest expense (patronage). Interest expense was reduced by \$810,000, \$478,000 and \$395,000 in 2016, 2015 and 2014, respectively, which reflects estimated patronage to be refunded in the following year with the related receivable reflected in accounts receivable.

Accrued interest relating to all debt instruments was \$1.3 million and \$941,000 at December 31, 2016 and 2015, respectively, and is included in accrued liabilities.

5. FAIR VALUE OF FINANCIAL INSTRUMENTS

The Partnership's consolidated financial instruments include cash and accounts receivable, for which the carrying amount of each represents fair value based on current market interest rates or their short-term nature. Carrying amounts of contracts receivable also approximate fair value given the current market interest rates. The fair value of the Partnership's and Funds' combined fixed-rate debt, having a carrying value of \$106.8 million and \$84.9 million as of December 31, 2016 and 2015, respectively, has been estimated based on current interest rates for similar financial instruments, Level 2 inputs in the Fair Value Hierarchy, to be approximately \$111.0 million and \$89.8 million, respectively.

6. INCOME TAXES

The Partnership itself 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. The Partnership's and Funds' corporate subsidiaries, however, are subject to income taxes. The following tables provide information on the impact of income taxes in taxable subsidiaries. Consolidated Partnership income (loss) is reconciled to income (loss) before income taxes in corporate subsidiaries for the years ended December 31 as follows:

(in thousands)	2016	2015	2014
Income before income taxes	\$ 2,215	\$ 7,707	\$ 32,855
Income in entities that pass-through pre-tax earnings to the partners	1,500	7,203	30,169
Income subject to income taxes	\$ 715	\$ 504	\$ 2,686

The provision for income taxes relating to corporate subsidiaries of the Partnership and Funds consist of the following income tax benefit (expense) for each of the years ended December 31:

(in thousands)	<u>2016</u>	<u>2015</u>	<u>2014</u>
Current	\$ (185)	\$ (328)	\$ (341)
Deferred	(67)	121	(643)
Total	<u>\$ (252)</u>	<u>\$ (207)</u>	<u>\$ (984)</u>

Included in the deferred income tax expense for 2016 and 2014 are \$115,000 and \$274,000 related to the utilization of net operating loss carryforwards. Included in the deferred tax benefit for 2015 was a benefit of \$71,000 related to net operating losses. The Partnership also recorded excess tax benefits from equity-based compensation of \$53,000, \$340,000, and \$85,000 for the years ended December 31, 2016, 2015 and 2014, respectively, to partners' capital.

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

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Statutory tax on income	34 %	34 %	34 %
Income from entities that pass-through pre-tax earnings to the partners	(23)%	(31)%	(31)%
Effective income tax rate	<u>11 %</u>	<u>3 %</u>	<u>3 %</u>

The net deferred tax assets are included in other assets on the consolidated balance sheets and are comprised of the following:

(in thousands)	<u>2016</u>	<u>2015</u>	<u>2014</u>
Compensation-related accruals	\$ 456	\$ 421	\$ 17
Net operating loss carryforwards	284	399	337
Depreciation	16	(16)	(23)
Other	(3)	16	27
Total	<u>\$ 753</u>	<u>\$ 820</u>	<u>\$ 358</u>

The federal net operating loss carryforwards in the table above expire in 2033 through 2035.

7. UNIT INCENTIVE PLAN

One of the two components of a management incentive compensation program adopted in 2010 (2010 Incentive Compensation Program) is the Performance Restricted Unit (PRU) plan which includes both an equity and cash component. Compensation expense relating to the equity component vest over a 4-year future service period. The first equity grants pursuant to this program were made in January 2011. On the date of grant, the restricted units are owned by the employee, officer, or director of the Partnership, subject to a trading restriction that is in effect during the vesting period. As of December 31, 2016, total compensation expense not yet recognized related to non-vested awards was \$673,000 with a weighted average 19 months remaining to vest.

The second component of the incentive compensation program is the Long-Term Incentive Plan (LTIP) which is paid in cash. The LTIP awards contain a feature whereby the award amount is based upon the Partnership's total shareholder return (TSR) as compared to TSR's of a benchmark peer group of companies, measured over a rolling three-year performance period. The component based on relative TSR requires the Partnership's projected cash payout for future performance cycles to be re-measured quarterly based upon the Partnership's relative TSR ranking, using a Monte Carlo simulation model.

Starting in 2016, directors may elect to receive all or a portion of their quarterly board compensation in the form of unrestricted units rather than cash. Such units are included in equity compensation expense. During 2016, 1,794 unrestricted units were granted to directors in payment of their board compensation.

Total equity compensation expense was \$919,000, \$864,000 and \$867,000 for 2016, 2015 and 2014, respectively. As of December 31, 2016, we recorded in accrued liabilities \$1.5 million relating to the 2010 Incentive Compensation

Program, with \$425,000 of that total attributable to the cash component of the PRU and the balance of \$1.0 million attributable to the LTIP. This compares with December 31, 2015 when we recorded in accrued liabilities \$1.2 million, with \$230,000 related to the cash-payout component of the PRU and the balance of \$949,000 attributable to the LTIP.

The Partnership's 2005 Unit Incentive Plan (the 2005 Plan) authorized the granting of nonqualified equity compensation to employees, officers, and directors of the Partnership and provides a one-way linkage to the 2010 Incentive Compensation Program because it (2005 Plan) established the formal framework by which unit grants, options, etc., can be issued. The 2010 Incentive Compensation Program does not affect the existence or availability of the 2005 Unit Incentive Plan or change its terms. Upon the vesting of restricted units, grantees have the choice of tendering back units to pay for their minimum tax withholdings. A total of 1,105,815 units have been authorized for issuance under the 2005 Plan of which there are 892,865 units authorized but unissued as of December 31, 2016.

The Human Resources Committee makes awards of restricted units to certain employees, plus the officers and directors of the Partnership and its subsidiaries. The restricted unit grants vest over four years and are compensatory in nature. Restricted unit awards entitle the recipient to full distribution rights during the vesting period, and thus are considered participating securities, but are restricted from disposition and may be forfeited until the units vest.

Restricted unit activity for the three years ended December 31, 2016 was as follows:

	Units	Weighted Avg Grant Date Fair Value (\$)
Outstanding December 31, 2013	70,758	50.34
Grants	12,966	65.50
Vested	(21,070)	46.04
Forfeited	(18,261)	55.49
Tendered back to pay tax withholding	(2,966)	47.30
Outstanding December 31, 2014	41,427	55.23
Grants	12,050	62.14
Vested	(15,729)	49.39
Tendered back to pay tax withholding	(1,701)	50.33
Outstanding December 31, 2015	36,047	59.96
Grants	15,016	64.67
Vested	(12,789)	55.97
Forfeited	(436)	62.49
Tendered back to pay tax withholding	(2,345)	57.41
Outstanding December 31, 2016	35,493	63.53

8. EMPLOYEE BENEFITS

As of December 31, 2016 all employees of the Partnership and its subsidiaries are eligible to receive benefits under a defined contribution plan. During the years 2014 through 2016 the Partnership matched 50% of employees' contributions up to 8% of an individual's compensation. The Partnership's contributions to the plan amounted to \$182,000, \$191,000, and \$176,000 for the years ended December 31, 2016, 2015, and 2014, respectively.

9. COMMITMENTS AND CONTINGENCIES

Environmental remediation

The Partnership has an accrual for estimated environmental remediation costs of \$12.8 million and \$16.8 million as of December 31, 2016 and 2015, respectively. The environmental remediation liability represents management's best estimate of payments to be made to monitor and remedy certain areas in and around the townsite/millsite of Port Gamble.

In December of 2013, a consent decree (CD) and Clean-up Action Plan (CAP) related to Port Gamble were finalized with the Washington State Department of Ecology (DOE) and filed with Kitsap County Superior Court. Pursuant to

the CD and CAP, an engineering design report (EDR) was submitted to DOE in November 2014, followed by other supplemental materials establishing our proposed means for complying with the CAP. Discussions between management and DOE to finalize the remediation project design and further sampling and investigation conducted in 2014 yielded new information that indicated certain areas of the project would be significantly more expensive than estimated when the CD and CAP were filed. As a result, the Partnership recorded a \$10.0 million increase in its liability at December 31, 2014. The increase in costs came from four primary categories; piling removal and disposal, dredging and disposal, the application of sand cover, and eelgrass mitigation.

The EDR was finalized in the summer of 2015 and, in the third quarter of 2015, the Partnership selected a contractor to complete the remediation work. Construction activity commenced in late September 2015. The required in-water construction activity was completed in January 2017 and will be followed by cleanup activity on the millsite and by a monitoring period.

In the fourth quarter of 2016, areas were encountered that contained a greater number of pilings and a higher volume of wood waste than was anticipated, requiring additional cleanup activity. In early 2017, management decided to use property owned by the Partnership a short distance from the town of Port Gamble as the primary permanent storage location for the dredged sediments rather than leaving them on the millsite as planned previously. Management also reassessed its estimates of long-term monitoring costs, taking in to account the higher volume of material and the new expected storage location for the sediments. Finally, management updated its estimates for consulting and professional fees to address the natural resource damages claim associated with the project. The combination of these factors resulted in the Partnership recording a \$7.7 million increase in its liability at December 31, 2016.

The environmental liability at December 31, 2016 is comprised of \$8.7 million that the Partnership expects to expend in the next 12 months and \$4.1 million thereafter.

Changes in the environmental liability for the last three years are as follows:

(in thousands)	Balances at the Beginning of the Period	Additions to Accrual	Expenditures for Remediation	Balance at Period-end
Year ended December 31, 2014	\$ 13,241	\$ 10,000	\$ 1,590	\$ 21,651
Year ended December 31, 2015	21,651	—	4,890	16,761
Year ended December 31, 2016	\$ 16,761	\$ 7,700	\$ 11,691	\$ 12,770

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 \$10.4 million and \$10.5 million outstanding at December 31, 2016 and 2015, respectively. The bonds relate primarily to development activity in connection with pending and completed sales from our Harbor Hill project in Gig Harbor.

Supplemental Employee Retirement Plan

The Partnership has a supplemental employee retirement plan for a retired 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 recorded balance of the projected liability was \$126,000 and \$151,000 as of December 31, 2016 and 2015, 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 to the Partnership's consolidated financial condition or results of operations or cash flows.

10. RELATED PARTY TRANSACTIONS

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

11. SEGMENT AND MAJOR CUSTOMER INFORMATION

The Partnership's operations are classified into three segments: Fee Timber, Timberland Investment Management (TIM), and Real Estate. The Fee Timber segment consists of the harvest and sale of timber from both the Partnership's 118,000 acres of fee timberland in Washington and the Funds' 94,000 acres in Washington, Oregon, and California.

The TIM segment provides investment management, disposition, and technical forestry services in connection with 24,000 acres for Fund I, which were sold in 2014, 37,000 acres for Fund II, and 57,000 acres for Fund III.

The Real Estate segment's operations consist of management of development properties and the rental of residential and commercial properties in Port Gamble and Poulsbo, Washington. Real Estate manages a portfolio of 2,200 acres of higher-and-better-use properties as of December 31, 2016. All of the Partnership's real estate activities are presently in the state of Washington.

For the year ended December 31, 2016, the partnership had one customer that represented 17% of consolidated revenue. For the years ended December 31, 2015 and 2014, the Partnership had no customers that represented over 10% of consolidated revenue.

Identifiable assets are those used exclusively in the operations of each reportable 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 by the chief operating decision maker. Intersegment transactions are valued at prices that approximate the price that would be charged to a third-party customer.

Details of the Partnership's operations by business segment for the years ended December 31 are as follows:

(in thousands)	Fee Timber			TIM	Real	Other	Consolidated							
	2016	Partnership	Funds		Combined			Estate						
Revenue internal	\$	36,478	\$	21,029	\$	57,507	\$	3,275	\$	23,419	\$	—	\$	84,201
Eliminations		(203)		—		(203)		(3,267)		(303)		—		(3,773)
Revenue external		36,275		21,029		57,304		8		23,116		—		80,428
Cost of sales		(15,497)		(17,145)		(32,642)		—		(14,631)		—		(47,273)
Operating, general and administrative expenses internal		(6,152)		(5,974)		(12,126)		(2,888)		(4,441)		(5,147)		(24,602)
Eliminations		128		3,267		3,395		260		47		71		3,773
Operating, general and administrative expenses external		(6,024)		(2,707)		(8,731)		(2,628)		(4,394)		(5,076)		(20,829)
Environmental remediation		—		—		—		—		(7,700)		—		(7,700)
Gain (loss) on sale of timberland		769		226		995		—		—		—		995
Income (loss) from operations internal		15,598		(1,864)		13,734		387		(3,353)		(5,147)		5,621
Eliminations		(75)		3,267		3,192		(3,007)		(256)		71		—
Income (loss) from operations external	\$	15,523	\$	1,403	\$	16,926	\$	(2,620)	\$	(3,609)	\$	(5,076)	\$	5,621
		2015												
Revenue internal	\$	29,257	\$	23,250	\$	52,507	\$	2,235	\$	26,007	\$	—	\$	80,749
Eliminations		(343)		—		(343)		(2,235)		(143)		—		(2,721)
Revenue external		28,914		23,250		52,164		—		25,864		—		78,028
Cost of sales		(11,875)		(18,214)		(30,089)		—		(16,515)		—		(46,604)
Operating, general and administrative expenses internal		(5,387)		(4,874)		(10,261)		(2,953)		(4,056)		(5,095)		(22,365)
Eliminations		20		2,230		2,250		328		20		123		2,721
Operating, general and administrative expenses external		(5,367)		(2,644)		(8,011)		(2,625)		(4,036)		(4,972)		(19,644)

Gain (loss) on sale of timberland	—	(1,103)	(1,103)	—	—	—	(1,103)
Income (loss) from operations internal	11,995	(941)	11,054	(718)	5,436	(5,095)	10,677
Eliminations	(323)	2,230	1,907	(1,907)	(123)	123	—
Income (loss) from operations external	\$ 11,672	\$ 1,289	\$ 12,961	\$ (2,625)	\$ 5,313	\$ (4,972)	\$ 10,677

2014

Revenue internal	\$ 34,459	\$ 31,356	\$ 65,815	\$ 3,303	\$ 22,385	\$ —	\$ 91,503
Eliminations	(611)	—	(611)	(3,303)	(119)	—	(4,033)
Revenue external	33,848	31,356	65,204	—	22,266	—	87,470
Cost of sales	(14,397)	(22,389)	(36,786)	—	(11,304)	—	(48,090)
Operating, general and administrative expenses internal	(5,101)	(6,081)	(11,182)	(2,940)	(3,682)	(3,900)	(21,704)
Eliminations	—	3,303	3,303	611	—	119	4,033
Operating, general and administrative expenses external	(5,101)	(2,778)	(7,879)	(2,329)	(3,682)	(3,781)	(17,671)
Environmental remediation	—	—	—	—	(10,000)	—	(10,000)
Gain (loss) on sale of timberland	—	23,750	23,750	—	—	—	23,750
Income (loss) from operations internal	14,961	26,636	41,597	363	(2,601)	(3,900)	35,459
Eliminations	(611)	3,303	2,692	(2,692)	(119)	119	—
Income (loss) from operations external	\$ 14,350	\$ 29,939	\$ 44,289	\$ (2,329)	\$ (2,720)	\$ (3,781)	\$ 35,459

(in thousands)

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Depreciation, Amortization and Depletion			
Fee Timber-Partnership	\$ 9,095	\$ 8,044	\$ 2,570
Fee Timber-Funds	<u>3,771</u>	<u>2,174</u>	<u>9,969</u>
Fee Timber-Combined	12,866	10,218	12,539
Timberland Investment Management	33	18	2
Real Estate	388	299	394
G&A	<u>89</u>	<u>101</u>	<u>88</u>
Total	<u>\$ 13,376</u>	<u>\$ 10,636</u>	<u>\$ 13,023</u>
Assets			
Fee Timber-Partnership	\$ 266,401	\$ 49,499	\$ 46,453
Fee Timber-Funds	<u>87,419</u>	<u>275,786</u>	<u>240,754</u>
Fee Timber-Combined	353,820	325,285	287,207
Timberland Investment Management	325	182	52
Real Estate	38,988	33,983	37,673
G&A	<u>5,917</u>	<u>10,606</u>	<u>19,894</u>
Total	<u>\$ 399,050</u>	<u>\$ 370,056</u>	<u>\$ 344,826</u>
Capital and Land Expenditures			
Fee Timber-Partnership	\$ 40,745	\$ 5,877	\$ 2,536
Fee Timber-Funds	<u>859</u>	<u>51,854</u>	<u>73,359</u>
Fee Timber-Combined	41,604	57,731	75,895
Timberland Investment Management	13	69	38
Real Estate-development activities	13,993	9,631	4,967
Real Estate-other	128	225	198
G&A	<u>20</u>	<u>79</u>	<u>55</u>
Total	<u>\$ 55,758</u>	<u>\$ 67,735</u>	<u>\$ 81,153</u>
Revenue by product/service			
Domestic forest products	\$ 47,255	\$ 41,636	\$ 42,896
Export forest products, indirect	10,049	10,528	22,308
Conservation easements and land sales	4,440	6,815	7,703
Fees for service	8	—	37
Homes, lots, and undeveloped acreage	<u>18,676</u>	<u>19,049</u>	<u>14,526</u>
Total	<u>\$ 80,428</u>	<u>\$ 78,028</u>	<u>\$ 87,470</u>

12. QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

(in thousands, except per unit amounts)	Revenue	Income (loss) from operations	Net and comprehensive income (loss) attributable to unitholders	Basic and diluted earnings (loss) per unit
2016				
First quarter	\$ 11,069	\$ (822)	\$ (1,034)	\$ (0.25)
Second quarter	12,713	142	436	0.09
Third quarter	13,178	1,985	1,970	0.45
Fourth quarter	43,468	4,316	4,571	1.05
2015				
First quarter	\$ 26,908	\$ 8,073	\$ 7,809	\$ 1.80
Second quarter	13,904	180	289	0.06
Third quarter	15,208	(873)	615	0.13
Fourth quarter	22,008	3,297	2,230	0.51

Quarterly fluctuations in data result from the addition and/or deferral of harvest volumes as well as the timing of real estate sales and environmental remediation charges, as disclosed in our quarterly filings. Management considered the disclosure requirements of Item 302(a)(3) and does not note any extraordinary, unusual, or infrequently occurring items except for the \$7.7 million and \$10.0 million environmental remediation charges recorded in the fourth quarters of 2016 and 2014, respectively, and the sales of Fund I's two tree farms, one in the third quarter of 2014 and one in the fourth quarter of 2014.

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

None

Item 9A. CONTROLS AND PROCEDURES.

Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures

The Partnership's management maintains a system of internal controls to promote the timely identification and reporting of material, relevant information. Those controls include requiring executive management and all managers in accounting roles to sign a Code of Ethics (See Exhibit 99.4 to this report). Additionally the Partnership's senior management team meets regularly to discuss significant transactions and events affecting the Partnership's operations. The Partnership's executive officers lead these meetings and consider whether topics discussed represent information that should be disclosed under generally accepted accounting principles and the rules of the SEC. The Board of Directors of the Partnership's managing general partner includes an Audit Committee that is comprised solely of independent directors who meet the requirements imposed by the Securities Exchange Act and the NASDAQ Stock Market. At least one member of our Audit Committee is a "financial expert" within the meaning of applicable NASDAQ rules. The Audit Committee reviews quarterly earnings releases and all reports on Form 10-Q and Form 10-K prior to their filing. The Audit Committee is responsible for hiring and overseeing the Partnership's external auditors and meets with those auditors at least four times each year, including executive sessions outside the presence of management, generally at each meeting.

The Partnership's executive officers are responsible for establishing and maintaining disclosure controls and procedures. They have designed such controls to ensure that others make known to them all material information within the organization. Management regularly evaluates ways to improve internal controls. As of the end of the period covered by the annual report on Form 10-K our executive officers completed an evaluation of the disclosure controls and procedures and have determined them to be functioning effectively.

