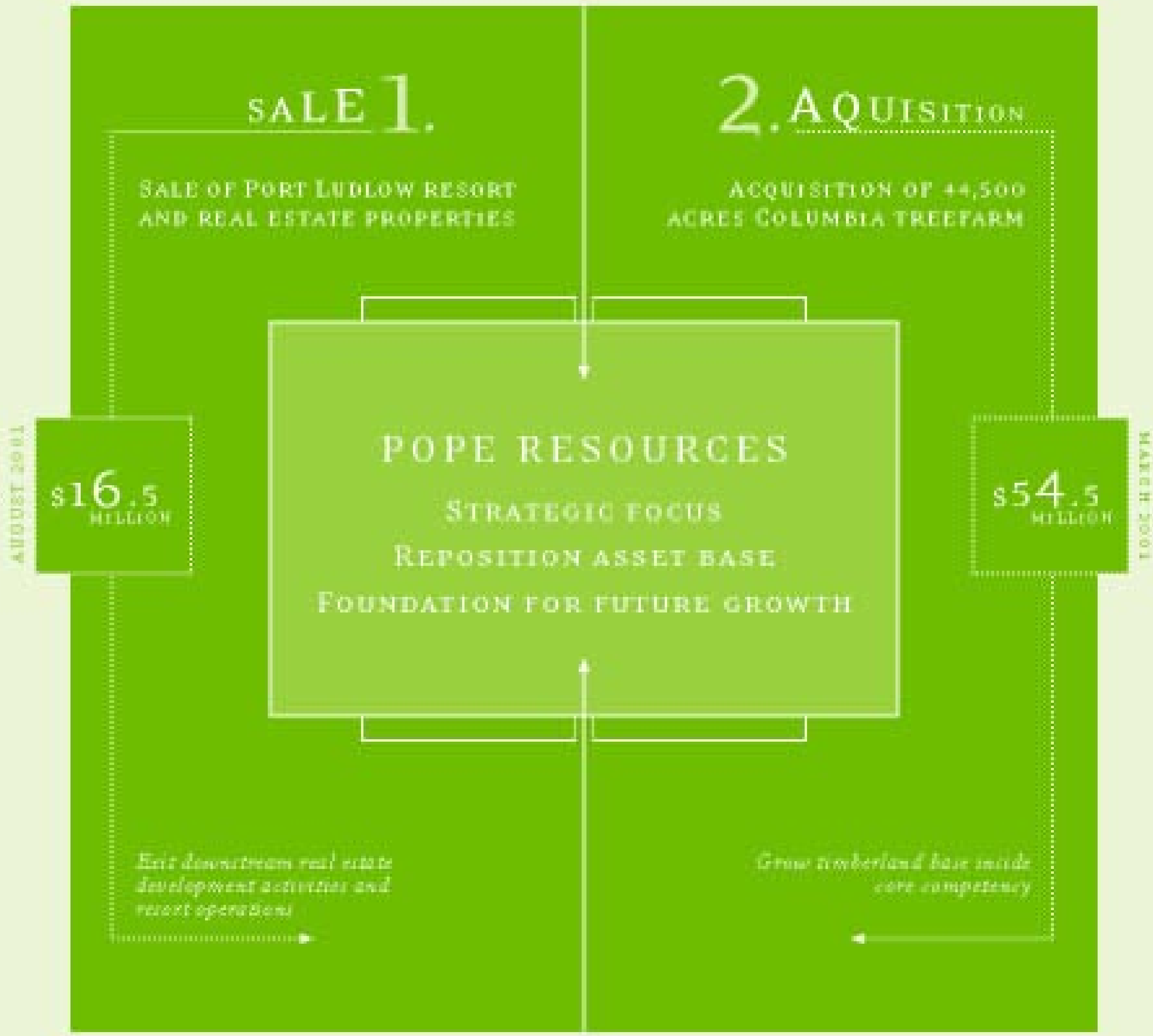
2001
Pope Resources

Two Major Transactions Defined 2001



To Our Unitholders

Two Major Transactions defined 2001. First was the purchase in March of the 44,500-acre Columbia tree farm in southwest Washington. This acquisition, which evened out the age-class distribution of our fee timberland base, will provide greater consistency and sustainability of future harvest levels, earnings, and cash flows. This was followed in August with the sale of the Partnership's resort and real estate development holdings in Port Ludlow, Washington.