Management's Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting for the Partnership. Internal control over financial reporting, as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act, is a process designed by, or under the supervision of, the Partnership's chief executive officer and chief financial officer and effected by the Partnership's board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. The Partnership's management, with the participation of the Partnership's chief executive and financial officers, has established and maintains policies and procedures designed to maintain the adequacy of the Partnership's internal control over financial reporting, and includes those policies and procedures that:

- 1) Pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Partnership;
- 2) Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Partnership are being made only in accordance with authorizations of management of the Partnership; and
- 3) Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Partnership's assets that could have a material effect on the financial statements.

Management has evaluated the effectiveness of the Partnership's internal control over financial reporting as of December 31, 2016 based on the control criteria established in a report entitled *Internal Control—Integrated Framework (2013)*, issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our assessment and those criteria, the Partnership's management has concluded that the Partnership's internal control over financial reporting was effective as of December 31, 2016.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect all errors or misstatements and all fraud. Therefore, even those systems determined to be effective can provide only reasonable, not absolute, assurance that the objectives of the policies and procedures are met. Also, projections of any evaluation of

effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

The registered independent public accounting firm of KPMG LLP, auditors of the Partnership's consolidated financial statements, has issued an attestation report on the Partnership's internal control over financial reporting. This report appears on page 51 of this annual report on Form 10-K.

Changes in Internal Control over Financial Reporting

There were no changes in the Partnership's internal control over financial reporting that occurred during the most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Partnership's internal control over financial reporting.

9B. OTHER INFORMATION.

None

PART III

Item 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

General Partner

The Partnership has no directors. Instead, the Board of Directors of its managing general partner, Pope MGP, Inc. (the “Managing General Partner”), serves in that capacity. References to the “Board” or words of similar construction in this report are to the board of the Managing General Partner, acting in its management capacity with respect to the Partnership. The Managing General Partner’s address is the same as the address of the principal offices of the Partnership. Pope MGP, Inc. receives \$150,000 per year for serving as Managing General Partner of the Partnership. There are no family relationships among any of the executive officers and directors of the Managing General Partner.

The following table identifies the executive officers and directors of the Managing General Partner as of February 24, 2017. Officers of the Managing General Partner hold identical offices with the Partnership.

<u>Name</u>	<u>Age</u>	<u>Position, Background, and Qualifications to Serve</u>
Thomas M. Ringo (2)	63	President and Chief Executive Officer, and Director, from June 2014 to present. Vice President and CFO from December 2000 to April 2015. Senior Vice President Finance and Client Relations from June 1996 to December 2000. Vice President Finance from November 1991 to June 1996. Treasurer from March 1989 through October 1991 of Pope MGP, Inc. and the Partnership.
William R. Brown (1), (3), (4), (5)	65	Director since October 2015. President, Green Diamond Resource Company from 2006 through 2013. Plum Creek Timber Company: Executive Vice President and Chief Financial Officer from 1999 through 2006; Vice President, Strategic Business Development from 1998 through 1999; Vice President, Resources from 1995 through 1998; Director of Planning from 1990 through 1995. Director of Planning and Analysis, Glacier Park Company from 1987 through 1990. Finance Manager, Cornerstone Columbia Development Company from 1984 through 1987. Business Analyst, Weyerhaeuser Company from 1981 through 1984. Management Consultant, Kurt Salmon Associates, 1978 through 1980. Mr. Brown’s experience in the forest products industry and knowledge of timberland markets in the Pacific Northwest and elsewhere allow him to provide extensive insight into strategic and tactical business issues relevant to the Partnership. In addition, the senior financial leadership positions he has held at other companies allows him to provide valuable financial guidance as a member of the Audit Committee.
John E. Conlin (2), (3), (4)	58	Director since December 2005. Co-President, NWQ Investment Management Company LLC, 2006 to present. Member, Board of Advisors, Victory Park Capital, 2009 to present. Member, Corporate Advisory Board, University of Michigan, Ross School of Business, 2006 to present and currently Chariman. Member, University of Rochester Endowment Committee, 2006 to present. Director, ACME Communications, 2005 to 2008. Director, Cannell Capital Management 2002 to 2006. CEO, Robertson Stephens, Inc, from 2001 to 2003; COO, Robertson Stephens, Inc, from 1999 to 2000. Held numerous positions with Credit Suisse from 1983 to 1999, the last of which was Managing Director. Mr. Conlin’s background in corporate finance, capital-raising and financial analysis bring the Partnership a perspective that is unique among our directors. Moreover, Mr. Conlin offers an ability to assess capital needs, structures and returns relating to the performance and operation of the Partnership, the Funds, and our strategic goals and objectives.
Sandy D. McDade (1), (3), (4)	65	Director since September 2016. Weyerhaeuser Company: Senior Vice President and General Counsel, 2006 through 2014; Senior Vice President, Industrial Wood Products and International Business Groups, 2005 through 2006; President, Weyerhaeuser Canada, January 2003 through 2005; Vice President of Strategic Planning, 2000 through 2003; Corporate Secretary, 1993 through 2000; Assistant General Counsel, 1980 through 2000. Mr. McDade is a board member of Federal Way Asset Management, registered investment advisor. Mr. McDade’s deep experience in the forest products industry brings both operational and strategic expertise to the Partnership, as well as knowledge of international markets and corporate governance.

<u>Name</u>	<u>Age</u>	<u>Position, Background, and Qualifications to Serve</u>
Kevin C. Bates	50	Vice President of Timberland Investments from June 2014 to present, Director of Timberland Investment Management from March 2007 to June 2014. Contoller from February 2001 to March 2007, Accounting Manager from February 1998 to February 2001. Internal Audit for Fluke Corporation and Accounting Manager for WAVTrace from May 1997 to March 1998. Audit Senior and Audit Manager for Deloitte & Touche, 1991 to 1997.
John D. Lamb	55	Vice President and Chief Financial Officer since April 2015. Senior Vice President and Chief Financial Officer for Unico Properties from 1997 through 2013. Corporate Controller for Shurgard Storage Centers from 1990 through 1997. Audit and Tax consultant with KPMG and Ernst & Young from 1983 through 1990.
Jonathan P. Rose	54	Vice President - Real Estate and President of Olympic Property Group from June 2014 to present, Director of Real Estate and President of Olympic Property Group from March 2005 to June 2014. Vice President of Property Development from January 2000 to March 2005, Project Manager March 1996 to January 2000. Design Engineer for Apex Engineering from 1987 to 1996.

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

Board of Directors of the Managing General Partner

Board Composition. The Managing General Partner’s Certificate of Incorporation provides that directors are divided into two classes, each class serving a period of two years. The Managing General Partner’s shareholders elect approximately one-half of the members of the Board of Directors annually, and this election is governed by a shareholders agreement between the Managing General Partner’s two stockholders. The terms of the Class A directors expire on December 31, 2018, and the terms of the Class B directors expire on December 31, 2019. The directors’ election to the Board of Directors is subject to a voting agreement between the Managing General Partner’s two shareholders, Ms. Maria M. Pope and Mrs. Emily T. Andrews. Sandy D. McDade serves as Mrs. Andrews’ appointee to the Board of Directors. The Board of Directors met seven times in 2016, with six of the meetings in person, to discuss Partnership matters. The composition of our Board of Directors is established by the Limited Partnership Agreement and by the Managing General Partner’s shareholders agreement, and accordingly, as permitted by NASDAQ Rules IM-5065-7 and 5615(a)(4), board nominations are not made or approved by a separate nominating committee or by a majority of the independent directors.

Past Directorships. During the period 2012 through 2016, Ms. Pope served on boards of other public companies as outlined in the following table.

<u>Individual’s Name</u>	<u>Name of Public Company</u>	<u>Term of Directorship</u>
Maria M. Pope	Umpqua Holdings Corporation (NASDAQ:UMPQ)	2014 - present
	Sterling Financial Corporation (NASDAQ:STSA)	2013 - 2014
	TimberWest Forest Corp. (TSX:TWF.UN)	2006 - 2012

Board Leadership Structure. The Board does not utilize a Chairman. The CEO generally calls meetings of the Board and sets schedules and agendas for such meetings. The CEO regularly communicates with all directors on key issues and concerns outside of Board meetings and endeavors to ensure that information provided to the Board is sufficiently timely and complete to facilitate Board member fulfillment of responsibilities. As the individual with primary responsibility for managing the Partnership’s day-to-day operations, the CEO is best positioned to chair regular Board meetings where key business and strategic issues are discussed. The Board utilized Mr. Roach as a “lead director” until his retirement in September 2016. Mr. Roach was succeeded as “lead director” by Mr. McDade, whose chief responsibility in this regard is to chair executive sessions of the non-management directors which are conducted as a part of every Board meeting.

Board’s Role in the Risk Oversight Process. Given the size of the Board, management of the Partnership’s material risks is administered through the whole Board in concert with executive and senior operating personnel. Risk is an integral part

of Board and committee deliberations throughout the year with regular discussion of risks related to the company's business strategies at each meeting. Periodically, the Audit Committee and Board review Management's assessment of the primary operational and regulatory risks facing the Partnership, their relative magnitude and management's plan for mitigating these risks. The Audit Committee considers risk issues associated with the Partnership's overall financial reporting and disclosure process and legal compliance. At each of its regularly scheduled meetings, the Audit Committee meets in executive session and meets with the independent auditor outside the presence of management.

Diversity Policy. As noted above, the Partnership's board is established pursuant to the Partnership Agreement and a shareholders' agreement among the shareholders of Pope MGP, Inc., the Partnership's managing general partner. The shareholders' agreement, in particular, establishes the rights of the Managing General Partner's stockholders to designate the Partnership's directors. Neither the Partnership Agreement nor the Managing General Partner's shareholders' agreement establishes a diversity policy, nor does any such policy otherwise exist. Accordingly, our ability to consider diversity as a criterion for inclusion in the Board of Directors is limited to the diversity of the directors' business and financial experience.

Audit Committee. The Audit Committee of the Board of Directors is comprised of three independent directors who comply with the Exchange Act and NASDAQ's qualification requirements for Audit Committee members. The Audit Committee met to discuss the Partnership five times during 2016. The Audit Committee's Chairman is William R. Brown who is also its designated financial expert. John E Conlin and Sandy D. McDade also serve on the Audit Committee. See report of the Audit Committee on financial statements below.

Human Resources Committee. The Human Resources Committee is responsible for (1) establishing compensation programs for executive officers and senior management of the Partnership designed to attract, motivate, and retain key executives responsible for the success of the Partnership as a whole; (2) administering and maintaining such programs in a manner that will benefit the long-term interests of the Partnership and its unitholders; and (3) determining the salary, bonus, unit option and other compensation of the Partnership's executive officers and senior management. The Human Resources Committee met four times during 2016. Mr. Conlin served as Chairman of the Human Resources Committee in 2016. William R. Brown, Sandy D. McDade, and Maria M. Pope also serve on the Human Resources Committee. See report of the Human Resources Committee on executive compensation below.

Beneficial Ownership and Section 16(a) Reporting Compliance

The Partnership is a reporting company pursuant to Section 12 of the Exchange Act. Under Section 16(a) of the Exchange Act, and the rules promulgated hereunder, directors, officers, greater than 10% shareholders, and certain other key personnel (the "Reporting Persons") are required to file with the Securities and Exchange Commission reports of ownership and reports of changes in ownership of Partnership units. Reporting Persons are required by SEC regulations to furnish us with copies of all Section 16(a) forms they file. Based solely on our review of such reports received or written or oral representations from the Reporting Persons, the Partnership believes that the Reporting Persons have complied with all Section 16(a) filing requirements applicable to them, except that one director was late in filing one Form 4 to report an acquisition of indirect beneficial ownership as a result of an estate planning transaction and one officer was late in filing one Form 4 to report an open-market sale of units.

Code of Ethics

The Partnership maintains a Code of Ethics that is applicable to all executive officers, directors, and certain other employees. A copy of the Code of Ethics is available on the Investor Relations section of the Partnership's website.

Item 11. EXECUTIVE COMPENSATION; COMPENSATION DISCUSSION & ANALYSIS

Overview

Objectives of our Executive Compensation Program

The objective of our executive compensation program is to reward performance and to attract, motivate, and retain those employees who embrace a culture of achievement with a long-term focus on the Partnership's strategies and values.

Our executive compensation plans consist of two components: salary and a long-term incentive program (the "Incentive Program"), which is intended to reward selected management employees who provide services to and make decisions on behalf of the Partnership for performance that builds long-term unitholder value. Payments are made under the Incentive Program during the first quarter of each year with respect to results of decision-making in the prior year and the

relative performance of our units over the three-year period ending on December 31 of the prior year. As a result, information depicted in this report includes amounts paid in 2015, 2016, and 2017 with respect to performance from each of the following three-year periods, respectively: 2012-2014, 2013-2015, and 2014-2016.

The Role of the Human Resources Committee and Executive Officers in Compensation Decisions

The Board's Human Resources Committee (the "Committee") has responsibility for establishing our compensation objectives and approving all compensation for the CEO, his immediate subordinates, and the broader management team that participates in the Incentive Program. The Committee's primary focus is to administer compensation programs to reward and motivate employees, and then to monitor the execution of these programs. Periodically, the committee revisits the design of the Partnership's compensation programs to ensure they maintain fairness and balance between the interests of our employees and our unitholders. With that in mind, the Committee intends that the Incentive Program be continuing and permanent for participants, but may modify or terminate the Incentive Program at any time, as long as previously earned awards are not forfeited. In its role as administrator of the Incentive Program, the Committee has the authority to determine all matters relating to awards to be granted thereunder, and has sole authority to interpret its provisions and any applicable rule or regulation. In making its decisions and administering the Incentive Program and our other compensation programs, the Committee also monitors and evaluates periodically the impact of our compensation policies and objectives in light of the potential for such arrangements to promote excessive risk-taking by participants. The Partnership has not considered the results of shareholder advisory votes on executive compensation required by Section 14A of the Exchange Act because the rule is inapplicable to limited partnerships and the Partnership does not generally conduct meetings of limited partners.

The Incentive Program has two components – the Performance Restricted Unit ("PRU") plan and the Long-Term Incentive Plan ("LTIP"). Both components have a long-term emphasis, with the PRU plan focused on annual decision making, and the LTIP focused on three-year performance of the Partnership's units relative to a comparison group of companies to be determined at the beginning of each plan cycle. The Committee believes this focus is appropriate for the nature of the Partnership's assets and for strengthening alignment with unitholders. Each of these two Incentive Program components is described in more detail below.

The Committee has from time-to-time engaged compensation consultants to assist in assessing the market for top executives. Historically, these consultants have provided a limited scope of services on behalf of the Committee and their roles generally have been confined to specific peer analyses or assessments of specific compensation components within the Partnership's then-existing compensation structures. These consultants generally have performed no other services for the Partnership or its subsidiaries or management, and in each case the Committee has evaluated matters that the committee determined to be relevant to the consultant's independence. The HR Committee engaged Farient Advisors, a compensation consulting advisory firm, to advise on executive compensation matters in 2014, 2015, and 2016, for which Farient was paid a total of \$87,000, \$31,000, and \$78,000, respectively.

Elements of Compensation

Our executive compensation program is designed to be consistent with the objectives and guidelines set forth above. A discussion of each of the key elements of the program follows below.

Base Salary. Base salary represents that portion of compensation that is designed to provide the executive with a stable and predictable cash payment at a level that is competitive with other similarly situated companies. In establishing base salary levels for executives and other members of the management team, the Committee has used compensation consultant data, taking into account such factors as competitive industry salaries, general and regional economic conditions, and the size and geographic differences of "peer" companies against which the Partnership is compared. Using that data, the Committee attempts to tailor our executives' base compensation to each executive's scope of responsibilities, individual performance, and contribution to our organization. If adjustments in base salary are made, they are usually effective March 1 of each year, unless circumstances warrant otherwise.

Incentive Program. Our Incentive Program has been designed using a combination of the LTIP, which awards cash incentive payments based on relative total return to unitholders, together with the PRU plan, which uses a blend of cash and restricted limited partner units to reward annual decision making that is aligned with the Partnership's strategies. By designing the Incentive Program to align with both long-term decision making and performance, the Committee believes it has mitigated the risk to the Partnership that could be driven by excessive focus on short-term goals. Our Incentive Program is part of our performance culture and is intended to provide balanced reward opportunities tied to a variety of performance outcomes that drive unitholder value. The Committee subjects the programs to continual review with assistance from management and an

independent consultant, and has concluded that the Incentive Program is designed to contribute to our success and reasonably unlikely to have a material adverse effect on the Partnership.

When considering our compensation philosophies and programs, the Committee takes into account the need to reward historical performance and encourage prospective thinking, balanced against the possibility that some compensation structures can encourage unnecessary risk-taking. We balance our overall executive compensation packages using a combination of equity-based and cash awards, and we determine those awards on the basis of past performance, but in a manner the Committee believes promotes prospective success. For example, executives involved in our Fee Timber segment are rewarded based upon their demonstrated ability to balance short-term objectives, such as growing acreage and harvest volume, against longer-term strategic thinking that benefits unitholders by optimizing harvest volumes in relation to market prices for our logs. Similarly, our Real Estate executives are compensated not just on the basis of properties sold during a given period, but also on making investments in a particular property in relation to the value we can ultimately realize on the sale of that property in the future. While no program can insure against all avenues of inappropriate risk-taking, we believe our compensation policies and structures allow the committee sufficient flexibility to take into account all factors that might be relevant to an executive's performance, allowing us to reward success while doing so on a basis that avoids opportunistic or short-term thinking.

Long-Term Incentive Program (LTIP). The LTIP represents the Partnership's cash bonus plan for the CEO and other senior management personnel, and focuses on relative total unitholder return measured over a rolling three-year period ending on the last day of the fiscal year for which the award is to be computed. Specifically, at the beginning and end of each period, the Partnership measures the arithmetic average trading price of the Partnership's limited partner units over the sixty-trading day period preceding the first day and the last day of the three-year measurement period. The Partnership also takes into account all distributions to unitholders during that period, and compares the resulting total returns to those provided to security holders within a group of the Partnership's peers as measured using the same methodology. The peer group definition has evolved over time and has been based upon the recommendation of the Partnership's compensation consultant to include companies within the forest products industry, as well as those in real estate or agriculture deemed to have a strong focus on land or natural resources. The following group of 15 companies was used as a benchmark for the 2014-16 performance cycle.

Forest Products

Deltic (DEL)
Plum Creek (PCL) *
Potlatch (PCH)
Rayonier (RYN)
St. Joe (JOE)
CatchMark Timber Trust (CTT)
Weyerhaeuser (WY)

Real Estate

EastGroup Properties (EGP)
First Potomac (FPO)
Forestar Group Inc. (FOR)
Monmouth RE Investment (MNR)
Tejon Ranch (TRC)

Agriculture

Alico (ALCO)
Griffin Industrial Realty (GRIF)
Limoneira (LMNR)

* Note: PCL was acquired by WY in February 2016. PCL was included in the peer group as it was a separate company for the majority of this performance cycle.

Following the close of each rolling three-year LTIP performance period, the Committee ranks the Partnership's total unitholder return against those of the selected peer companies, and makes awards if the Partnership's total return is equal to or greater than the twentieth (20th) percentile. The fiftieth (50th) percentile within that ranking represents the Partnership's "target performance level," which results in a payout of 100% of the target LTIP bonus. The maximum award, which results in awards of 200% of the target LTIP amount, occurs when the Partnership is at or above the eightieth (80th) percentile. Actual payouts are determined in proportionate fashion when the total returns fall between the 20th (zero bonus) and 80th percentile (200% of target bonus). The Committee has the discretion to adjust award levels upward or downward by 20% of the actual formula bonus.

Participants in the LTIP. Participation in the LTIP is comprised of the CEO and other executives selected by the Committee, generally from executives who report directly to the CEO.

Performance Restricted Unit Plan ("PRU"). The PRU is the equity-based element of the Incentive Program, although awards can be made in cash, restricted units, or a combination of each. Awards from this component of the Incentive Program are based upon a target pool established at the beginning of each fiscal year and adjusted upward or downward as participants are added to or deleted from the Incentive Program. For 2016, the payout award pool consisted of 4,850 units for Mr. Ringo and 10,010 units for all other participants collectively.

Determination of Performance Awards. PRU awards are determined for the various participants on the basis of the participant's role in the Partnership's management, and are measured on the basis of the quality of performance and decision making against a broad spectrum of criteria, organized by business segment as follows:

Fee Timber. Fee Timber participants in the PRU are evaluated primarily on the basis of growth in our timberland holdings that, in turn, increase our sustainable harvest volume.

Timberland Investment Management. Timberland Investment Management participants are evaluated on the basis of investor capital commitments and internal rates of return for the Funds.

Real Estate. Because our real estate revenues vary tremendously with market conditions, and sale transactions are relatively infrequent, real estate participants are evaluated heavily on the estimated impact of entitlements and land improvements on the market value of our portfolio properties.

Corporate. Our corporate personnel are evaluated primarily on per unit growth in per unit distributable income.

The Committee has the discretion to adjust the award levels from 0% to 200% of the target award levels based on the quality of participants' performance and decision-making for the year. Awards may be adjusted below target levels in the event of poor performance or decision-making that exposes the Partnership to significant risk or loss, or above target levels for high-quality performance or generating or implementing decisions, plans or programs that are of major positive influence on the Partnership.

Mechanics of the PRU. Immediately following the end of each fiscal year, the Committee determines the size of the PRU pool based on their assessment of the quality of decision-making during the year. The Committee also identifies any events or decisions that merit special recognition for particular individuals or groups and, if so, determines the amount of any special PRU awards that are to be allocated to those participants. The PRU pool is established on the basis of these determinations, and each participant is allocated a specified performance value, which is then converted to a number of restricted units or, in the case of PRU awards paid in cash, based on the arithmetic average of the closing prices of the Partnership's limited partner units on Nasdaq on each of the sixty consecutive trading days ending on and including the last day of the relevant fiscal year. The Committee also determines the appropriate allocations between restricted units and cash awards based upon a compensation consultant's market study with some influence from our past practices of granting restricted units and cash bonuses. In general, the higher up in the management group, the greater the percentage of that individual's PRU award received in the form of restricted units. The percentage of each participant's PRU award paid in the form of restricted units was kept to simple options of 100%, 50%, or 0%. Restricted unit grants vest ratably, with 25% vesting on each of the first four anniversaries of the grant date, although the Committee has the discretion to vary such awards.

Participants in the PRU. In addition to the named executive officers, current participants in the PRU include 28 additional management personnel within two organizational levels below the Partnership's CEO. As job duties change, the participants may be modified by the committee.

Clawbacks. The Partnership's incentive compensation program is subject to the clawback provisions of the Dodd-Frank Act and Section 304 of the Carbaines-Oxley Act. The HR Committee reserves the right and option to require the return of incentive compensation paid pursuant to the Incentive Program in any instances of employee misconduct or a restatement of the Partnership's financial reports affecting the calculation of the payout amounts. The Partnership adheres to all applicable regulations of the SEC, NASDAQ, and other governmental authorities regarding obligations to seek disgorgement of erroneous or excessive compensation.

Perquisites and Other Personal Benefits. We do not provide perquisites or other personal benefits to our executive officers or senior managers. We do not own or lease aircraft for our executives' personal use or otherwise. Our health care and medical insurance programs, as well as our defined contribution retirement plan (401(k)), are the same for all salaried employees, including officers. Further information regarding our defined contribution plan is set forth below in the paragraph entitled "Defined Contribution Retirement Savings Plan."

Defined Benefit Pension Plans. None of our named executive officers participate in or have account balances in qualified or non-qualified defined benefit plans sponsored by us.

Defined Contribution Retirement Savings Plan. As of December 31, 2016 all our employees are eligible to participate in our defined contribution plan, which is a tax qualified plan pursuant to Section 401(k) of the Code. During each

of the years 2014 through 2016 the Partnership matched 50% of the employees' contributions up to 8% of compensation. Partnership contributions to the plan amounted to \$176,000, \$191,000, and \$182,000 for each of the years ended December 31, 2014, 2015, and 2016, respectively. Employees become fully vested in the Partnership's contribution over a six-year period. The Partnership does not discriminate between executive and non-executive employees with respect to any aspect of this plan.

Agreements Between the Partnership and Executive Officers. Each employee is employed at the will of the Partnership and does not have a term of guaranteed employment. We do not have any employment agreements with any of our named executive officers. We do have in place, however, a change in control agreement with the CEO (see discussion below).

Severance and Other Termination Benefits

The Committee recognizes that, as with all publicly traded entities, a change in control of Pope Resources or its Managing General Partner may occur and that the uncertainty created by this potential event could result in the loss or distraction of executives, with a resulting detriment to unitholders. To that end, Pope Resources has entered into a change in control agreement with Mr. Ringo that is intended to align his interests with the unitholders' by enabling him to promote the Partnership's interests in connection with strategic transactions that may be in the best interests of unitholders without undue concern for personal circumstances.

The Partnership's severance program is based on a "double trigger" mechanism, which means that upon the involuntary termination of the executive's employment (other than "for cause," and including resignation for certain specified reasons) within eighteen months after a change in control occurs, the following benefits would be provided:

- cash payments equal to two times Mr. Ringo's base salary, plus the executive's target bonus for the year in which the change in control occurred;
- immediate vesting of all outstanding unit option awards consistent with the terms of the Pope Resources 2005 Equity Incentive Plan; and
- continued coverage for Mr. Ringo and his dependents under Pope Resources' health and welfare plan for up to 18 months after termination.

The following table summarizes the cash payments that would have been due to Mr. Ringo if a change in control event had occurred on December 31, 2016.

Two times base salary	\$750,000
Target bonus	\$225,000
Total cash payments	\$975,000

No trusts are maintained to protect benefits payable to executives covered under these change in control agreements with any funding, as applicable, to come from the general assets of the Partnership.

Policy With Respect to \$1 Million Deduction Limit

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

Summary Compensation Table

The following table sets forth information regarding compensation earned by our named executive officers for the years 2014 through 2016:

Name and Principal Position	Year	Salary (\$)	Unit Awards (\$ (1))	Non-equity Incentive Program Compensation (\$ (2))	All Other Compensation (\$ (3))	Total (\$)
Thomas M. Ringo President and CEO President, CEO and CFO (4)	2016	366,667	317,675	142,160	24,491	850,993
	2015	325,000	166,400	160,000	22,445	673,845
	2014	225,605	83,903	180,000	23,900	513,408
Kevin C. Bates Vice President of Timberland Investments	2016	240,792	176,850	88,850	17,540	524,032
	2015	193,959	64,000	100,000	20,475	378,434
	2014	177,677	62,150	113,500	22,145	375,472
John D. Lamb Vice President and CFO (4)	2016	253,125	52,400	—	55,800	361,325
	2015	175,190	64,000	—	39,500	278,690
Jonathon P. Rose Vice President - Real Estate and President of Olympic Property Group	2016	209,271	89,080	88,850	19,700	406,901
	2015	204,167	64,000	100,000	20,995	389,162
	2014	194,997	62,150	113,500	20,635	391,282
David L. Nunes President and CEO (4)	2014	184,241	—	—	24,800	209,041

- (1) Amounts represent the market value on the date of grant of restricted units received in January 2017, 2016 and 2015, respectively, as compensation under the PRU plan for 2016, 2015 and 2014 performance. Expense will be recognized, however, over the four-year vesting period for each of these grants with 25% vesting each year.
- (2) Represents awards earned for each of the years 2014 through 2016 under the LTIP but paid out in January 2015, 2016, and 2017, respectively, as discussed in the Compensation Discussion and Analysis. Messrs. Ringo, Bates and Rose earned additional compensation of \$24,000, \$16,000 and \$16,000, respectively, in 2014 which was paid in June 2015. These amounts were awarded to recognize the additional responsibilities assumed by these individuals following the departure of Mr. Nunes until the appointment of Mr. Ringo as the permanent CEO.
- (3) Amounts represent matching contributions to the Partnership's 401(k) plan made by the Partnership on behalf of the executive, and distributions received by the executive on unvested restricted Partnership units (the value of the restricted units is described under footnote (1) above and not repeated here). For Mr. Lamb, the amount also includes \$37,500 earned in 2015 and paid in 2016 and \$50,000 earned in 2016 and paid in 2017 in recognition that he will not receive his first payment under the LTIP until 2018.
- (4) Mr. Nunes served as CEO until May 31, 2014. Mr. Ringo was designated interim CEO effective June 1, 2014, and continued in his role as CFO. Mr. Ringo became the Partnership's permanent CEO on December 1, 2014 and continued to serve as CFO until Mr. Lamb was designated CFO effective April 20, 2015.

Grants of Plan Based Awards Table

The following table supplements the Summary Compensation Table and lists both annual and long-term incentive awards made during 2016 to each named executive officer.

Name	Type of Award	Grant Date (2)	Estimated Future Payouts Under Non-Equity Incentive Program Awards (1)			Estimated Future Payouts Under Equity Incentive Program Awards			All Other Unit Awards: Number of Shares of Unit or Units (#) (3)	All Other Options Awards: Number of Securities Underlying Options (#)	Closing Price on Grant Date (\$/Sh)	Grant Date Fair Value of Stock and Option Awards (\$)
			Thresh -old (\$)	Target (\$)	Maximum (\$)	Thresh -old (\$)	Target (\$)	Maximum (\$)				
Thomas M Ringo President and CEO	LTIP 2016-18	None	—	225,000	450,000							
	RU	1/13/16						2,600		64.50	167,700	
Kevin C. Bates Vice President	LTIP 2016-18	None	—	80,000	160,000							
	RU	1/13/16						800		64.50	51,600	
John D. Lamb Vice President and CFO	LTIP 2016-18	None	—	80,000	160,000				—			
	RU	1/13/16						1000		64.50	64,500	
Jonathon P. Rose Vice President	LTIP 2016-18	None	—	50,000	100,000							
	RU	1/13/16						1,200		64.50	77,400	

(1) Reflects potential awards under the LTIP. The LTIP was implemented in 2010 with an initial “cycle” corresponding to the performance period 2008 – 10, a second cycle for the performance period 2009 – 11, and so on up through the ninth cycle for the performance period 2016 – 18 which is the only cycle shown in the table above since its performance period initiated in calendar year 2016. Payouts for the 2012-14, 2013-15, and 2014-16 cycles are reflected in the Summary Compensation Table (see footnote (2) from that table). A description of how the LTIP functions is described above under Long-Term Incentive Program (LTIP).

(2) No grant date attaches to LTIP cycles.

(3) Reflects the grant of time-based restricted units that will vest ratably over a four-year period on each of the four anniversaries of the grant dates.

Unit Incentive Program

In 2005 the Board of Directors of Pope MGP, Inc. adopted the Pope Resources 2005 Unit Incentive Program (the “Plan”) and terminated future awards under the Partnership’s 1997 Unit Option Plan. The Plan is administered by the Human Resources Committee. The purpose of the change to the Plan was to allow the Committee to award restricted units to employees and directors which the Committee believes provides a better alignment of interest with current unitholders than the unit option grants under the 1997 plan.

Units Available for Issuance

There are 1,105,815 units authorized under the Plan. As of December 31, 2016 there were 892,865 authorized but unissued units in the Plan.

Unit Options

There are currently no unexpired and unexercised options.

Vesting Schedule

Under the PRU plan, restricted units granted ordinarily vest ratably over four years, with 25% vesting on each anniversary of the grant. The administrator may vary this schedule in its discretion.

Unit Appreciation Rights

In addition to Unit grants, the administrator of the Plan may grant unit appreciation rights. Unit appreciation rights represent a right to receive the appreciation in value, if any, of the Partnership's units over the base value of the unit appreciation right. As of the date of this report, no unit appreciation rights have been granted under the Plan.

Adjustments, Changes in Our Capital Structure

The number and kind of units available for grant under the, as well as the exercise price of outstanding options, will be subject to adjustment by the Committee in the event of any merger or consolidation.

Administration

The Committee has broad discretion to determine all matters relating to securities granted under the Plan.

Amendment and Termination

The board of directors has the exclusive authority to amend or terminate the Plan, except as would adversely affect participants' rights to outstanding awards. As the plan administrator, the Committee has the authority to interpret the plan and options granted under the Plan and to make all other determination necessary or advisable for plan administration. In addition, as administrator of the Plan the Committee may modify or amend outstanding awards, except as would adversely affect participants' rights to outstanding awards without their consent.

Outstanding Equity Awards At Fiscal Year-End; Option Exercise and Units Vested

The following table summarizes the outstanding equity award holdings of our named executive officers as of December 31, 2016:

Name	Option Awards					Unit Awards			
	Number of Securities Underlying Unexercised Options Exercisable (#)	Number of Securities Underlying Unexercised Options Unexercisable (#)	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Unearned Options (#)	Option Exercise Price (\$)	Option Expiration Date	Number of Units That Have Not Vested (#)	Market Value of Units That Have Not Vested (\$)	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested (#)	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested (\$)
Thomas M. Ringo President and CEO	—	—	—			4,961	329,014	—	—
Kevin C. Bates Vice President	—	—	—			3,050	202,276	—	—
John D. Lamb Vice President and CFO	—	—	—			1,000	66,320	—	—
Jonathon P. Rose Vice President	—	—	—			3,250	215,540	—	—

The following table summarizes the number of units acquired and amounts realized by our named executive officers during the year ended December 31, 2016 on the vesting of restricted units.

Name	Option Awards		Unit Awards	
	Number of Units Acquired on Exercise	Value Realized on Exercise	Number of Units Acquired on Vesting	Value Realized on Vesting
	(#)	(\$)	(#) (1)	(\$)
Thomas M. Ringo President and CEO	—	—	2,026	131,956
Kevin C. Bates V.P. Timberland Investments	—	—	2,000	130,693
John D. Lamb Vice President and CFO	—	—	—	—
Jonathon P. Rose V.P. Real Estate	—	—	1,800	117,495

(1) Of the 2,026 units acquired upon vesting in 2016 by Mr. Ringo, he tendered back 548 units with an aggregate value of \$35,694 to the Partnership in lieu of paying cash for payroll taxes due on vesting. As such, Mr. Ringo retained a net position of 1,478 of these units. Of the 1,800 units acquired upon vesting in 2016 by Mr. Rose, he tendered back 487 units with an aggregate value of \$31,781 to the Partnership in lieu of paying cash for payroll taxes due on the vesting. As such, Mr. Rose retained a net position of 1,313 of these units.

Officer Unit Ownership Guidelines

In January 2016, the Partnership adopted unit ownership guidelines under which the President/CEO should hold units with a value of five times annual base salary. These guidelines are effective for our 2016 fiscal year but the President/CEO has five years to satisfy the guideline. We do not have formal unit ownership guidelines for our other named executive officers. As of February 17, 2017, Messrs. Ringo, Lamb, Bates and Rose owned units of Pope Resources that had the following values expressed as multiples of 2016 base salary. In addition, the table below outlines in a relative sense how the respective ownership positions of each named executive officer was obtained.

	Thomas M. Ringo	Kevin C. Bates	John D. Lamb	Jonathan P. Rose
A Total # of units owned - excluding unvested restricted units	24,006	19,494	1,000	6,313
B Value of units owned - excluding unvested restricted units	\$ 1,691,943	\$ 1,373,937	\$ 70,480	\$ 444,940
C Base salary	\$ 375,000	\$ 250,000	\$ 253,750	\$ 210,125
Value divided by salary - B/C	4.5	5.5	0.3	2.1
% of A acquired via:				
Open market purchase	8%	6%	75%	—%
Exercise of options	37%	19%	—%	26%
Vesting of restricted units	55%	75%	25%	74%
D Total # of unvested restricted units	7,811	4,050	1,550	3,010
E Value of unvested restricted units	\$ 550,519	\$ 285,444	\$ 109,244	\$ 212,145
Value divided by salary - E/C	1.5	1.1	0.4	1.0
F Combined value of all owned units - B plus E	\$ 2,242,462	\$ 1,659,381	\$ 179,724	\$ 657,085
Value divided by salary - F/C	6.0	6.6	0.7	3.1

Director Compensation

Compensation of the outside directors of Pope MGP, Inc. consists of a quarterly retainer of \$7,500. The Lead Director receives a quarterly retainer of \$2,000. Members of the Audit Committee and Human Resources Committee receive additional quarterly retainers of \$1,875 and \$1,250, respectively. The Chairman of the Audit Committee and the Human Resources Committee receive an additional quarterly retainer of \$3,125 and \$2,000, respectively. Directors may elect to receive all or a portion of their director fees in units rather than cash. The number of units issued as payment for the quarterly retainers is

determined by dividing the retainer amount by the closing price on the last trading day of each fiscal quarter, rounded down to the nearest whole unit. The remaining retainer amount is paid in cash.

The following table sets forth a summary of the compensation we paid to our non-employee directors for their services as such in 2016:

Name	Fees Earned or Paid in Cash (\$)	Unit Awards (\$ (1))	Option Awards (\$ (2))	Non-Equity Incentive Program Compensation (\$)	Change in Pension Value and Non-qualified Deferred Compensation Earnings	All Other Compensation (\$ (3))	Total (\$)
William R. Brown	53,790	50,052	—	—	—	4,273	108,115
John E. Conlin	130	100,422	—	—	—	8,473	109,025
Sandy D. McDade (4)	15,499	—	—	—	—	66,299	81,798
Maria M. Pope	160	84,892	—	—	—	8,473	93,525
J. Thurston Roach (4)	30,015	50,052	—	—	—	4,236	84,303

- (1) Amounts include the market value on the date of grant (January 13, 2016) of restricted units received during the year. These units are subject to a trading restriction until the units vest. These unit grants vest ratably over four years, with 25% vesting on each anniversary of the grant. In addition, amounts include units with a value of \$50,370 for Mr. Conlin and \$34,840 for Ms. Pope who elected to receive their quarterly retainers in the form of units. For each of Messrs. Conlin and Roach, a total of 750 restricted units granted during fiscal year 2012 vested and became eligible for trading on January 11, 2016. For Mr. Conlin, Mr. Roach and Ms. Pope, 750 units granted during fiscal year 2013 vested and became eligible for trading on January 11, 2016. For Mr. Roach, an additional 750 units vested and became eligible for trading on his retirement effective September 6, 2016.
- (2) No options were awarded in 2016.
- (3) Amounts represent distributions received on unvested restricted Partnership units. For Mr. McDade, amounts also include fees earned of \$14,167 and a unit grant with a market value on the date of grant (May 6, 2016) of \$50,019 received in his capacity as a board advisor prior to his election as director effective September 6, 2016, and \$568 for consultation services.
- (4) Mr. Roach retired and was succeeded by Mr. McDade effective September 6, 2016.

Report of the Human Resources Committee on Executive Compensation

The Human Resources Committee of the General Partner's Board of Directors has reviewed and discussed the contents of this Compensation Discussion and Analysis, required by Item 402(b) of SEC Regulation S-K, with the Partnership's management and, based on such review and discussions, recommended to the General Partner's Board of Directors that it be included in this Annual Report on Form 10-K.

The Committee's report is also intended to describe in general terms the process the Committee undertakes and the matters it considers in determining the appropriate compensation for the Partnership's executive officers: Messrs. Ringo, Lamb, Bates, and Rose.

Composition of the Committee

The Committee is comprised of William R. Brown, John E. Conlin, Sandy D. McDade, and Maria M. Pope. Mr. Conlin served as Committee Chair during 2016. J. Thurston Roach served on the Committee until his retirement from the Board in September. None of the members are or were officers or employees of the Partnership or the General Partner.