Taken separately, the first transaction symbolizes the commitment to growing our fee timberland base while the second completes our exit from downstream real estate development and resort management activities. Taken together, we were able to substantially grow in size while at the same time reposition our overall asset base. Pope Resources emerges with a greater concentration of its assets within our core competency of timberland ownership and management while preserving a promising portfolio of early-stage higher-and-better-use real estate properties. While the results for 2001 do not bear it out in an obvious way, a solid foundation for future growth was nonetheless laid with these two transactions.

Financial Review. After fourteen consecutive years of reporting profits through 1999, the Partnership incurred a $6.25 million loss in 2000 followed by a $0.4 million loss in 2001. Losses in both years were the result of the decision to sell the Port Ludlow resort assets. Most of this loss ($9.2 million) was recognized in 2000 but additional pre-sale writedowns of $1.25 million were required in 2001. The large 2000 loss was also impacted by a $2.0 million reserve for environmental remediation costs in Port Gamble and other restructuring and asset impairment costs of $0.9 million.

Before the special charges, net income for 2001 was $0.8 million on revenues of $47.8 million, down significantly from the comparable net income for 2000 of $5.9 million on revenues of $50.7 million. This $5.1 million decline in income before special charges was attributable to the near-term dilutive earnings impact of our Columbia tree farm acquisition coupled with deteriorating market conditions in our core fee timber and third-party timberland management and forestry consulting segments. Specifically, average log prices for our key export log market fell 15% year-to-year, our third-party acres under management declined 13%, and our forestry consulting practice experienced significantly lower revenues associated with the market uncertainty surrounding the softwood lumber dispute between the U.S. and Canada.

To meet these changing market conditions and to adapt to a smaller real estate presence, we aggressively cut costs and right-sized our corporate support infrastructure, resulting in improved operating margins in our third-party timberland management and forestry consulting segment and substantially lower general and administrative costs. The gains we made in reducing overhead, however, were matched nearly dollar for dollar by an increase in interest expense resulting from the incremental debt needed to acquire the Columbia tree farm. We expect these reductions in general and administrative costs to help us weather what is expected to be another year of difficult market conditions in 2002.

Segment Results. Operating earnings from our largest segment, Fee Timber, decreased $3.7 million to $9.2 million in 2001, primarily as a result of both lower prices and volumes. Harvest volume decreased 1 MMBF to 36.3 MMBF while the average log price realizations declined 8% to $503/MBF in 2001.

Although revenues decreased $1.3 million, operating earnings from our third-party Timberland Management and Consulting segment increased to $1.7 million in 2001 from $0.1 million in 2000, or $1.0 million before special charges. These charges in 2000 were associated with a $0.9 million writedown of our Canadian forestry consulting practice and expenses incurred to right size the cost structure of the management operations in accordance with some acreage losses in prior years.

Real Estate segment operating earnings, after special charges of $1.25 million and $11.2 million in 2001 and 2000, respectively, increased from a loss of $11.6 million in 2000 to a loss in 2001 of $2.7 million. Most of these charges were associated with the sale of the Port Ludlow resort assets as well as a $2.0 million provision for environmental remediation in 2000 as an approximation of the negotiated portion of clean up costs at Port Gamble, Washington. Before the special charges, segment earnings declined $1.0 million, based on losing some high-profit summer business in connection with the sale of properties at Port Ludlow.

General and Administrative costs decreased $2.1 million from 2000 to 2001, reflecting continued efforts to trim overhead in concert with changes in our business mix. Interest expense increased from $1.3 million in 2000 to $3.4 million in 2001 due to debt incurred to acquire the new Columbia tree farm. Minority interest charges and the tax liability in our taxable subsidiaries grew by $0.9 million between 2000 and 2001. This was a function of cost-trimming measures in timberland management and consulting which, in turn, elevated profit levels for that segment and increased our minority interest and income tax liabilities.