Conclusion

The Human Resources Committee believes that for 2016 the compensation terms for Messrs. Ringo, Lamb, Bates, and Rose, as well as for our other management personnel, were clearly related to the realization of the goals and strategies established by the Partnership. The discussion set forth in this section entitled "Compensation Discussion and Analysis" is hereby adopted as the Report of the Human Resources Committee for the year ended December 31, 2016.

John E. Conlin, Chair
William R. Brown
Sandy D. McDade
Maria M. Pope

Audit Committee Report on Financial Statements

The Audit Committee of the General Partner's Board of Directors has furnished the report set forth in the following section entitled "Responsibilities and Composition of the Audit Committee" on the Partnership's year-end financial statements and audit for fiscal year 2016. The Audit Committee's report is intended to identify the members of the Audit Committee and describe in general terms the responsibilities the Audit Committee assumes, the process it undertakes, and the matters it considers in reviewing the Partnership's financial statements and monitoring the work of the Partnership's external auditors.

Responsibilities and Composition of the Audit Committee

The Audit Committee is responsible for (1) hiring the Partnership's independent registered public accounting firm and overseeing their performance of the audit functions assigned to them, (2) approving any non-audit services to be provided by the external auditors, and (3) approving all fees paid to the independent registered public accounting firm. Additionally, the Audit Committee reviews the Partnership's quarterly and year-end financial statements with management and the independent registered public accounting firm. The Board of Directors has adopted an Audit Committee Charter filed as in Exhibit 3.12 to this Annual Report on form 10-K.

The Audit Committee is comprised of William R. Brown, John E. Conlin, and Sandy D. McDade. Mr. Brown serves as Audit Committee Chair. J. Thurston Roach served as the Chairman of the Committee until his retirement from the Board in September. All members of the Audit Committee are independent as defined under NASDAQ Rule 5605(a)(2) and Exchange Act Section 10A(m)(3), and all are financially literate. Mr. Brown is designated as a "financial expert" for purposes of NASDAQ Rule 5605(c)(2)(A).

During the year, the Audit Committee reviewed with the Partnership's management and with its independent registered public accounting firm the scope and results of the Partnership's internal and external audit activities and the effectiveness of the Partnership's internal control over financial reporting. The Audit Committee also reviewed current and emerging accounting and reporting requirements and practices affecting the Partnership. The Audit Committee discussed certain matters with the Partnership's independent registered public accounting firm and received certain disclosures from the independent registered public accounting firm regarding their independence. All fees paid during the year to the Partnership's external auditor were reviewed and pre-approved by the Audit Committee. The Audit Committee has also made available to employees of the Partnership and its subsidiaries a confidential method of communicating financial or accounting concerns to the Audit Committee and periodically reminds the employees of the availability of this communication system to report those concerns.

Conclusion

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

William R. Brown, Chair
John E. Conlin
Sandy D. McDade

Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED SECURITY HOLDER MATTERS

Principal Unitholders

As of February 17, 2017, the following persons were known or believed by the Partnership (based solely on statements made in filings with the SEC or other information we believe to be reliable) to be the beneficial owners of more than 5% of the outstanding Partnership units:

Name and Address of Beneficial Owner	Number Of Units ⁽¹⁾	Percent of Class
James H. Dahl 501 Riverside, Suite 902 Jacksonville, FL 32202	514,202 (2)	11.8
Emily T. Andrews 601 Montgomery Street Suite 2000 San Francisco, CA 94111	498,203 (3)	11.4
Pictet Asset Management SA 60 Route des Acacias 1211 Geneva 73 Switzerland	362,680 (4)	8.3
Maria M. Pope 133 SW 2nd Ave., Ste. 301 Portland, OR 97204	323,425 (5)	7.4

- (1) Each beneficial owner has sole voting and investment power unless otherwise indicated. Includes restricted units that are unvested since beneficial owner receives distributions on all such restricted units.
- (2) Mr. Dahl filed a Schedule 13G on February 5, 2016 that indicates he is the direct beneficial owner of 147,652 Partnership units, that he owns another 212,579 units through various trusts over which he retains sole voting and investment power, and that he owns another 153,971 units for which he shares voting and dispositive power.
- (3) Includes a total of 60,000 units held by Pope MGP, Inc., and Pope EGP, Inc., the Partnership's general partners, attributable to Mrs. Andrews by virtue of that certain Shareholders Agreement entered into by and among Pope MGP, Inc., Pope EGP, Inc., Peter T. Pope, Emily T. Andrews, Pope & Talbot, Inc., present and future directors of Pope MGP, Inc. and the partnership, dated as of November 7, 1985. Mrs. Andrews is deemed to exercise shared voting and dispositive power over units held by the general partners because of her relationship to the Emily T. Andrews 1987 Revocable Trust, over which she holds or shares control. Mrs. Andrews disclaims beneficial ownership of units held by the general partners except to the extent of her pecuniary interest therein.
- (4) Pictet Asset Management filed a Schedule 13G on February 13, 2017 that indicates it has shared voting and investment power over these units.
- (5) Includes (a) 239,317 units held by a limited liability company controlled by Ms. Pope; (b) 2,471 unvested restricted units; (c) 1,125 units held jointly with Ms. Pope's spouse for which she disclaims beneficial ownership; (d) 20,167 units held in trust for Ms. Pope's children for which she disclaims beneficial ownership; and (e) 60,000 units held by Pope MGP, Inc. and Pope EGP, Inc., as to which she shares investment and voting power pursuant to the shareholders agreement referenced in Footnote (3). Ms. Pope is deemed to exercise shared voting and dispositive power over units held by the general partners because of her position as trustee of the Pope Family Trust dated 1986. Ms. Pope disclaims beneficial ownership of units held by the general partners except to the extent of her pecuniary interest therein.

Management

As of February 17, 2017, the beneficial ownership of the Partnership units of (1) the named executives (2) the directors of the Partnership's general partners, (3) the general partners of the Partnership, and (4) the Partnership's officers, directors and general partners as a group, was as follows. **

Name	Position and Offices	Number of Units ⁽¹⁾	Percent of Class
Thomas M. Ringo	Director, President and CEO, Pope MGP, Inc. and the Partnership	31,817 ⁽²⁾	*
William R. Brown	Director, Pope MGP, Inc.	2,290 ⁽³⁾	*
John E. Conlin	Director, Pope MGP, Inc.	26,970 ⁽⁴⁾	*
Sandy D. McDade	Director, Pope MGP, Inc.	1,500 ⁽⁵⁾	*
Maria M. Pope	Director, Pope MGP, Inc.	323,425 ⁽⁶⁾	7.4
John D. Lamb	Vice President and CFO	2,550 ⁽⁷⁾	*
Kevin C. Bates	Vice President of Timberland Investments	23,544 ⁽⁸⁾	*
Jonathan P. Rose	Vice President – Real Estate and President of Olympic Property Group	9,323 ⁽⁹⁾	*
Pope MGP, Inc.	Managing General Partner of the Partnership	6,000	*
Pope EGP, Inc.	Equity General Partner of the Partnership	54,000	1.2
All General partners, directors and officers of general partners, and officers of the Partnership as a group (8 individuals and 2 entities)		421,419 ⁽¹⁰⁾	9.6

* Less than 1%

** The address of each of these parties is c/o Pope Resources, 19950 Seventh Avenue NE, Suite 200, Poulsbo, WA 98370.

- (1) Each beneficial owner has sole voting and investment power unless otherwise indicated. Includes restricted units that are unvested since beneficial owner receives distributions on all such restricted units.
- (2) Includes 7,811 unvested restricted units.
- (3) Includes 2,096 unvested restricted units.
- (4) Includes 2,471 unvested restricted units.
- (5) Consists of unvested restricted units
- (6) Includes 239,317 units held by a limited liability company controlled by Ms. Pope; 2,471 unvested restricted units and 1,125 units held jointly with Ms. Pope's spouse for which she disclaims beneficial ownership. Also includes 20,187 units held in trust for Ms. Pope's children for which she disclaims beneficial ownership and 60,000 units held by Pope MGP, Inc. and Pope EGP, Inc., as to which she shares investment and voting power.
- (7) Includes 1,550 unvested restricted units.
- (8) Includes 4,050 unvested restricted units.
- (9) Includes 3,010 unvested restricted units.
- (10) For this computation, the 60,000 units held by Pope MGP, Inc. and Pope EGP, Inc. are excluded from units beneficially owned by Ms. Pope. Includes 24,959 unvested restricted units.

Equity Compensation Plan Information

The following table presents certain information with respect to the Partnership's equity compensation plans and awards thereunder on December 31, 2016.

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
	(a)	(b)	(c)
Equity compensation plans approved by security holders	-	N/A	892,865
Equity compensation plans not approved by security holders	-	-	-
Total	-	N/A	892,865

Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

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

General Partner Fee. Pope MGP, Inc. receives an annual fee of \$150,000, and reimbursement of administrative costs for its services as managing general partner of the Partnership, as stipulated in the Partnership Agreement. In accordance with our governing documents, two of the directors of the Pope MGP, Inc. are appointed by each of its two stockholders. Maria M. Pope is currently a director and stockholder of Pope MGP, Inc.

Director Independence

With the exception of Mr. Ringo, our Chief Executive Officer, and subject to the above discussions regarding the relationships between the Partnership and the Managing General Partner, all of the directors of the Managing General Partner are independent under applicable laws and regulations and the listing standards of NASDAQ.

Item 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The following table summarizes fees related to the Partnership's principal accountants, KPMG LLP, during 2016 and 2015.

Description of services	2016	%	2015	%
Audit (1)	\$ 454,670	89%	\$ 477,930	88%
Audit related (2)	54,450	11%	64,360	12%
Tax (3)	—	—	—	—
All other fees (4)	1,780	—%	\$ 1,650	—%
Total	\$ 510,900	100%	\$ 542,290	100%

- (1) Fees represent the arranged fees for the years presented, including the annual audit of internal controls as mandated under Sarbanes-Oxley section 404, and out-of-pocket expenses reimbursed during the years presented.
- (2) Fees represent the arranged fees for the years presented in connection with the audits of ORM Timber Operating Company II, LLC, and ORM Timber Fund III (REIT) Inc.
- (3) Fees paid for professional services in connection with tax consulting.
- (4) Subscription to KPMG LLP's Accounting Research Online tool.

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

PART IV

Item 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULE

Financial Statements

	Page
Reports of independent registered public accounting firm	53
Consolidated balance sheets	55
Consolidated statements of comprehensive income	56
Consolidated statements of partners' capital	57
Consolidated statements of cash flows	58
Notes to consolidated financial statements	60

Exhibits.

<u>No.</u>	<u>Document</u>
3.1	Certificate of Limited Partnership. (1)
3.2	Limited Partnership Agreement, dated as of November 7, 1985. (1)
3.3	Amendment to Limited Partnership Agreement dated December 16, 1986. (2)
3.4	Amendment to Limited Partnership Agreement dated March 14, 1997. (4)
3.5	Certificate of Incorporation of Pope MGP, Inc. (1)
3.6	Amendment to Certificate of Incorporation of Pope MGP, Inc. (3)
3.7	Bylaws of Pope MGP, Inc. (1)
3.8	Certificate of Incorporation of Pope EGP, Inc. (1)
3.9	Amendment to Certificate of Incorporation of Pope EGP, Inc. (3)
3.10	Bylaws of Pope EGP, Inc. (1)
3.11	Amendment to Limited Partnership Agreement dated October 30, 2007. (7)
3.12	Audit Committee Charter. (5)
4.1	Specimen Depository Receipt of Registrant. (1)
4.2	Limited Partnership Agreement dated as of November 7, 1985, as amended December 16, 1986 and March 14, 1997 (see Exhibits 3.2, 3.3 and 3.4).
4.3	Pope Resources 2005 Unit Incentive Plan. (6)
9.1	Shareholders Agreement entered into by and among Pope MGP, Inc., Pope EGP, Inc., Peter T. Pope, Emily T. Andrews, P&T, present and future directors of Pope MGP, Inc. and the Partnership, dated as of November 7, 1985 included as Appendix C to the P&T Notice and Proxy Statement filed with the Securities and Exchange Commission on November 12, 1985, a copy of which was filed as Exhibit 28.1 to the Partnership's registration on Form 10 identified in footnote (1) below. (1)
10.1	Form of Change of control agreement. (5)
10.2	Second Amended and Restated Master Loan Agreement between Pope Resources and Northwest Farm Credit Services, FLCA dated July 20, 2016. (13)
10.3	Second Amended and Restated Master Loan Agreement between Pope Resources and Northwest Farm Credit Services, PCA dated July 20, 2016. (13)
10.4	Mortgage, Financing statement and Fixture Filing executed by Pope Resources in favor of Northwest Farm Credit Services, FLCA dated June 10, 2010. (8)
10.5	Mortgage, Financing statement and Fixture Filing executed by Pope Resources in favor of Northwest Farm Credit Services, PCA dated June 10, 2010. (8)
10.6	First Amended and Restated Term Note from Pope Resources to Northwest Farm Credit Services, FLCA dated June 10, 2010. (8)

- 10.7 Term Note from Pope Resources to Northwest Farm Credit Services, FLCA dated June 10, 2010. (8)
- 10.8 Note and Loan Agreement between Pope Resources and Northwest Farm Credit Services, FLCA dated July 20, 2016. (13)
- 10.9 Note and Loan Agreement between Pope Resources and Northwest Farm Credit Services, FLCA dated August 4, 2016. (13)
- 10.10 Amended and Restated Note and Loan Agreement between Seventh Avenue Poulso, LLC and Northwest Farm Credit Services, FLCA dated September 30, 2016. (14)
- 10.11 Revolving Operating Note from Pope Resources to Northwest Farm Credit Services, PCA dated April 1, 2015. (12)
- 10.12 Loan Agreement between ORM Timber Operating Company II, LLC and Metropolitan Life Insurance Company dated September 1, 2010. (8)
- 10.13 First Amendment to Loan Agreement between ORM Timber Operating Company II, LLC and Metropolitan Life Insurance Company dated February 7, 2011. (8)
- 10.14 Promissory Note from ORM Timber Operating Company II, LLC to Metropolitan Life Insurance Company dated September 1, 2010. (8)
- 10.15 Guaranty by ORM Timber Fund II, Inc. in favor of Metropolitan Life Insurance Company dated September 1, 2010. (8)
- 10.16 Deed of Trust, Security Agreement, Assignment of Leases and Rents and Fixture Filing between ORM Timber Operating Company II, LLC and Metropolitan Life Insurance Company dated September 1, 2010. (8)
- 10.17 Trust Deed, Security Agreement, Assignment of Leases and Rents and Fixture Filing between ORM Timber Operating Company II, LLC and Metropolitan Life Insurance Company dated September 1, 2010. (8)
- 10.18 Second Amendment to Loan Agreement between ORM Timber Operating Company II, LLC and Metropolitan Life Insurance Company dated August 15, 2013. (10)
- 10.19 Promissory Note from ORM Timber Operating Company II, LLC to Metropolitan Life Insurance Company dated August 15, 2013. (10)
- 10.20 Amendment and Reaffirmation of Guaranty by ORM Timber Fund II, Inc. in favor of Metropolitan Life Insurance Company dated August 15, 2013. (10)
- 10.21 First Amendment to Deed of Trust, Security Agreement, Assignment of Leases and Rents and Fixture Filing between ORM Timber Operating Company II, LLC and Metropolitan Life Insurance Company dated August 15, 2013. (10)
- 10.22 First Amendment to Trust Deed, Security Agreement, Assignment of Leases and Rents and Fixture Filing between ORM Timber Operating Company II, LLC and Metropolitan Life Insurance Company dated August 15, 2013. (10)
- 10.23 Master Loan Agreement among ORM Timber Fund III (REIT) Inc. and Northwest Farm Credit Services, FLCA and Northwest Farm Credit Services, PCA dated December 2, 2013. (10)
- 10.24 Promissory Note from ORM Timber Fund III (REIT) Inc. to Northwest Farm Credit Services, FLCA dated December 2, 2013. (10)
- 10.25 Mortgage, Assignment of Rents, Security Agreement, Financing Statement and Fixture Filing between ORM Timber Fund III (REIT) Inc. and Northwest Farm Credit Services, FLCA dated December 2, 2013 (Grays Harbor County). (10)

10.26	Mortgage, Assignment of Rents, Security Agreement, Financing Statement and Fixture Filing between ORM Timber Fund III (REIT) Inc. and Northwest Farm Credit Services, FLCA dated December 2, 2013 (Pacific County). (10)
10.27	Mortgage, Assignment of Rents, Security Agreement, Financing Statement and Fixture Filing between ORM Timber Fund III (REIT) Inc. and Northwest Farm Credit Services, FLCA dated December 2, 2013 (Siskiyou County). (10)
10.28	Guaranty Agreement by ORM Timber Fund III LLC and ORM Timber Fund III (Foreign) LLC in favor of Northwest Farm Credit Services, FLCA dated December 2, 2013. (10)
10.29	Guaranty Agreement by ORM Timber Fund III LLC and ORM Timber Fund III (Foreign) LLC in favor of Northwest Farm Credit Services, FLCA dated December 2, 2013. (10)
10.30	Amendment No. 3 to Master Loan Agreement among ORM Timber Fund III (REIT) Inc. and Northwest Farm Credit Services, FLCA and Northwest Farm Credit Services, PCA dated October 14, 2014. (11)
10.31	Amendment No. 5 to Master Loan Agreement among ORM Timber Fund III (REIT) Inc. and Northwest Farm Credit Services, FLCA and Northwest Farm Credit Services, PCA dated November 11, 2016. (14)
10.32	Promissory Note from ORM Timber Fund III (REIT) Inc. to Northwest Farm Credit Services, FLCA dated October 14, 2014. (11)
10.33	Mortgage, Financing Statement and Fixture Filing between ORM Timber Fund III (REIT) Inc. and Northwest Farm Credit Services, PCA dated October 14, 2014. (11)
10.34	Mortgage, Financing Statement and Fixture Filing between ORM Timber Fund III (REIT) Inc. and Northwest Farm Credit Services, FLCA dated October 14, 2014. (11)
21.1	Significant Subsidiaries. (14)
23.1	Consent of Registered Independent Public Accounting Firm. (14)
31.1	Certificate of Chief Executive Officer. (14)
31.2	Certificate of Chief Financial Officer. (14)
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. (14)
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. (14)
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

(1) Incorporated by reference from the Partnership's registration on Form 10 filed under File No. 1-9035 and declared effective on December 5, 1985.

- (2) Incorporated by reference from the Partnership's annual report on Form 10-K for the fiscal year ended December 31, 1987.
- (3) Incorporated by reference from the Partnership's annual report on Form 10-K for the fiscal year ended December 31, 1988.
- (4) Incorporated by reference from the Partnership's Proxy Statement filed on February 14, 1997.
- (5) Incorporated by reference to the Partnership's annual report on Form 10-K for the fiscal year ended December 31, 2005.
- (6) Filed with Form S-8 on September 9, 2005.
- (7) Incorporated by reference to the Partnership's annual report on Form 10-K for the fiscal year ended December 31, 2007.
- (8) Incorporated by reference to the Partnership's annual report on Form 10-K for the fiscal year ended December 31, 2010.
- (9) Incorporated by reference to the Partnership's annual report on Form 10-K for the fiscal year ended December 31, 2012.
- (10) Incorporated by reference to the Partnership's annual report on Form 10-K for the fiscal year ended December 31, 2013.
- (11) Incorporated by reference to the Partnership's annual report on form 10-K for the fiscal year ended December 31, 2014.
- (12) Incorporated by reference to the Partnership's quarterly report on Form 10-Q for the fiscal quarter ended March 31, 2015.
- (13) Incorporated by reference to the Partnership's quarterly report on Form 10-Q for the fiscal quarter ended September 30, 2016.
- (14) Filed with this annual report on Form 10-K for the fiscal year ended December 31, 2016.

SIGNATURES

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

POPE RESOURCES, A Delaware
Limited Partnership

By POPE MGP, INC.
Managing General Partner

Date: March 1, 2017

By /s/ Thomas M. Ringo

President and Chief Executive Officer

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

Date: March 1, 2017

By /s/ Thomas M. Ringo

Thomas M. Ringo,
President and Chief Executive Officer
(principal executive officer),
Partnership and Pope MGP, Inc.; Director, Pope
MGP, Inc.

Date: March 1, 2017

By /s/ John D. Lamb

John D. Lamb
Vice President and Chief Financial Officer
(principal financial officer),
Partnership and Pope MGP, Inc.

Date: March 1, 2017

By /s/ Sean M. Tallarico

Sean M. Tallarico
Controller (principal accounting officer),
Partnership

Date: March 1, 2017

By /s/ William R. Brown

William R. Brown
Director, Pope MGP, Inc.

Date: March 1, 2017

By /s/ John E. Conlin

John E. Conlin
Director, Pope MGP, Inc.

Date: March 1, 2017

By /s/ Sandy D. McDade

Sandy D. McDade
Director, Pope MGP, Inc.

Date: March 1, 2017

By /s/ Maria M. Pope

Maria M. Pope
Director, Pope MGP, Inc.

Date: September 30, 2016

AMENDED AND RESTATED NOTE AND LOAN AGREEMENT

(Long Term with Multiple Pricing Options)

THIS AMENDED AND RESTATED NOTE AND LOAN AGREEMENT (this “Note”) is made and entered into effective September 30, 2016, by and between Lender, as defined below, and Borrower, as defined below. This Note amends and restates, in its entirety, the Note and Loan Agreement, dated December 20, 2012, by and between Lender, as defined below, and Borrower, as defined below (the “Prior Note”) pursuant to which Lender made available and continues to make available the Total Commitment Amount, as defined below.

RECITALS

Whereas, Guarantor entered into that certain Second Amended and Restated Master Loan Agreement dated as of July 20, 2016 (as amended, restated, modified or otherwise supplemented from time to time, the “FLCA Loan Agreement”) with Lender pursuant to which Lender agreed, among other things, to make two additional loans to Guarantor and Second Amended and Restated Master Loan Agreement dated as of July 20, 2016 (as amended, restated, modified or otherwise supplemented from time to time, the “PCA Loan Agreement” and together with the FLCA Loan Agreement and PCA Loan Agreement, the “Guarantor Loan Agreements”) with Northwest Farm Credit Services, PCA (“PCA Lender”) pursuant to which certain amendments and restatements of the First Amended and Restated Master Loan Agreement dated as of June 10, 2010 between Guarantor and PCA Lender were made;

Whereas, among other things, certain financial covenants applicable to Guarantor were amended and restated in connection with the effectiveness of the Guarantor Loan Agreements;

Whereas, Lender has agreed to amend and restate the Prior Note to harmonize, among other things, the financial covenants applicable to Guarantor set forth in the Guarantor Loan Agreements with the financial covenants set forth in the Prior Note.

Now therefore, in consideration of the mutual covenants and agreements herein contained, the parties hereto covenant and agree as follows:

NOTE

For Value Received, on the Loan Maturity Date, Borrower, as defined below, promises to pay to Lender, as defined below, or order, at its office in Spokane, Washington, or at such other place as the holder of this Note may designate in writing, the principal balance of **Three Million and No/100’s Dollars (\$3,000,000.00)** (the “Total Commitment Amount”), or so much thereof as may be outstanding, plus interest thereon from and after any Disbursement Date, at interest rates as provided for hereafter. For all intents and purposes, all Loan Segments are treated as one obligation under this Note and the other Loan Documents.

1. Definitions and Interpretations.

1.01 Defined Terms. For purposes of this Note, the following definitions apply. Capitalized terms not otherwise defined herein shall have the meanings given in the Membership Agreement dated of or around even date herewith.

“Adjusted Consolidated EBITDDA” means, for any period, for Guarantor and its Subsidiaries on a consolidated basis, the sum of: (a) Consolidated Net Income; (b) Consolidated Interest Expense; (c) consolidated depreciation expense; (d) consolidated amortization expense; and (e) consolidated depletion expense; (f) plus or minus, as the case may be, Consolidated Taxes, all as determined in accordance with GAAP, (g) distributions received by the Guarantor and its Wholly Owned Subsidiaries from non-Wholly Owned Subsidiaries, but excluding from the foregoing the net income,

interest expense, depreciation expense, amortization expense, depletion expense, interest expense and income taxes associated with non-Wholly Owned Subsidiaries.

“Adjusted Consolidated Interest Coverage Ratio” means, as of any date of determination for the prior four (4) Fiscal Quarters ending on such date, the ratio of (a) Adjusted Consolidated EBITDDA to (b) Consolidated Interest Expense, excluding the portion of interest expense associated with non-Wholly Owned Subsidiaries.

“Adjusted Partners’ Capital” means the GAAP based amount of the capital account of the partners of Guarantor and its Wholly-Owned Subsidiaries, adjusted for book to market value differences in Fee Timberlands based upon the most recent appraisals delivered pursuant to the terms and conditions set forth in the Guarantor Loan Agreements, as calculated on Exhibit C.

“Adjusted Principal Balance” of any Loan Segment on any date is the unpaid principal balance of such Loan Segment minus the principal payments that are due on or before such date and are unpaid on such date.

“Affiliate” means, with respect to any Person, another Person that directly, or indirectly through one or more intermediaries, Controls or is Controlled by or is under common Control with the Person specified.

“Anti-Terrorism Laws” means any Laws relating to terrorism, money laundering or bribery, and any regulation, order or directive promulgated, issued or enforced pursuant to such Laws, all as amended, supplemented or replaced from time to time, including without limitation any Law originated with respect to OFAC.

“Applicable Margin” means, for purposes of calculating the applicable interest rate for any day for a Loan Segment, the percentage set forth below which corresponds to the elected Rate Option:

Rate Options Applicable Margin

Base Rate	2.35 %
1-Year	1.75 %
3-Years	1.75 %
5-Years	1.75 %
7-Years	1.75 %
10-Years	1.75 %

“Asset Disposition” means any sale, lease, transfer or other disposition (including any such transaction effected by way of merger, amalgamation or consolidation) by Borrower of any asset (including stock or other equity interests in Borrower), including without limitation, any sale leaseback transaction (whether or not involving a Capital Lease), but excluding (a) the sale of inventory in the ordinary course of business for fair consideration, (b) the sale or disposition of obsolete machinery and equipment no longer used or useful in the conduct of such Person’s business (except for assets which are security for Lender’s Loan), (c) the sale of or realization on delinquent receivables and (d) equipment disposed of during any Fiscal Year, which in the aggregate is not Material.

“Bankruptcy Code” means the Bankruptcy Code in Title 11 of the United States Code, as amended, modified, succeeded or replaced from time to time.

“Bankruptcy Event” means, with respect to any Person, the occurrence of any of the following with respect to such Person: (a) a court or governmental agency having jurisdiction in the premises shall enter a decree or order for relief in respect of such Person in an involuntary case under any applicable bankruptcy, insolvency or other similar Law now or hereafter in effect, or appointing a receiver, liquidator, assignee, custodian, trustee, sequestrator (or similar official) of such Person, or for any substantial part of its Property, or ordering the winding up or liquidation of its affairs; or (b) there shall be commenced against such Person an involuntary case under any applicable bankruptcy, insolvency or other similar Law now or hereafter in effect, or any case, proceeding or other action for the appointment of a receiver, liquidator, assignee, custodian, trustee, sequestrator (or similar official) of such Person, or for any substantial part of its Property, or for the winding up or liquidation of its affairs, and such involuntary case or other

case, proceeding or other action shall remain undismissed, undischarged or unbonded for a period of 60 consecutive days; or (c) such Person shall commence a voluntary case under any applicable bankruptcy, insolvency or other similar Law now or hereafter in effect, or consent to the entry of an order for relief in an involuntary case under any such Law, or consent to the appointment or taking possession by a receiver, liquidator, assignee, custodian, trustee, sequestrator (or similar official) of such Person, or for any substantial part of its Property, or make any general assignment for the benefit of creditors; or (d) such Person shall be unable to, or shall admit in writing its inability to, pay its debts generally as they become due.

“Base Rate” shall have the meaning given in Paragraph 4.01 hereof.

“Base Rate Loan Segment” means the principal portion of the Loan plus accrued interest priced using the Base Rate.

“Biennial Appraised Timberland Value” means the value determined pursuant to the most recent biennial appraisal of Guarantor’s timberland.

“Borrower” means Seventh Avenue Poulsbo, LLC, a Washington limited liability company.

“Borrower’s Obligations” means, without duplication, all of the obligations of Borrower to Lender whenever arising, under this Note and any of the other Loan Documents, including without limitation, all principal, interest, monies advanced on behalf of Borrower under the terms of the Loan Documents, and taxes, insurance premiums, costs and expenses, and fees and any amounts that would have accrued but for the automatic stay under the Bankruptcy Code, and any obligations under any Swap Contract between Borrower and any Swap Issuer, whenever arising.

“Breakage Fee” shall have the meaning given in Paragraph 6.02 hereof.

“Business Day” means any day Lender is open for business in Spokane, Washington, except it shall not include Saturday, Sunday or a day that commercial banks in Spokane, Washington are closed; provided however that, for purposes of defining any date upon which an interest rate shall be determined by Lender using an Index Source other than published by Lender, Business Day means any day Lender and the Index Source are open for business except it shall not include Saturday, Sunday or a day that commercial banks in Spokane, Washington are closed.

“Calculation Date” means the first three Fiscal Quarter-Ends and the Fiscal Year-End of Guarantor.

“Capital Lease” means, as applied to any Person, any lease of any Property by that Person as lessee which, in accordance with GAAP, is or should be accounted for as a capital lease on the balance sheet of that Person.

“Capital Stock” means (i) in the case of a corporation, capital stock, (ii) in the case of an association or business entity, any and all shares, interests, participations, rights or other equivalents (however designated) of capital stock, (iii) in the case of a partnership, partnership interests (whether general or limited), (iv) in the case of a limited liability company, membership interests, and (v) any other interest or participation that confers on a Person the right to receive a share of the profits and losses of, or distribution of assets of, the issuing Person.

“Collateral” means all the property pledged to secure this Loan as described in the Loan Documents.

“Compliance Certificate” shall mean a certificate in substantially the form of Exhibit B hereto.

“Consolidated Interest Expense” means, for any period, all interest expense (including capitalized interest cost and the interest component under Capital Leases) of Guarantor and its Subsidiaries on a consolidated basis, all as determined in accordance with GAAP.

“Consolidated Net Income” means, for any period, for Guarantor and its Subsidiaries on a consolidated basis, net income or net loss, as determined in accordance with GAAP.

“Consolidated Taxes” means, as of any date of determination, the provision for federal, state and other income taxes of Guarantor and its Subsidiaries on a consolidated basis, as determined in accordance with GAAP.

“Control” means the possession, directly or indirectly, of the power to direct or cause the direction of the management or policies of a Person, whether through the ability to exercise voting power, by contract or otherwise. “Controlling” and “Controlled” have meanings correlative thereto.

“Covenant Compliance Worksheet” shall mean a certificate in substantially the form of Exhibit C hereto.

“Covered Entity” means (a) each Borrower and each Subsidiary of Borrower that is subject to applicable Anti-Terrorism Laws and (b) each Person that, directly or indirectly, is in Control of a Person described in clause (a) above.

“Debtor Relief Laws” means the Bankruptcy Code, and all other liquidation, conservatorship, bankruptcy, assignment for the benefit of creditors, moratorium, rearrangement, receivership, insolvency, reorganization, or similar debtor relief Laws of the United States or other applicable jurisdictions from time to time in effect and affecting the rights of creditors generally.

“Default Interest Rate” shall have the meaning given in Paragraph 7.03 hereof.

“Disbursement Date” means any Business Day when Loan principal is advanced under this Note to or on the account of Borrower.

“Environmental Indemnity” means Environmental Indemnity, dated as of December 20, 2012, by and between Borrower and Lender, as amended, restated, modified or otherwise supplemented from time to time.

“Events of Default” shall have the meaning given in Paragraph 7.01 hereof.

“Fee Timberland” means all road, timber and timberland (net of depletion) owned by Guarantor or any Wholly Owned Subsidiary.

“Fiscal Quarter” means the three month periods ending March 31, June 30, September 30 and December 31.

“Fiscal Quarter-End” means March 31, June 30, September 30 and December 31.

“Fiscal Year” means the calendar year.

“Fiscal Year-End” means December 31.

“Fiscal Year-to-Date” means the period from the first day of Borrower’s Fiscal Year being reported upon through the last day of the Fiscal Quarter being reported upon.

“Fixed Rate Loan Segment” means each principal portion of the Loan, plus interest accrued thereon, with all the following attributes that distinguish such Fixed Rate Loan Segment from other Fixed Rate Loan Segments: a different Fixed Rate Maturity Date and/or a different date to which a given Fixed Rate Option was assigned to the Fixed Rate Loan Segment, except as otherwise provided herein.

“Fixed Rate Maturity Date” shall have the meaning given in Paragraph 4.02 hereof; provided however, if a Fixed Rate Maturity Date falls on a date that is not a Business Day, then the Fixed Rate Maturity Date shall be deemed to be the preceding Business Day, unless such Business Day falls in another calendar month in which case the Fixed Rate Maturity Date shall be deemed to be the succeeding Business Day.

“Fixed Rate Option” means any of the Fixed Rate Options defined in Paragraph 4.02 hereof.

“FPF Account” means the Future Payment Fund Account that is an interest-bearing conditional advance payment account with Lender and all money paid into that account and all interest earned thereon.

“GAAP” means generally accepted accounting principles in the United States set forth in the opinions and pronouncements of the Account Principles Board and the American Institute of Certified Public Accountants and statements and pronouncements of the Financial Accounting Standards Board or such other principles as may be approved by a significant segment of the public accounting profession in the United States, that are applicable to the circumstances as of the date of determination, consistently applied.

“Governmental Authority” means the United States, any foreign state or nation, or any state, commonwealth, district, territory, agency, department, subdivision, court, tribunal or other instrumentality thereof.

“Guarantor” means Pope Resources, A Delaware Limited Partnership, a Delaware limited partnership, under the Guaranty Agreement - Unlimited Payment (“Guaranty”) executed by such party in connection with the Loan Documents, and as reaffirmed pursuant to the Reaffirmation of Guaranty and Environmental Indemnity.

“Incipient Default” means an event that with the giving of notice or passage of time, or both, would become an Event of Default, as further defined herein.

“Indebtedness” means, as to any Person at a particular time, without duplication, all of the following whether or not included as indebtedness or liabilities in accordance with GAAP: (a) all obligations of such Person for borrowed money and all obligations of such Person evidenced by bonds, debentures, notes or similar instruments, or upon which interest payments are customarily made; (b) all direct or contingent obligations of such Person arising under letters of credit (including standby and commercial), bankers’ acceptances, bank guaranties, surety bonds and similar instruments; (c) all obligations of such Person under conditional sale or other title retention agreements relating to property purchased by such Person (other than customary reservations or retentions of title under agreements with suppliers entered into in the ordinary course of business); (d) all obligations, including without limitation, intercompany items, of such Person issued or assumed as the deferred purchase price of property or services purchased by such Person (other than trade debt incurred in the ordinary course of business and due within six months of the incurrence thereof) which would appear as liabilities on a balance sheet of such Person; (e) all obligations of such Person under take-or-pay or similar arrangements or under commodities agreements; (f) indebtedness (excluding prepaid interest thereon) secured by a Lien on property owned or being purchased by such Person (including indebtedness arising under conditional sales or other title retention agreements), whether or not such indebtedness will have been assumed by such Person or is limited in recourse; (g) the principal portion of all obligations of such Person under Capital Leases; (h) all obligations of such Person to purchase, redeem, retire, defease or otherwise make any payment in respect of any equity interest in such Person or any other Person, valued, in the case of a redeemable preferred interest, at the greater of its voluntary or involuntary liquidation preference plus accrued and unpaid dividends; (i) all obligations in respect to any Swap Termination Value of any Swap Contract and (j) all guarantees of such Person in respect of any of the foregoing. The Indebtedness of any Person shall include the Indebtedness of any partnership or joint venture in which a Person is a general partner or a joint venturer.

“Indebtedness to Total Capitalization Ratio” means, as of any date of determination, (x) Indebtedness of Guarantor and its Subsidiaries on a consolidated basis minus the Indebtedness associated with non-Wholly Owned Subsidiaries, divided by (y) the sum of (a) Indebtedness of Guarantor and its Subsidiaries on a consolidated basis minus the Indebtedness associated with non-Wholly Owned Subsidiaries, plus (b) Adjusted Partners’ Capital.

“Indemnitor” shall have the meaning given in Paragraph 9.06(b).

“Index Source” means the Federal Farm Credit Banks Funding Corporation, unless an Index Source is otherwise identified for a given pricing option described herein.

“Laws” means, collectively, all international, foreign, federal, state and local statutes, laws, treaties, rules, guidelines, regulations, ordinances, codes and administrative or judicial precedents or authorities, including the interpretation or

administration thereof by any Governmental Authority charged with the enforcement, interpretation or administration thereof, and all applicable administrative orders, directed duties, requests, licenses, authorizations and permits of and agreements with any Governmental Authority, in each case, whether or not having the force of law, and without limiting the generality of the foregoing, the following are Laws: the Internal Revenue Code of 1986 (“IRC”), the Employee Retirement Income Security Act of 1974 (“ERISA”), the Fair Labor Standards Act (“FLSA”), and the Comprehensive Environmental Response, Compensation and Liability Act of 1980 (“CERCLA”).

“Lender” means Northwest Farm Credit Services, FLCA, an association organized under the Laws of the United States, together with its successors and assigns.

“Lender’s Expenses” means the amounts required to be paid by Borrower pursuant to Paragraph 9.09.

“LIBOR” means the rate per annum as of 11:00 a.m. (London time) on the day that is two (2) Business Days prior to the first day of such interest period (the “Index”), at which deposits in Dollars for the relevant interest period are offered as determined by the ICE Benchmark Administration (or any successor thereto, or any other readily available service selected by Lender that has been approved by the ICE Benchmark Administration as an authorized information vendor for the purpose of displaying such rates (the “LIBOR Index Source”)); provided that in the event the ICE Benchmark Administration ceases to provide such quotations, the foregoing rate of interest shall mean any similar successor rate designated by Lender in its reasonable discretion. If such rate is less than zero, such rate shall be deemed to be zero.

“Lien” means any mortgage, pledge, hypothecation, assignment, deposit arrangement, security interest, encumbrance, lien (statutory or otherwise), preference, priority or charge of any kind (including any agreement to give any of the foregoing, any conditional sale or other title retention agreement, any financing or similar statement or notice filed under the Uniform Commercial Code as adopted and in effect in the relevant jurisdiction or other similar recording or notice statute, and any lease in the nature thereof).

“Loan” means all principal amounts advanced by Lender to Borrower or on the account of Borrower or otherwise under this Note and the other Loan Documents, and all fees or charges incurred as provided for in this Note and the other Loan Documents, plus all interest accrued thereon.

“Loan Documents” means this Note and all other documents executed in connection with the Loan, including without limitation the Membership Agreement, Mortgage and Fixture Filing, Environmental Indemnity, Guaranty, Reaffirmation of Guaranty and Environmental Indemnity, SNDA and all renewals, extensions, amendments, modifications, substitutions and replacements thereof.

“Loan Maturity Date” shall be January 1, 2023.

“Loan Purpose” means (a) reimbursement of Borrower’s costs associated with the purchase of, and capital improvements made to, the office building and land located at the common address of 19950 7th Avenue NE, Poulsbo, WA, and (b) to pay Loan fees and all Lender’s reasonable transaction costs.