Management Changes. In September 2000, the Board implemented a succession plan following the retirement of Gary F. Tucker as President and CEO earlier that year. They appointed Allen E. Symington as Chairman and CEO for a three-year period to provide veteran leadership while preparing me to eventually assume leadership of the Partnership. Following the significant milestones achieved during 2001, including the acquisition of the 44,500-acre Columbia tree farm, the sale of the Port Ludlow resort assets, the re-sizing of the Partnership's support infrastructure, and the definition of a long-term Partnership direction, the Board decided to accelerate this leadership transition. Accordingly, in January 2002, I was named President and CEO.

Key Strategies. Pope Resources is blessed with a diverse portfolio of 112,000 acres of commercial timberlands and 2,000 acres of early-stage real estate development properties in western Washington. Our mission is to add value to this land base and create additional value for our unitholders by providing third-party timberland management and forestry consulting services to other owners of timberlands. To fulfill this mission, we have assembled an exceptional team of professionals in all facets of timberland management and in selected aspects of real estate development. Our strategy is centered around adding to our fee (owned) timberland base, building our third-party service business by providing cost-effective timberland management and forestry consulting expertise, and focusing our real estate development activities on areas where we can add the greatest value. To be successful, we also need to focus on supporting these business strategies with the most cost-effective and efficient administrative support.

Timberland Ownership. In March 2001, we acquired the 44,500-acre Columbia tree farm in southwest Washington from Plum Creek Timber Company, Inc. for approximately $55 million. This acquisition will significantly fill the age-class gap of our existing 72,000-acre fee timberland base. Where the Hood Canal tree farm's merchantable timber is concentrated in age classes greater than 50 years, the Columbia tree farm's merchantable volume is weighted more heavily in the 35 to 50 year old age classes. Our inventory of merchantable timber volume (contained in productive timberland stands 35 years and older) increased to 473 million board feet by year-end. This inventory volume and the amount of productive acres, by five-year age class, is contained in the table to the right:

Age Class	Acres (000)	MMBF
0-4	8.5	
5-9	10.5	
10-14	10.6	
15-19	16.8	
20-24	13.6	
25-29	6.8	
30-34	4.7	
35-39	4.1	51
40-44	3.2	48
45-49	3.3	59
50-54	4.0	79
55-59	3.6	67
60-64	4.6	96
65 +	3.2	73

This increase in younger age classes on the Columbia tree farm in effect allows us to accelerate the harvest of older timber on the Hood Canal tree farm, increasing near-term cash flow and increasing the effective value of our fee timberland holdings. By evening out the age-class distribution of the Partnership's fee timberland, the Columbia tree farm acquisition allows us to increase our sustainable harvest level to 45 MMBF over the next decade and ramp it up even further after that. As such, the combined tree farms enhance the Partnership's ability to generate long-term, sustainable cash flows from its Fee Timber operations. The Columbia tree farm acquisition also diversifies our product markets between Puget Sound, southwest Washington, and northwest Oregon.

This acquisition was financed with cash, senior debt, and a short-term revolving acquisition credit facility. As a result of the Port Ludlow asset sale, the revolving debt facility was paid to zero in the second half of 2001. In addition, we sold a 3,750-acre portion of the acquired lands in November 2001 to Weyerhaeuser Company for $5.3 million, proceeds of which were largely directed to further debt reduction. Notwithstanding these debt reduction measures, we expect this acquisition to be dilutive to Pope Resources earnings for the next few years, but still very much in line with our stated mission of adding long-term value for our unitholders.

Timberland Management & Consulting. Since 1997, Pope Resources, through its subsidiary Olympic Resource Management (ORM), has leveraged its timberland management expertise into contracts to perform such services on behalf of other timberland owners. Together with the Partnership's 112,000-acre fee timberland base, ORM manages over 600,000 acres of commercial timberland in the western U.S. and British Columbia. To effect this strategy, we have assembled an impressive in-house staff of management and technical expertise. This team of professionals provides a comprehensive and complementary suite of timberland management and forestry consulting services to other owners and managers of timberland. This in turn adds value to our own timberland holdings by providing greater economies of scale, added professional expertise, and lower effective management costs as a result of profits generated by providing services for others.