“Loan Segment” means the Base Rate Loan Segment or a Fixed Rate Loan Segment.

“Material” means that which, in reasonable and objective contemplation, will or realistically might affect the business or property of a Person, or the Person’s creditworthiness as to such business or property, in a significant manner.

“Material Adverse Effect” means a material adverse effect on (a) the condition (financial or otherwise), operations, business, assets, liabilities or prospects of Borrower, (b) the ability of Borrower or its Related Parties to perform any Material obligations under the Loan Documents to which it is a party, or (c) the Material rights and remedies of Lender under the Loan Documents.

“Membership Agreement” means that certain agreement executed by Guarantor, concerning Guarantor’s agreement to purchase ACA Stock.

“Mortgage and Fixture Filing” means the Deed of Trust, Assignment of Leases and Rents and Fixture Filing, dated as of December 20, 2012, executed by Borrower in favor of Lender, as amended, supplemented or otherwise modified from time to time.

“Notice” shall have the meaning given in Paragraph 2.04 hereof.

“OFAC” means The Office of Foreign Assets Control of the U.S. Department of Treasury.

“Organization” means a corporation, limited liability company, joint venture, firm business trust, estate, trust, partnership or association, two or more Persons having a joint or common interest, or any other legal or commercial entity.

“Organization Documents” means (a) with respect to any corporation, the certificate or articles of incorporation and bylaws; (b) with respect to any limited liability company, the certificate or articles of formation or organization and operating agreement; and (c) with respect to any partnership, joint venture, trust or other form of business entity, the partnership, joint venture or other applicable agreement of formation or organization and any agreement, instrument, filing or notice with respect thereto filed in connection with its formation or organization with the applicable Governmental Authority in the jurisdiction of its formation or organization and, if applicable, any certificate or articles of formation or organization of such entity.

“Person” means an individual, an Organization or a Governmental Authority.

“Prepayment Fee” shall have the meaning given in Paragraph 6.01 hereof.

“Pricing Date” means the date a given Loan Segment begins to accrue interest under a given Rate Option or a day when there is a change in the Base Rate.

“Property” means any interest in any kind of property or asset, whether real, personal or mixed, tangible or intangible.

“Rate Option” means the Base Rate or one of the Fixed Rate Options.

“Reaffirmation of Guaranty and Environmental Indemnity” means the Reaffirmation of Guaranty and Environmental Indemnity dated as of the date hereof by and among Borrower, Guarantor and Lender.

“Related Party or Parties” means, with respect to any Person, such Person’s Affiliates and the general partners, directors and officers of such Person and of such Person’s Affiliates. For the avoidance of doubt, the Guarantor is a Related Party.

“Responsible Officer” means the chief executive officer, president, chief financial officer, treasurer or assistant treasurer of Borrower or the effective equivalent thereof or any other duly authorized officer. Any document delivered hereunder that is signed by a Responsible Officer shall be conclusively presumed to have been authorized by Borrower and such Responsible Officer shall be conclusively presumed to have acted on behalf of Borrower.

“Sanctioned Entity” means (a) a country or a government of a country, (b) an agency of the government of a country, (c) an organization directly or indirectly Controlled by a country or its government or (d) a Person resident in or determined to be resident in a country, in each case, that is subject to a country sanctions program administered and enforced by OFAC.

“Sanctioned Person” means a person named on the list of Specially Designated Nationals maintained by OFAC.

“SNDA” means the Subordination, Nondisturbance and Attornment Agreement dated as of December 20, 2012, by and between Borrower, Lender and Union Bank, N.A., as amended, restated, modified or otherwise supplemented

from time to time.

“Subsidiary” means, as to any Person, (a) any corporation more than 50 percent of whose Capital Stock of any class or classes having by the terms thereof ordinary voting power to elect a majority of the directors of such corporation (irrespective of whether or not at the time, any class or classes of such corporation shall have or might have voting power by reason of the happening of any contingency) is at the time owned by such Person directly or indirectly through Subsidiaries, and (b) any partnership, association, joint venture or other entity in which such Person directly or indirectly through Subsidiaries has more than 50 percent equity interest at any time. Unless otherwise specified, all references herein to a “Subsidiary” or “Subsidiaries” shall refer to a Subsidiary or Subsidiaries of Borrower. For purposes of Paragraph 8 of this Note, Subsidiary or Subsidiaries shall include Timber Funds.

“Swap Contract” means (a) any and all rate swap transactions, basis swaps, credit derivative transactions, forward rate transactions, commodity swaps, commodity options, forward commodity contracts, equity or equity index swaps or options, bond or bond price or bond index swaps or options or forward bond or forward bond price or forward bond index transactions, interest rate options, forward foreign exchange transactions, cap transactions, floor transactions, collar transactions, currency swap transactions, cross-currency rate swap transactions, currency options, spot contracts, or any other similar transactions or any combination of any of the foregoing (including any options to enter into any of the foregoing), whether or not any such transaction is governed by or subject to any master agreement, and (b) any and all transactions of any kind, and the related confirmations, which are subject to the terms and conditions of, or governed by, any form of master agreement published by the International Swap Dealers Association, Inc., any International Foreign Exchange Master Agreement, or any other master agreement, including any such obligations or liabilities under any such master agreement.

“Swap Issuer” means a financial institution chosen by Borrower and reasonably acceptable to Lender, with whom Borrower enters into a Swap Contract.

“Swap Termination Value” means, in respect of any one or more Swap Contracts, after taking into account the effect of any legally enforceable netting agreement relating to such Swap Contracts, (a) for any date on or after the date such Swap Contracts have been closed out and termination value(s) determined in accordance therewith, such termination value(s), and (b) for any date prior to the date referenced in clause (a), the amount(s) determined as the mark-to-market value(s) for such Swap Contracts, as determined based upon one or more mid-market or other readily available quotations provided by any recognized dealer in such Swap Contracts.

“Timber Funds” means, ORM Timber Fund II, Inc., ORM Timber Fund III (REIT) Inc. and any future similar timberland investment entity.

“Wholly Owned Subsidiary” means a Subsidiary, 100% of the Capital Stock of which is owned, directly or indirectly, by Guarantor.

1.02 Other Interpretive Provisions. With reference to this Note and each other Loan Document, unless otherwise specified herein or in such other Loan Document:

a. The definitions of terms herein shall apply equally to the singular and plural forms of the terms defined. Whenever the context may require, any pronoun shall include the corresponding masculine, feminine and neuter forms. The words “include,” “includes” and “including” shall be deemed to be followed by the phrase “without limitation”. The word “will” shall be construed to have the same meaning and effect as the word “shall”. Unless the context requires otherwise, (i) any reference herein to any Person shall be construed to include such Person’s successors and assigns, (ii) the words “herein”, “hereof” and “hereunder”, and words of similar import when used in any Loan Document, shall be construed to refer to such Loan Document in its entirety and not to any particular provision thereof and (iii) the words “asset” and “property” shall be construed to have the same meaning and effect and to refer to any and all tangible and intangible assets and properties, including cash, securities, accounts and contract rights.

b. Unless otherwise specified in a given Loan Document, in the computation of periods of time from a specified date to a later specified date, the word “from” means “from and including”; the words “to” and “until” each mean “to but excluding”; and the word “through” means “to and including”.

c. Paragraph headings herein and in the other Loan Documents are included for convenience of reference only and shall not affect the interpretation of this Note or any other Loan Document.

1.03 Accounting Terms. All accounting terms not specifically or completely defined herein shall be construed in conformity with, and all financial data (including financial ratios and other financial calculations) required to be submitted pursuant to this Note shall be prepared in conformity with GAAP applied on a consistent basis, as in effect from time to time, applied in a manner consistent with that used in preparing Guarantor’s audited financial statements, except as otherwise specifically prescribed herein.

If at any time any change in GAAP would affect the computation of any financial ratio or requirement set forth in any Loan Document, and either Guarantor or Lender shall so request, Lender and Guarantor shall negotiate in good faith to amend such ratio or requirement to preserve the original intent thereof in light of such change in GAAP; provided that, until so amended, (i) such ratio or requirement shall continue to be computed in accordance with GAAP prior to such change therein and (ii) Guarantor shall provide to Lender financial statements and other documents required under this Note or as reasonably requested hereunder setting forth a reconciliation between calculations of such ratio or requirement made before and after giving effect to such change in GAAP.

2. Advances, Fees, Expenses and Notice.

2.01 Advances. The Loan proceeds were fully disbursed on December 26, 2012. This is not a revolving loan. Once Loan principal has been borrowed and repaid, it may not be reborrowed.

2.02 [Intentionally Omitted].

2.03 Fees and Expenses. Borrower shall pay Lender on demand, all fees and expenses, including attorney fees, related to closing the Note and incurred in any loan servicing action or to protect or enforce any of Lender’s rights in bankruptcy, appellate proceedings or otherwise, under this Note or the other Loan Documents. All sums advanced by Lender to protect its interests hereunder or under the other Loan Documents and all Prepayment Fees and Breakage Fees shall be payable on demand and shall accrue interest under the interest rate in effect for the Base Rate Loan Segment on such date and shall be treated as an advance under the Base Rate Loan Segment.

2.04 Notice of Prepayment and Pricing.

a. **Prepayment of Principal.** Borrower shall provide Lender with Notice of the amount of any prepayment of a Fixed Rate Loan Segment no later than 10:00 a.m. Spokane time one Business Day prior to the Business Day the prepayment will be made.

b. **Pricing.** Borrower shall provide Lender irrevocable Notice of pricing of a Loan Segment using a Fixed Rate Option by 10:00 a.m. Spokane time on the Pricing Date.

c. **Form of Notice.** Borrower may provide Lender any Notice required under this Note by use of the notice in form substantially as set forth on Exhibit A hereto or other documentation as may be prescribed by Lender. Alternatively, Borrower may telephone Lender at the numbers designated on Exhibit A or as may be provided by Lender from time to time. If Notice is by telephone, Lender will confirm to Borrower the elected prepayment or pricing in writing. All such Notices are deemed irrevocable when given and are subject to Breakage Fees.

3. Establishing Future Payment Fund Accounts.

3.01 Establishing Future Payment Fund Accounts. Borrower will establish one or more FPF Accounts with Lender or its affiliates. Each FPF Account will be held, applied or withdrawn in accordance with the terms and conditions applicable to FPF Accounts and this Note, which are subject to change or termination at Lender's discretion.

3.02 Maximum Amounts. The maximum amount that may be held in the FPF Account shall not exceed the outstanding principal balance on the Loan or some other amount as determined by Lender.

3.03 Rate of Interest. Interest will accrue on FPF Account balances at a minimum principal balance to be determined by Lender, from the date payments were received into an FPF Account. A variable interest rate, subject to adjustment in the sole discretion of Lender, will be paid on an FPF Account. The rate paid on funds held in any FPF Account will not exceed the rate paid by Borrower on the Loan.

3.04 Funds Held and Withdrawal. Funds will be accepted into an FPF Account and held for application on the Loan with, or serviced by, Lender. Funds will be applied to Borrower's Obligations at Borrower's discretion or when any payment under the Loan covered by this Note becomes due and payable. Application of funds to the Loan does not relieve Borrower from the obligation to make all payments as provided in the Loan Documents. Funds may be returned to Borrower for purposes for which Lender would make or increase the Loan to Borrower, upon request or upon request pursuant to Lender's electronic funds transfer procedures. Borrower acknowledges and agrees that during an Event of Default, Lender has a right of set-off against all funds in Borrower's FPF Accounts.

3.05 Funds at Risk. Funds held in any FPF Account are uninsured. Funds are protected only by the financial condition of Lender. In the event Lender were to become insolvent and liquidated, the funds in Borrower's FPF Account would be applied against the total outstanding Loan balance. Any funds in excess of the total outstanding Loan balance would be at risk and subject to the claims of creditors of Lender.

3.06 Security Interest. Borrower hereby grants to Lender a first lien security interest in any FPF Account established or to be established by or on behalf of Borrower related to the Loan.

4. Interest Rate and Pricing Options.

4.01 Base Rate: LIBOR Variable Base. The Base Rate is the LIBOR Variable Base. The "LIBOR Variable Base" for any day during a given month means the one-month LIBOR rate, as made available by the LIBOR Index Source, rounded up to the nearest .05 percent, plus the Applicable Margin. The LIBOR Variable Base shall be effective on the first day of the month and remains constant for such month.

4.02 1-, 3-, 5-, 7- or 10-Year Fixed Rate Options. Borrower understands and agrees that the availability of any Fixed Rate Option will be determined at Lender's (and participant's, if applicable) sole discretion. Subject to the preceding sentence, a Fixed Rate Loan Segment may be priced with a fixed rate equal to the 1-, 3-, 5-, 7- or 10-year Fixed Rate Options, as defined herein, plus the Applicable Margin. With these Fixed Rate Options, (a) rates may be fixed for Interest Periods, as defined herein, of 1, 3, 5, 7 and 10 years; and (b) rates may only be fixed on a Pricing Date to take effect on such Pricing Date. For purposes hereof: (i) the "1-, 3-, 5-, 7- and 10-year Fixed Rate Options" shall mean the rate for the all-in cost of the corresponding term for Farm Credit Medium Term Notes, rounded to the nearest .05 percent, as made available by the Index Source on the Pricing Date; and (ii) "Interest Period" shall mean a period commencing on the Pricing Date and ending on the Fixed Rate Maturity Date. The Fixed Rate Maturity Date for a given Fixed Rate Option shall be the corresponding 1-, 3-, 5-, 7- or 10-year anniversary of the first day of the month following the Pricing Date if the Pricing Date is not the first day of a month or the corresponding anniversary of the Pricing Date if such Pricing Date is the first day of a month.

4.03 Pricing Elections. Upon irrevocable Notice to Lender in accordance with Paragraph 2.04 above, as to principal (i) in the amount of an advance, (ii) in the Base Rate Loan Segment, or (iii) in a Fixed Rate Loan Segment on a Fixed Rate Maturity Date, Borrower may elect to designate all or any part of the advance or of the Adjusted Principal Balance of such Loan Segment on such Pricing Date to bear interest at any Rate Option described herein; provided however, that (1) there is no Event of Default or Incipient Default, (2) no Fixed Rate Option may be selected which would have

for its Fixed Rate Maturity Date a date later than the Loan Maturity Date, and (3) there are no more than three Fixed Rate Loan Segments at any one time. If Borrower does not provide Lender irrevocable Notice of election of a Rate Option on a Fixed Rate Maturity Date for a Fixed Rate Loan Segment, the Adjusted Principal Balance of such Loan Segment will be priced at the Base Rate effective on such Pricing Date.

4.04 Single Base Rate Loan Segment. If on a Pricing Date, any Loan Segment is priced under the Base Rate resulting in more than one Loan Segment priced under the Base Rate, all Loan principal priced under the Base Rate will be treated as a single Base Rate Loan Segment by combining the Adjusted Principal Balances of such Loan Segments on such Pricing Date.

4.05 Interest Rates. The interest rate used herein does not necessarily represent the lowest rates charged by Lender on its loans. The interest rates described herein are per annum rates. Interest rates using the LIBOR Index Source are calculated on the basis of the actual number of days elapsed for a 360 day year. Interest rates using any other Index Source are calculated on the basis of the actual number of days elapsed during the year for the actual number of days in the year.

4.06 Index and Index Source. If the Index or Index Source provided for herein cannot be ascertained during the Note term, Lender will choose a new index or Index Source which it determines, in its sole discretion, is comparable to be effective upon notification thereof to Borrower.

4.07 Additional Pricing Options. In the event Borrower should desire to price a Loan Segment using the Index, Pricing Date and margin other than as provided for herein, Borrower may request Lender to quote a rate and lock-in fee for an identified principal amount and desired pricing option. Lender will provide Borrower such a quote if available under Lender's then existing policies and procedures, and shall provide Borrower the option to elect such a rate upon payment of the lock-in fee, if required, which rate shall be effective on the Pricing Date for the Loan Segment, upon terms and conditions and within timeframes as Lender may prescribe at the time of the quote.

4.08 Changes in Circumstances. In the event that, on any date on which an interest rate for pricing this Note is to be determined, Lender determines that the applicable interest rate does not adequately reflect the cost to Lender of making or maintaining its loans, Lender shall promptly give notice of such facts to Borrower. Within ten days thereof, Borrower shall make an appointment to meet with Lender to determine a new adjustment factor for pricing this Note. Any change to the adjustment factor shall require mutual written consent and agreement.

5. Payment.

5.01 Payment of Loan Segments. Each Loan Segment shall be repaid in equal monthly principal and interest payments, based on the Adjusted Principal Balance of each Loan Segment amortized over a period beginning with the date of creation of the Loan Segment and ending on January 1, 2033. Such payments shall be due and payable, commencing on the first day of the month beginning on February 1, 2013, and shall continue on the first day of each month thereafter until the Loan is paid in full. Provided however, so long as there is no Event of Default or Incipient Default, upon a Pricing Date for a Loan Segment, Lender will reamortize the Adjusted Principal Balance of the Loan Segment on such Pricing Date over the period from such Pricing Date to January 1, 2033.

5.02 Payment in Full on Loan Maturity Date. The unpaid principal balance, unpaid interest thereon, and other amounts due under this Note and the other Loan Documents shall be paid in full on the Loan Maturity Date. The payment required in Paragraph 5.01 results in a balloon payment being due on the Loan Maturity Date.

5.03 Manner of Payments. Upon Lender's written request, payments shall be electronically submitted no later than 10:00 a.m. Spokane time on the date specified for payment. If any payment date is not a Business Day, then payment shall be due on the next succeeding Business Day. All sums payable to Lender hereunder shall be paid directly to Lender in immediately available funds in U.S. dollars. Lender shall send to Borrower periodic statements of all amounts due hereunder at applicable interest rates, which statements shall be considered correct and conclusively binding on Borrower in all respects and for all purposes unless Borrower notifies Lender in writing of any objections

within 15 days of receipt of any such statement, provided, however, that failure to receive a periodic statement shall not excuse payment of any sums payable hereunder.

5.04 Application of Payments. Lender may apply any payment received from or on behalf of Borrower to principal, interest, or any part of the indebtedness, including any fees and expenses due under this Note or any other Loan Document, as Lender, in its sole discretion, may choose. Subject to the preceding sentence, Borrower may at any time pay any amount of principal in advance of its maturity subject to the Prepayment Fee described herein. Unless Lender otherwise elects, so long as there is no Event of Default, principal prepayments shall reduce the balance owing and discharge the indebtedness at an earlier date, but shall not alter the obligation to pay scheduled payments until the indebtedness is paid in full. In addition, so long as there is no Event of Default or Incipient Default, principal prepayments shall be applied to principal under a given Loan Segment, as selected by Borrower, in inverse order of their maturity, and shall not alter the obligation to pay scheduled payments until the indebtedness for each Loan Segment is paid in full.

5.05 Right of Setoff. If an Event of Default shall have occurred and be continuing, Lender is hereby authorized at any time and from time to time, to the fullest extent permitted by applicable Law, to set off and apply any and all deposits (general or special, time or demand, provisional or final, in whatever currency) at any time held and other obligations (in whatever currency) at any time owing by Lender to or for the credit or the account of Borrower against any and all of the obligations of Borrower now or hereafter existing under this Note or any other Loan Document to Lender, irrespective of whether or not Lender shall have made any demand under this Note or any other Loan Document and although such obligations of Borrower may be contingent or unmatured or are owed to a branch or office of Lender different from the branch or office holding such deposit or obligated on such indebtedness. The rights of Lender under this Paragraph 5.05 are in addition to other rights and remedies (including other rights of setoff) that Lender may have.