In December 2000 we announced our intent to sell our Canadian forestry consulting business. Based on its historical financial performance and market uncertainties brought about by the unresolved softwood lumber dispute between the U.S. and Canada, we were unsuccessful in this endeavor. We have decided to retain ownership of this business, but have restructured operations to narrow the business scope by exiting some marginal subsets of this business. What has emerged is a forestry consulting practice that more closely mirrors our U.S.-based operations and is more closely linked to our timberland management activities. We have also substantially reduced our administrative overhead costs, which will make this business much more cost competitive in the future. By these actions, we look forward to delivering value to both our Canadian clients and our unitholders.

Real Estate. The August 2001 sale of our Port Ludlow, Washington resort and real estate development assets marked the end of over 30 years of involvement in developing Port Ludlow by Pope Resources and its predecessor company, Pope & Talbot, Inc. The legacy of these efforts is a beautiful community with a number of fine amenities but a history of disappointing financial performance. Total consideration was approximately $16.5 million, of which approximately two-thirds was cash and one-third in the form of a three-year note. The note's original balance of $5.8 million was paid down to under $3.9 million by the end of 2001.

While the Partnership will continue to own and/or manage real estate properties, we will look to narrow our real estate development activities to those areas where we believe we can add the most value. To this end, we have worked for a number of years to position our properties within Urban Growth Areas as defined under Washington's Growth Management Act. We will focus more on the early-stage development activities of obtaining and protecting entitlements for subsequent development. We have a number of such residential and mixed-use properties on the Kitsap Peninsula, including projects in Gig Harbor, Bremerton, Kingston, Port Gamble, and Hansville. We are focused on shaping this portfolio of higher-and-better-use properties into a business that provides positive cash flow within five years by selling entitled properties to other developers or perhaps partnering with developers who bring specific expertise to a property.

Lower Administrative & Overhead Costs. Key to the success of all our business activities is cost-effective and efficient administrative support. We made great strides in 2001 in lowering our selling, general & administrative expenses to $5.1 million, 40% lower than in 1999. Based on the sale of the Port Ludlow assets and the tightened general business climate, we expect further reductions in 2002. We are diligently reviewing our cost structure to assure we are competitive and efficient without impairing our ability to grow in line with our business development strategies.

Cash Distribution Policy and Taxes. For several years during the late 1990's, it was the Partnership's practice to make regular quarterly distributions of 10 cents per unit. Effective in 2001, Pope Resources decided to return to a variation of its historical distribution practice that pre-dated this quarterly pattern, which centered around a fourth quarter distribution designed to cover the estimated flow-through tax liability of partnership earnings to our unitholders. Starting in 2002, we expect to correlate the size and frequency of distributions with earnings and cash flows and expect to strike an appropriate balance between distributing cash to unitholders in a tax-efficient manner and retaining the capital needed to grow our timberland asset base.

Most unitholders will have a net tax loss reported to them on their Schedule K-1 as a result of recognizing a tax loss on the Port Ludlow sale in 2001. This loss is not available to offset other income on a person's Form 1040. The loss must be carried forward and utilized as an offset to income from Pope Resources in future years.

Unit Price Performance and the "Value Equation." After starting the year at $24.50 per unit, our unit price slid slowly over the last half of the year, settling at $14.75 at the close of 2001. This 40% unit price decline occurred against the backdrop of declines in broader market indices as well as declines in stocks of other publicly traded timberland and forest products companies. While it is not uncommon for forest products stocks to trade at a discount to underlying asset value, we believe the market is still digesting changes in the Partnership's business model and is not giving adequate weight to the underlying long-term value of our units.

Pope Resources is one of a few pure-play timber securities in the market and is one of only three publicly-traded partnerships (PTPs) operating in this industry now that Plum Creek has migrated to REIT status (the other two PTPs are Crown Pacific and US Timberlands). We enjoy a highly efficient, flow-through tax structure, which often produces a positive tax yield when higher marginal tax rates applied to our operating costs more than offset lower capital gains treatment on our timber harvest income. While other timber PTPs focus on near-term distribution yields, Pope Resources has consistently positioned itself as a value play in Pacific Northwest timber. We believe that too strong an emphasis on yield can lead to unsustainable harvesting at the expense of long-term value. We will continue to look for new timberland acquisitions that represent attractive long-term value opportunities.