5.06 Disbursements. Borrower agrees that all Loan funds disbursed shall be used only for the Loan Purpose.

6. Prepayment and Breakage Fees.

6.01 Prepayment Fee. The following Prepayment Fee shall apply to the Loan and supersede and replace any inconsistent terms in the Prior Note and this Note. The Loan is subject to the following Prepayment Fee.

a. Exemption to Prepayment Fee. Principal prepayments made while a Loan Segment is priced under the Base Rate shall not be subject to a Prepayment Fee. In addition, there is no Prepayment Fee for any prepaid principal if a prepayment is received on a Fixed Rate Maturity Date for the Loan Segment being prepaid. Other prepayments of principal shall be subject to a Prepayment Fee, as described below.

b. “Prepayment” Defined. For purposes of this Note, “prepayment” shall mean any instance wherein the indebtedness is partially or fully satisfied in any manner prior to a payment due date whether voluntarily or involuntarily (excluding scheduled payments that have been paid) pursuant to the terms of the Loan Documents. Prepayment shall include, but not be limited to: (i) any payment after an Event of Default under the Loan Documents; (ii) payment to Lender by any holder of an interest in any Collateral; (iii) any payment after the Loan Maturity Date is accelerated for any reason; (iv) payment resulting from any sale or transfer of Collateral pursuant to foreclosure, sale under power, judicial order or trustee’s sale; and (v) payment by sale, transfer or offsetting credit in connection with or under any bankruptcy, insolvency, reorganization, assignment for the benefit of creditors or receivership or similar proceedings under any statute of the United States or any state thereof involving Borrower or the Collateral. In the event of any acceleration of the Loan Maturity Date, the amount due hereunder shall include the charge which would be due under the Prepayment Fee in the event of a voluntary prepayment at the time of such acceleration, and the date of acceleration of the Loan Maturity Date will be deemed to be the date of prepayment.

c. Prepayment Fee. The “Prepayment Fee” is an amount intended to reasonably compensate Lender for the loss of the intended benefit of Lender’s bargain in the case of a prepayment. Borrower and Lender intend that the principal balance of each Loan Segment will yield to Lender an annual return after the date the Loan Segment is prepaid of not less than the annual return for the period when the interest rate is fixed. In the event of a prepayment, Lender

will lose the intended benefit of its bargain. Accordingly, the Prepayment Fee is intended to reasonably compensate Lender for such loss and costs. The Prepayment Fee shall be payable on demand, and shall be an amount calculated on a make-whole basis, as calculated under Lender's then current methodology.

6.02 Breakage Fee. In the event of an occurrence under subparagraphs a. or b. below, then Borrower shall immediately pay Lender, on demand, a Breakage Fee in an amount calculated on a make-whole basis, as calculated under Lender's then current methodology:

a. Borrower provides Lender Notice that Loan principal is to be priced using a Fixed Rate Option, after which Borrower revokes such Notice; or

b. Borrower provides Lender Notice that Loan principal priced under a Fixed Rate Option is to be repriced or prepaid on other than a Pricing Date, after which Borrower revokes such Notice or fails to prepay pursuant to the Notice.

6.03 Participation. Participant(s), if any, may calculate a Prepayment Fee or Breakage Fee using the calculation on a make-whole basis, as calculated under Lender's then current methodology, provided however, a participant may use a different methodology than Lender.

7. Default.

7.01 Events of Default. Time is of the essence in the performance of this Note. The occurrence of any one or more of the following events shall constitute an "Event of Default" under this Note:

a. Borrower fails to make any payment of principal, interest or other costs, fees or expenses when due and payable or to perform any obligation or covenant as and when required under the Loan Documents for the Loan or any other note, loan or contract Borrower, or any of them, may have with Lender or an affiliate of Lender.

b. Any financial statement, representation, warranty or certificate made or furnished by Borrower or Guarantor to Lender in connection with the Loan, or as an inducement to Lender to enter into the Loan is materially false, incorrect, or incomplete when made.

c. Any Bankruptcy Event shall occur with respect to Borrower, or any Bankruptcy Event that has a Material Adverse Effect on Borrower shall occur with respect to any of Borrower's Subsidiaries.

d. Guarantor shall revoke, repudiate or terminate the Guaranty as reaffirmed by the Reaffirmation of Guaranty and Environmental Indemnity.

e. This Note or any other Loan Document ceases to be valid and binding on Borrower or Guarantor or is declared null and void, or the validity or enforceability thereof is contested by Borrower or Guarantor or Borrower or Guarantor denies that it has any or further liability under this Note or any of the other Loan Documents.

7.02 Acceleration. In the event of any uncured Event of Default beyond any applicable cure periods provided for in the Loan Documents, at Lender's option, without notice or demand, the unpaid principal balance of the Loan, plus all accrued and unpaid interest thereon and all other amounts due shall immediately become due and payable.

7.03 Default Interest Rate. The Default Interest Rate applicable to a delinquent payment for a Loan Segment shall equal four percent (4%) per annum above the interest rate in effect on such Loan Segment at the time such payment was due, which rate shall accrue on the total amount of the payment due until paid, accelerated or upon maturity; provided however, that upon acceleration and/or maturity, the Default Interest Rate shall be equal to and remain at four percent (4%) per annum above the interest rate in effect for each Loan Segment at the time of acceleration or maturity and shall accrue on the entire unpaid balance of the Loan Segment until paid in full.

7.04 Notice and Opportunity to Cure. Notwithstanding any other provision of the Loan Documents, Lender shall not accelerate the maturity of the Loan (a) because of a monetary default (defined below), unless the monetary default is not cured within ten days of its due date, or (b) because of a nonmonetary default (defined below), unless the nonmonetary default is not cured within 30 days after (i) the date on which Lender transmits by facsimile, mails or delivers written notice of the nonmonetary default to Borrower, or (ii) the date on which Borrower notifies Lender (verbally or in writing) of the nonmonetary default. For purposes of this Note, the term “monetary default” means a failure by Borrower to make any payment required of it pursuant to the Note or any other Loan Document, and the term “nonmonetary default” means a failure by Borrower or any other Person to perform any obligation contained in the Loan Documents, other than the obligation to make payments provided for in the Loan Documents.

8. Loan Terms, Provisions and Covenants. This Note is subject to the terms, provisions and covenants of the Membership Agreement and the following terms, provisions and covenants:

8.01 Financial Statements. Borrower shall deliver or cause Guarantor to deliver, and Guarantor shall deliver, to Lender, in form and detail satisfactory to the Lender:

i. As soon as available, but in any event within 90 days after each Fiscal Year-End (i) a consolidated balance sheet, the related consolidated statement of shareholders’ (or equivalent) equity and cash flows and the related consolidated statement of income or operations for such Fiscal Year of Guarantor and its Subsidiaries as of the end of such Fiscal Year and (ii) a consolidated balance sheet, the related consolidated statement of shareholders’ (or equivalent) equity and cash flows and the related consolidated statement of income or operations for such Fiscal Year of Guarantor and its Subsidiaries but excluding the non-Wholly Owned Subsidiaries as of the end of such Fiscal Year, setting forth in each case, in comparative form, the figures for the previous Fiscal Year, all in reasonable detail and prepared in accordance with GAAP, except with respect to consolidation principles. Such consolidated statements in clause (i) shall be audited and accompanied by a report and opinions of an independent certified public accountant, reasonably acceptable to Lender, which report and opinion shall be prepared in accordance with generally accepted auditing standards and shall not be subject to any “going concern” or like qualification or exception or any qualification or exception as to the scope of such audit;

ii. As soon as available, but in any event within 45 days after each of the first three Fiscal Quarter-Ends, (i) a consolidated balance sheet, the related consolidated statement of cash flows and the related consolidated statement of income or operations for such Fiscal Quarter-End of Guarantor and its Subsidiaries, and for the portion of Guarantor’s Fiscal Year then ended and (ii) a consolidated balance sheet, the related consolidated statement of cash flows and the related consolidated statement of income or operations for such Fiscal Quarter-End of Guarantor and its Subsidiaries but excluding the non-Wholly Owned Subsidiaries setting forth in each case, in comparative form, the figures for the corresponding Fiscal Quarter-End of the previous Fiscal Year and the corresponding portion of the previous Fiscal Year, all in reasonable detail;

iii. Concurrently with the delivery of the financial statements referred to in Paragraphs 8.01.i and ii, a duly completed Compliance Certificate, signed by a Responsible Officer, certifying that such financial statements are fairly presenting the financial condition, results of operations, shareholders’ (or equivalent) equity and cash flows of Guarantor and its Subsidiaries in accordance with GAAP (subject only to normal year-end audit adjustments and the absence of footnotes with respect to financial statements provided under Paragraph 8.01.ii.). A sample Compliance Certificate is attached hereto as Exhibit B. Borrower’s Compliance Certificate shall be accompanied by a Covenant Compliance Worksheet, a sample of which is attached hereto as Exhibit C, signed by a Responsible Officer;

iv. Promptly upon receipt thereof, copies of written communications of any material weaknesses or significant deficiencies in internal controls over financial reporting submitted to Guarantor’s audit committee by its independent certified public accountants in connection with an audit or review of Guarantor and the responses of management to such communications;

v. By March 1 of each year, Guarantor will provide a detailed financial projection for Guarantor and its Subsidiaries excluding the non-Wholly Owned Subsidiaries for the current fiscal year to include a balance

sheet, income statement and statement of cash flow. Such projections shall provide sufficient detail to calculate the financial covenants in Paragraph 8.02.

vi. Promptly upon request of Lender, (1) copies of any filings and registrations with, and reports to or from, the Securities Exchange Commission, or any successor agency, and copies of all financial statements, proxy statements, notices and reports as Guarantor shall send to its shareholders, and (2) all reports and written information to and from the United States Environmental Protection Agency, or any state or local agency responsible for environmental matters, the United States Occupational Health and Safety Administration, or any state or local agency responsible for health and safety matters, or any successor agencies or authorities concerning environmental, health or safety matters that are Material to Guarantor;

vii. Upon Borrower's obtaining knowledge thereof, Borrower shall give written notice to Lender immediately of (1) the occurrence of an event or condition consisting of an Event of Default or Incipient Default, specifying the nature and existence thereof and what action Borrower proposes to take with respect thereto, and (2) the occurrence of any of the following with respect to Borrower: (a) the pendency or commencement of any litigation, arbitral or governmental proceeding against Borrower or a Related Party which if adversely determined is likely to have a Material Adverse Effect, (b) the institution of any proceedings against Borrower or a Related Party with respect to, or the receipt of notice by such Person of potential liability or responsibility for violation, or alleged violation, of any federal, state or local Law, rule or regulation, including but not limited to, environmental Laws, the violation of which would likely have a Material Adverse Effect.

8.02 Financial Covenants. Borrower hereby covenants and agrees that so long as this Loan Agreement is in effect or any of Borrower's Obligations shall remain outstanding, Borrower shall cause Guarantor to comply with and maintain the following financial covenants, to be measured as follows:

a. Indebtedness to Total Capitalization Ratio shall be less than or equal to 0.30:1.00, to be measured as of each Fiscal Year-End, to be measured as of each Fiscal Year-End;

b. Adjusted Consolidated Interest Coverage Ratio shall not be less than 3:00:1:00 to be measured as of each Fiscal Quarter-End on a four quarter rolling basis.

8.03 General Covenants. Borrower shall comply with the following covenants during the Loan term:

a. Borrower will comply with all Laws affecting Borrower's operations including any environmental and any other applicable Laws. Borrower shall indemnify Lender against failure to so comply with environmental Laws. Such indemnification shall survive satisfaction of the debt.

b. Borrower shall maintain at all times insurance with company or companies acceptable to lender, against loss or damage by fire or other casualty on the Collateral naming Lender as lender loss payee or as mortgagee under a standard mortgage clause with minimum insurance coverage equal to the fair market value of the Collateral or as otherwise to be determined by Lender, which other amounts shall be communicated to Borrower in writing.

c. Borrower shall pay, or cause to be paid, before they become delinquent and where the failure to pay or discharge such amounts will have a Material Adverse Effect, all taxes imposed upon it that it is required to withhold and pay, except when contested in good faith by appropriate proceedings with adequate reserves therefore having been set aside on their books. Notwithstanding the foregoing rights of contest, such taxes will be paid whenever foreclosure on any Lien that has attached appears imminent.

d. Borrower shall pay when due (or within applicable grace periods) all Indebtedness due third persons except when the amount is being contested in good faith by appropriate proceedings and with adequate reserves being set aside on their books.

e. From time to time, Borrower shall execute and deliver to Lender such additional documents and will provide such additional information as Lender may reasonably require to carry out the terms of this Note and be informed of the status and affairs of Borrower.

f. Borrower will preserve, renew and maintain in full force and effect its legal existence and good standing (or the local equivalent) under the Laws of the jurisdiction of its organization; take all reasonable action to maintain all rights, privileges, permits, licenses and franchises necessary or desirable in the normal conduct of its business, except to the extent that failure to do so could not reasonably be expected to have a Material Adverse Effect; and preserve or renew all of its registered patents, trademarks, trade names and service marks, the non-preservation of which could reasonably be expected to have a Material Adverse Effect.

g. Borrower will permit representatives and independent contractors of Lender to visit and inspect any of its properties, to examine its corporate, financial and operating records, and make copies thereof or abstracts therefrom, and to discuss its affairs, finances and accounts with its directors, officers, and independent public accountants, and at such reasonable times during normal business hours and as often as may be reasonably desired, upon reasonable advance notice to Borrower; provided, however, that when an Event of Default exists Lender (or any of their respective representatives or independent contractors) may do any of the foregoing at the expense of Borrower at any time during normal business hours and without advance notice.

h. Borrower shall not create, assume or suffer to exist, create, assume or suffer to exist, any Lien on any Collateral now or hereafter acquired by it other than Permitted Liens.

i. Borrower shall not substantively alter the nature, character or conduct of its business conducted by it.

j. Borrower shall not dissolve, liquidate or wind up its affairs, or enter into any transaction of merger or consolidation.

k. Borrower shall not make an Asset Disposition that would have a Material Adverse Effect on the financial condition of Borrower.

l. Borrower shall not (i) change its Fiscal Year-End or (ii) amend, modify or change its Organization Documents, in a manner that would result in a Material Adverse Effect.

m. Borrower shall not furnish any certificate or other document to Lender that contains any untrue statement of Material fact or that omits to state all Material facts necessary to make it not misleading in light of the circumstances under which it is furnished.

n. Borrower shall not create, assume, incur, suffer to exist or otherwise become or remain liable in respect of any Indebtedness, other than (i) Indebtedness evidenced by this Note and (ii) Indebtedness permitted under the Guarantor Loan Agreements.

o. Borrower shall not and shall not allow any of its Related Parties to create, incur or suffer to exist, a Material Adverse Effect.

p. Borrower shall not permit (i) any Covered Entity, either in its own right or through any third party, to (1) have any of its assets in a Sanctioned Entity or in the possession, custody or Control of a Sanctioned Entity in violation of any Anti-Terrorism Law; (2) do business in or with, or derive any of its income from investments in or transactions with, any Sanctioned Entity or Sanctioned Person in violation of any Anti-Terrorism Law; (3) engage in any dealings or transactions prohibited by any Anti-Terrorism Law; or (4) use the Loan or other extensions of credit from Lender to fund any operations in, finance any investments or activities in, or, make any payments to, a Sanctioned Entity in violation of any Anti-Terrorism Law, (ii) the funds used to repay the Borrower's Obligations to be derived in violation of any Anti-Terrorism Law, or (iii) any Covered Entity to fail to comply with all Anti-Terrorism Laws. Borrower shall promptly notify Lender in writing upon the occurrence of any of the foregoing.

9. Miscellaneous Terms.

9.01 Governing Law. The substantive Laws of the State of Washington shall apply to govern the construction of the Loan Documents and the rights and remedies of the parties except where the location of the Collateral for the Loan may require the application of the Laws of another state or where federal Laws, including the Farm Credit Act of 1971, as amended, may be applicable.

9.02 Notice and Communications. Unless otherwise expressly provided herein or in the Loan Documents, all notices and other communications provided for hereunder shall be in writing (including by FAX transmission). All such written notices shall be mailed, faxed or delivered to the applicable address or FAX number as each party provides to the other from time to time. The Loan Documents may be signed and transmitted by FAX, telecopy, emailed .PDF or any other electronic means that reproduces an image of the actual executed signature. The effectiveness of any such documents and signatures shall, subject to applicable Law, have the same force and effect as manually signed originals and shall be binding on Borrower, Guarantor and Lender. Lender may also require that any such document and signature be confirmed by manually-signed original thereof; provided however, that the failure to request or deliver the same shall not limit the effectiveness of any FAX document or signature. Email, internet or intranet websites may be used only to distribute routine communications, such as financial statements, billing statements and other like information and to distribute Loan Documents for execution by the parties thereto and may not be used for any other purpose, unless approved by Lender and the parties hereto; provided that, an original signed document that has been scanned and attached to an email shall have the same force and effect as a document sent by FAX.

9.03 General Provisions. Borrower agrees to this Note as of the date above written. Borrower waives presentment for payment, demand, notice of nonpayment, protest, notice of protest and diligence in enforcing payment of this Note. This Note and the other Loan Documents constitute the entire agreement between Borrower and Lender and supersede all prior oral negotiations and promises which are merged into such writings. Upon written agreement of the parties, the interest rate, payment terms or balances due under this Note may be indexed, adjusted, renewed or renegotiated. Lender may at any time, without notice, release all or any part of the security for this Note, including any real estate and or personal property covered by the Loan Documents; grant extensions, deferments, renewals or reamortizations of any part of the indebtedness evidenced by this Note over any period of time; and release from personal liability any one or more of the parties who are or may become liable for the Indebtedness evidenced by this Note without affecting the personal liability of any other party. Lender may exercise any and all rights and remedies available at law, in equity and provided herein and in the other Loan Documents. Any delay or omission by Lender in exercising a right or remedy shall not waive that or any other right or remedy. No waiver of default by Lender shall operate as a waiver of the same or any other default on a future occasion. Lender shall not be obligated to renew the Note or any part thereof or to make additional or future loans to Borrower. Borrower agrees to take any action requested by Lender to perfect or continue the lien and priority of the Loan Documents, including, but not limited to, any action requested by any governmental agency. All Exhibits hereto are incorporated herein and made a part of this Note. This Note may be executed in any number of counterparts, each of which shall be deemed to be an original, but all of which together, shall constitute but one and the same instrument. Borrower shall comply with the capitalization requirements of ACA, as stated in the Membership Agreement.

9.04 No Personal Liability of General Partners. In any action brought to enforce the obligation of Guarantor to pay Borrower's Obligations, any judgment or decree shall not be subject to execution on, nor be a lien on, the assets of the General Partners of Guarantor, other than their interests in the Collateral, if any. The foregoing shall in no way otherwise affect the personal liability of Borrower or Guarantor. This Paragraph shall be added to the Guaranty as reaffirmed by the Reaffirmation of Guaranty and Environmental Indemnity.

9.05 Waiver of Jury Trial. BORROWER AND LENDER HEREBY IRREVOCABLY WAIVE ANY RIGHT THEY MAY HAVE TO A TRIAL BY JURY IN ANY LEGAL PROCEEDING DIRECTLY OR INDIRECTLY ARISING OUT OF OR RELATING TO THIS LOAN DOCUMENT AND ANY FUTURE MODIFICATIONS, AMENDMENTS, EXTENSIONS, RESTATEMENTS AND SERVICING ACTIONS RELATING TO THIS LOAN

DOCUMENT. THE PARTIES INTEND THAT THIS JURY WAIVER WILL BE ENFORCED TO THE MAXIMUM EXTENT ALLOWED BY LAW.

9.06 Lender's Expenses; Indemnity; Waiver of Damages by Borrower.

a. Borrower shall pay all expenses incurred by Lender, including the reasonable fees, costs, charges and disbursements of counsel engaged or retained by Lender, in connection with the preparation, negotiation, execution, delivery, administration, enforcement or collection of this Note and the other Loan Documents or any amendments, modifications, or waivers of the provisions hereof or thereof (whether or not the transactions contemplated hereby or thereby shall be consummated), including (i) all costs and expenses incurred in obtaining, perfecting, maintaining, determining the priority of, and releasing any security of Borrower's Obligations, including, to the extent permitted by Law, all taxes, assessments or charges arising as a result of the transactions contemplated by any of the Loan Documents or the recording of any Loan Documents; and (ii) all expenses incurred by Lender (including the fees, costs, charges and disbursements of any counsel engaged or retained by Lender) in connection with any litigation or controversy connected with Borrower's Obligations, including any Debtor Relief Laws, receivership, injunction or other proceeding, or any appeal from or petition for review of any such proceeding, involving Borrower, or any workout, renegotiation or restructuring of the transactions contemplated by the Loan Documents or any action to realize upon or enforce Lender's right in and to the Collateral or otherwise incurred by Lender after the occurrence of an Event of Default.

b. Borrower shall indemnify Lender and each Related Party of Lender (each such Person being called an "Indemnitee") against, and hold each Indemnitee harmless from, any and all losses, claims, damages, liabilities and related expenses (including the fees, charges and disbursements of any counsel for any Indemnitee), incurred by any Indemnitee or asserted against any Indemnitee by any third party or by Borrower or any other party hereto arising out of, in connection with, or as a result of (i) the execution or delivery of this Note, another Loan Document or any agreement or instrument contemplated, the performance by the parties hereto of their respective obligations or consummation of the transactions contemplated, (ii) any actual or alleged presence or release of hazardous materials on or from any property owned or operated by Borrower, or any environmental liability related in any way to Borrower or any of its Subsidiaries, or (iii) any actual or prospective claim, litigation, investigation or proceeding relating to any of the foregoing, whether based on contract, tort or any other theory, whether brought by a third party or by Borrower or any other party hereto, and regardless of whether any Indemnitee is a party thereto; provided that such indemnity shall not, as to any Indemnitee, be available to the extent that such losses, claims, damages, liabilities or related expenses (x) are determined by a court of competent jurisdiction by final and nonappealable judgment to have resulted from the gross negligence or willful misconduct of such Indemnitee or (y) result from a claim brought by Borrower or any other party hereto against an Indemnitee for breach in bad faith of such Indemnitee's obligations hereunder or under any other Loan Document, if Borrower or such party hereto has obtained a final and nonappealable judgment in its favor on such claim as determined by a court of competent jurisdiction; provided however that, in the course of any proceeding of any nature contemplated by this subparagraph between or among Indemnitee, Borrower or any party hereto, each such party shall be responsible for their own fees and expenses, provided further, that following a nonappealable judgment, the prevailing party or substantially prevailing party shall be entitled to payment of its reasonable costs and expenses from the other party or parties.

c. To the fullest extent permitted by applicable Law, Borrower shall not assert, and each such party hereby waives, any claim against any Indemnitee, on any theory of liability, for special, indirect, consequential or punitive damages (as opposed to direct or actual damages) arising out of, in connection with, or as a result of, this Note, any other Loan Document or any agreement or instrument contemplated, the transactions contemplated, any Loan or the use of the proceeds thereof. No Indemnitee referred to in Subparagraph b. above shall be liable for any damages arising from the use by unintended recipients of any information or other materials distributed by it through telecommunications, electronic or other information transmission systems in connection with this Note or the other Loan Documents or the transactions contemplated.

d. All amounts due under this Paragraph 9.06 shall be payable not later than ten Business Days after demand therefore.

e. The agreements in this Paragraph shall survive the repayment, satisfaction or discharge of Borrower's Obligations.

9.07 No Novation. This Note shall not constitute a novation and shall in no way adversely affect or impair the lien priority of the Loan Documents. Each of the Loan Documents, agreements and instruments creating, evidencing and securing the repayment of the Loans shall remain in effect and is valid, binding and enforceable according to its terms, except as modified herein. The recitals to this Note are hereby incorporated herein and made a part hereof.

ORAL AGREEMENTS OR ORAL COMMITMENTS TO LOAN MONEY, EXTEND CREDIT, OR TO FORBEAR FROM ENFORCING REPAYMENT OF A DEBT ARE NOT ENFORCEABLE UNDER WASHINGTON LAW.

*[remainder of page intentionally left blank; signature pages follow]*In Witness Whereof, the parties hereto have duly executed this Note as of the date first above written.

LENDER:
NORTHWEST FARM CREDIT SERVICES, FLCA

By:
Authorized Agent

BORROWER:
SEVENTH AVENUE POULSBO, LLC

By: OPG Properties LLC, Sole Member
By: Pope Resources, A Delaware Limited Partnership, Sole Member
By: Pope MGP Inc., a Delaware corporation, its Managing General Partner

By: Thomas M. Ringo, President and CEO

GUARANTOR:
POPE RESOURCES, A DELAWARE LIMITED PARTNERSHIP
By: Pope MGP Inc., a Delaware corporation, its Managing General Partner

By: Thomas M. Ringo, President and CEO

EXHIBIT A
NOTICE/CONFIRMATION

NOTICE TO:

Note and Loan Agreement (Seventh Avenue Poulsbo, LLC/Note No. 6097341)

Loan Accounting and Operations
Northwest Farm Credit Services, FLCA
2001 South Flint Road
Spokane, WA 99224-9198

P. O. Box 2515
Spokane, WA 99220-2515

Fax: 509-340-5508
Tel: 1-800-216-4535

This Notice is provided pursuant to the Amended and Restated Note and Loan Agreement dated as of September 30, 2016, as extended, renewed, amended or restated.

SELECT ONE: Loan Segment
 Pricing
 Prepayment of Principal
 Initial Disbursement Amount

Loan Segment Currently Priced Under Option
Principal Amount
To New Pricing Option
Date to be Effective

Date:

Seventh Avenue Poulsbo, LLC

By:
Authorized Agent

CONFIRMATION

Lender confirms that the above actions were taken or modified as provided for below:

NORTHWEST FARM CREDIT SERVICES, FLCA

Date: By:
Authorized Agent

EXHIBIT B
FORM OF COMPLIANCE CERTIFICATE

Financial Statement Date: _____, 20__

To: Northwest Farm Credit Services, FLCA

Reference is made to that certain Amended and Restated Note and Loan Agreement, dated as of September 30, 2016, (the "Note") among **SEVENTH AVENUE POULSBO, LLC** ("Borrower"), **POPE RESOURCES, A DELAWARE LIMITED PARTNERSHIP** ("Guarantor"), and **NORTHWEST FARM CREDIT SERVICES, FLCA** ("Lender").

Note and Loan Agreement (Seventh Avenue Poulsbo, LLC/Note No. 6097341)

The undersigned Responsible Officer hereby certifies as of the date hereof that he/she is the _____ of Guarantor, and that, as such, he/she is authorized to execute and deliver this Certificate to Lender on behalf of Guarantor, and that:

[Use following Paragraph 1 for Fiscal Year-End financial statements]

1. Attached hereto as Schedule 1, are the Fiscal Year-End audited financial statements required by Paragraph 8.01.i of the Note for the Fiscal Year of Guarantor ended as of the above date, together with the report and opinion of an independent certified public accountant required by such Paragraph.

[Use following Paragraph 1 for [first/second/third] Fiscal Quarter-End financial statements]

1. Attached hereto as Schedule 1, are the financial statements required by paragraph 8.01.ii of the Note for the Fiscal Quarter of Guarantor ended as of the above date. Such financial statements fairly present the financial condition, results of operations and cash flows of Guarantor and its Subsidiaries in accordance with GAAP, as of such date and for such period, subject only to normal year-end adjustments and the absence of footnotes.

2. The undersigned has reviewed and is familiar with the terms of the Note and has made, or has caused to be made under his/her supervision, a detailed review of the transactions and condition (financial or otherwise) of Borrower and Guarantor during the accounting period covered by the attached financial statements.

3. A review of the activities of Borrower and Guarantor during such fiscal period has been made under the supervision of the undersigned with a view to determining whether during such fiscal period Borrower and Guarantor performed and observed all its obligations under the Loan Documents, and

[select one:]

[To the best knowledge of the undersigned during such fiscal period, Borrower and Guarantor performed and observed each covenant and condition of the Loan Documents applicable to it.]

--or--

[The following covenants or conditions have not been performed or observed and the following is a list of each such Incipient Defaults and their nature and status:]

4. To the best knowledge of the undersigned, the representations and warranties of Borrower and Guarantor contained in the Loan Documents, and any representations and warranties of Borrower and Guarantor that are contained in any document furnished at any time under or in connection with the Loan Documents, are true and correct on and as of the date hereof, except to the extent that such representations and warranties specifically refer to an earlier date, in which case they are true and correct as of such earlier date.

5. To the best knowledge of the undersigned, the financial covenant analyses and information set forth on Schedule 1, attached hereto, are true and accurate on the Calculation Date and the undersigned has received no information to the contrary as of the date of this Certificate.

IN WITNESS WHEREOF, the undersigned has executed this Certificate as of _____, 20__.

POPE RESOURCES, A DELAWARE LIMITED PARTNERSHIP

By: Pope MGP Inc., a Delaware corporation, its Managing General Partner

By:

Authorized Agent

Note and Loan Agreement (Seventh Avenue Poulsbo, LLC/Note No. 6097341)

SEVENTH AVENUE POULSBO, LLC

By: OPG Properties LLC, Sole Member

By: Pope Resources, A Delaware Limited Partnership, Sole Member

By: Pope MGP Inc., a Delaware corporation, its Managing General Partner

By: Authorized Agent

**EXHIBIT C
COVENANT COMPLIANCE WORKSHEET**

For the Fiscal Quarter-End/Fiscal Year-End _____ (“Calculation Date”)

**I. Paragraph 7.02 a. - Indebtedness to Total Capitalization Ratio
(measured annually at the Fiscal Year-end)**

A. Borrower and its Subsidiaries Indebtedness at Calculation Date	\$
B. Indebtedness associated with the non-Wholly Owned Subsidiaries at Calculation Date	\$
C. Numerator (Line I.A. minus Line I.B.)	\$
D. Total Capitalization at Calculation Date	
I. Adjusted Partners' Capital at Calculation Date	
a. Partners' capital in Borrower and its Wholly Owned Subsidiaries per GAAP at Calculation Date	\$
b. Book Value of Fee Timberland at Calculation Date	\$
c. Most recent appraisals of Fee Timberlands	\$
d. Adjusted Partners Capital (Line I.D.1.a. minus I.D.1.b. plus I.D.1.c.)	\$
2. Numerator from line I.C. above	\$
E. Denominator (Line I.D.1.d. plus Line I.D.2.)	\$
Ratio of Indebtedness to Total Capitalization (Line I.C. <u>divided</u> by Line I.E.)	
Maximum Allowed	0.30

**II. Paragraph 7.02 b. - Adjusted Consolidated Interest Coverage Ratio
(measured quarterly beginning with the third Fiscal Quarter-End 2016)**

A. Adjusted Consolidated EBITDDA for the prior four Fiscal Quarters ending on the above date (the "subject period")

1. Consolidated Net Income for the subject period (excluding the net income associated with non-Wholly Owned Subsidiaries)	\$ _____
2. Consolidated Interest Expense for the subject period (excluding the interest expense associated with non-Wholly Owned Subsidiaries)	\$ _____
3. Consolidated depreciation expense for the subject period (excluding the depreciation expense associated with non-Wholly Owned Subsidiaries)	\$ _____
4. Consolidated amortization expense for the subject period (excluding the amortization expense associated with non-Wholly Owned Subsidiaries)	\$ _____
5. Consolidated depletion expense for the subject period (excluding the portion associated with the non-controlling interest in non-Wholly Owned Subsidiaries)	\$ _____
6. Consolidated Taxes for the subject period (excluding income taxes associated with non-Wholly Owned Subsidiaries)	\$ _____
7. Distributions received by the Borrower and its Wholly Owned Subsidiaries from non- Wholly Owned Subsidiaries.	\$ _____
8. Adjusted Consolidated EBITDDA (the sum of Lines II.A.1 through II.A.7. inclusive)	\$ _____
B. Numerator (Line II.A.8.)	\$ _____
C. Denominator - Consolidated Interest Expense for subject period (excluding the interest expense associated with non-Wholly Owned Subsidiaries)	\$ _____
Adjusted Consolidated Interest Coverage Ratio (Line II.B. <u>divided</u> by Line II.C.)	_____
<i>Minimum Allowed</i>	<i>3.00 :1.00</i>

Schedule 1

Authorized Persons

Authorized Persons

Name	Change Authorizations
Thomas M. Ringo	Individually
John D. Lamb	Individually
Sean Tallarico	Individually

- Authorizations.** Unless otherwise noted, each Authorized Person acting alone has the authority to request disbursements of Loans and designate the disposition of Loan proceeds, whether in the form of check, internal transfer, wire or electronic transfer to the account specified by the Authorized Person, including any other loan account Borrower may have with Lender, or any other designated Lender loan account, make deposits to and disbursements from any FPF Account, make payments of Borrower’s Obligations, authorize and initiate internal transfers, enroll in and make use of Northwest Farm Credit Services’ customer online banking website, make interest rate and other pricing elections and authorize payments and prepayments.
- Change Authority.** Absent resolutions or authorized evidence of authority satisfactory to Lender, only the Authorized Person(s) listed above with change authority, either individually or together as may be required, may add or remove other Authorized Persons or modify limitations on authority of an Authorized Person. Any change of an Authorized Person or the limitations on their authority shall be made on such forms as Lender may prescribe.

**AMENDMENT NO. 5 TO
MASTER LOAN AGREEMENT**

THIS AMENDMENT NO. 5 TO MASTER LOAN AGREEMENT (this “Amendment”) is made and entered into effective November __, 2016, by and between **NORTHWEST FARM CREDIT SERVICES, FLCA** and **NORTHWEST FARM CREDIT SERVICES, PCA** (collectively, “Lender”) and **ORM TIMBER FUND III (REIT) INC.** (“Borrower”).

RECITALS

WHEREAS, Borrower and Lender entered into a Master Loan Agreement dated December 2, 2013 (herein, as at any time amended, extended, restated, renewed, supplemented or modified, the “Loan Agreement”), and certain related loan documents (herein, as at any time amended, extended, restated, renewed, supplemented or modified, collectively the “Loan Documents”).

WHEREAS, Borrower and Lender desire to modify the Loan Agreement for the purposes stated herein.

NOW THEREFORE, for good and valuable consideration, Borrower and Lender agree as follows:

1. Except as expressly modified or changed herein, all terms and conditions of the Loan Agreement and the other Loan Documents shall remain in full force and effect and shall not be changed hereunder. All terms not otherwise defined herein shall have the meaning given such term in the Loan Agreement and the other Loan Documents.

2. The following definitions in Section 1 of the Loan Agreement are hereby amended in their entirety as follows:

“Consolidated EBITDDA” means, for any period, the sum of: (a) Consolidated Net Income; (b) Consolidated Net Interest Expense; (c) consolidated depreciation expense; (d) consolidated depletion expense; (e) consolidated basis of real estate sold; (f) Consolidated Taxes; and (g) consolidated amortization expense, all as determined in accordance with GAAP.

“Distributions” means cash or other Property paid to a Person by virtue of the Person’s ownership in Borrower and or Borrower’s Affiliates. For the 2016 Fiscal Year, Distributions shall exclude any cash distributions made during the 2016 Fiscal Year that were related to earnings generated in the 2015 Fiscal Year.

3. This Amendment may be executed in any number of counterparts, each of which shall be deemed to be an original, but all of which together shall constitute but one and the same instrument. This Amendment shall not constitute a novation and shall in no way adversely affect or impair the lien priority of the Loan Documents. Each of the Loan Documents, agreements and instruments creating, evidencing and securing the repayment of the above-referenced loan shall remain in effect and is valid, binding and enforceable according to its terms, except as modified by this Amendment. Time is of the essence in the performance of the Note and the other Loan Documents. This Amendment shall be binding upon and inure to the benefit of the respective successors and assigns of Borrower and Lender.

4. The undersigned Guarantors executed a Guaranty Agreement (“Guaranty”). Each of the undersigned hereby consents and agrees to the foregoing Amendment and confirms that notwithstanding the Amendment, the obligations of each of the undersigned under or in connection with the Loan Documents or the Guaranty executed by it are and shall remain in full force and effect, in accordance with their respective terms.

In Witness Whereof, the parties hereto have duly executed this Amendment to be effective as of the date first above written.

ORAL AGREEMENTS OR ORAL COMMITMENTS TO LOAN MONEY, EXTEND CREDIT, OR TO FORBEAR FROM ENFORCING REPAYMENT OF A DEBT ARE NOT ENFORCEABLE UNDER WASHINGTON LAW.

**LENDERS:
NORTHWEST FARM CREDIT SERVICES, FLCA**

By: _____
Authorized Agent

NORTHWEST FARM CREDIT SERVICES, PCA

By: _____
Authorized Agent

**BORROWER:
ORM Timber Fund III (REIT) Inc.
By: Olympic Resource Management LLC, its Manager
By: Pope MGP, Inc., its Managing Member**

By: Thomas M. Ringo _____
Its: President and CEO

**GUARANTORS:
ORM Timber Fund III LLC
By: Olympic Resource Management LLC, its Manager
By: Pope MGP, Inc., its Managing Member**

By: Thomas M. Ringo _____
Its: President and CEO

**ORM Timber Fund III (Foreign) LLC
By: Olympic Resource Management LLC, its Manager
By: Pope MGP, Inc., its Managing Member**

By: Thomas M. Ringo _____
Its: President and CEO

Significant Subsidiaries

Subsidiary	State of Formation
OPG Properties LLC	Washington
Olympic Property Group I LLC	Washington
ORM, Inc.	Washington
Olympic Resource Management LLC	Washington
ORM Timber Fund II, Inc.	Delaware
ORM Timber Fund III (REIT) Inc.	Delaware

Consent of Independent Registered Public Accounting Firm

The Board of Directors

Pope Resources, A Delaware Limited Partnership:

We consent to the incorporation by reference in the registration statement (No. 333-128245) on Form S-8 of Pope Resources, A Delaware Limited Partnership, of our reports dated March 1, 2017, with respect to the consolidated balance sheets of Pope Resources, A Delaware Limited Partnership, and subsidiaries as of December 31, 2016 and 2015, and the related consolidated statements of comprehensive income, partners' capital, and cash flows for each of the years in the three-year period ended December 31, 2016, and the effectiveness of internal control over financial reporting as of December 31, 2016, which reports appear in the December 31, 2016 annual report on Form 10-K of Pope Resources, A Delaware Limited Partnership.

(signed) KPMG LLP

Seattle, Washington

March 1, 2017

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, Thomas M. Ringo, certify that:

1. I have reviewed this annual report on Form 10-K of Pope Resources;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting;
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 1, 2017

/s/ Thomas M. Ringo
Thomas M. Ringo
Chief Executive Officer

CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, John D. Lamb, certify that:

1. I have reviewed this annual report on Form 10-K of Pope Resources;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting;
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 1, 2017

/s/ John D. Lamb

John D. Lamb
Chief Financial Officer

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of Pope Resources (the "Company") on Form 10-K for the period ended December 31, 2016, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Thomas M. Ringo, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company as of, and for, the periods presented in the Report.

This certification is being furnished solely to comply with the requirements of 18 U.S.C. Section 1350, and shall not be incorporated by reference into any of the Company's filings under the Securities Act of 1933 or the Securities Exchange Act of 1934, or otherwise be deemed to be filed as part of the Report or under such Acts.

/s/ Thomas M. Ringo

Thomas M. Ringo
Chief Executive Officer

March 1, 2017

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of Pope Resources (the "Company") on Form 10-K for the period ended December 31, 2016, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, John D. Lamb, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company as of, and for, the periods presented in the Report.

This certification is being furnished solely to comply with the requirements of 18 U.S.C. Section 1350, and shall not be incorporated by reference into any of the Company's filings under the Securities Act of 1933 or the Securities Exchange Act of 1934, or otherwise be deemed to be filed as part of the Report or under such Acts.

/s/ John D. Lamb

John D. Lamb
Chief Financial Officer

March 1, 2017