Looking Ahead. We expect the business climate this next year to be challenging. North American forest product markets are beset by overcapacity, resulting in low operating rates among solid wood as well as pulp and paper manufacturers. Increased global flows of forest products have also reduced price volatility, creating a more commodity-like pricing environment for our logs. The ongoing softwood lumber dispute between the U.S. and Canada has also added a degree of uncertainty to future market conditions.

This market environment demands the utmost attention on maintaining a competitive cost position. Following the sale of our Port Ludlow resort assets, we have emerged as a much more focused forestry organization. We have maintained and improved upon our competitive cost structure and intend to broaden our marketing reach to provide our unique mix of timberland management and forestry consulting services to other owners of timberlands. We will also continue to look for attractive timberland acquisition opportunities that will add long-term value for our unitholders.

Pope Resources has undergone tremendous change in the past few years as we have narrowed our strategic focus more keenly on timberland ownership and management opportunities. We have an excellent management team in place and possess an outstanding group of employees that has responded well to a number of challenges and opportunities. We are all eager to grow the Partnership and achieve our vision of adding value for our unitholders. I am confident we are on the right road to value creation and want to thank our unitholders and our employees for their continued support.

David L. Nunes
President & CEO

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Significant Events in 2001

In December 2000, the Partnership announced plans to narrow its strategic focus to the ownership and management of timberlands, and consulting for owners of such properties. In accordance with this shift, the Partnership completed two major transactions in 2001. These transactions represent steps taken in 2001 to focus the Partnership's efforts more on the ownership and management of timberland resources.

Columbia Tree Farm Acquisition. In March 2001, the Partnership acquired 44,500 acres of timberland in southwest Washington from Plum Creek Timber Inc. The Partnership refers to this property as the Columbia tree farm. To finance the $54.5 million acquisition, the Partnership used $7.5 million in cash, a $30 million mortgage and $17 million in revolving debt. The revolving debt was later paid off with proceeds from the sale of Port Ludlow and cash generated from operations. This timberland acquisition will help to fill an age class gap that exists on the Partnership's Hood Canal tree farm. The Columbia tree farm merchantable inventory includes age classes that are expected to be at an economically harvestable age during that time period.

Sale of Port Ludlow Properties. In August 2001 the Partnership sold its assets and operations in the resort community of Port Ludlow, Washington. As a result of this sale the Partnership recorded $10.1 million of asset impairment and exit costs in 2000 and an additional $1.25 million in 2001. Upon closing the sale, the Partnership received $10.2 million in cash, a $5.8 million note, and the purchaser assumed $0.5 million in current liabilities.

Certain Consulting Operations. The Partnership also announced plans in December 2000 to sell its consulting operations in British Columbia. Efforts to market the consulting operations in 2001 were not successful. As a result, consulting operations in British Columbia have been restructured to minimize operating expenses and focus on fewer, more profitable market niches.

The above steps resulted in a $2.1 million decrease in general and administrative costs in 2001 as compared to 2000. These cost reductions were made possible by focusing the Partnership's efforts on its core competency of managing timberland.

Results of Operations

The Partnership operates in three primary business segments: (1) Fee Timber, (2) Timberland Management and Consulting, and (3) Real Estate. Fee Timber operations consist of the growing and harvesting of timber from the Partnership's tree farms. Timberland Management and Consulting encompasses providing timberland management and forestry consulting services to third-party owners of timberlands. Real Estate includes the assets at Port Ludlow that were sold in August of 2001 and other investments in land.

The Partnership's consolidated gross revenues in 2001, 2000, and 1999, on a percentage basis by segment, are as shown in the table to the right:

Segment	**2001**	2000	1999
Fee Timber	**52%**	42%	46%
Timber Management	**20%**	22%	23%
Real Estate	**28%**	36%	31%

The Partnership projects that, in 2002, the relative percentages between the Fee Timber, Timber Management and Real Estate segments will shift to 70%, 26%, and 4%, respectively, as a result of a full year without the Port Ludlow operations, and a full year with the Columbia tree farm operations.

Further segment financial information is presented in Note 12 to the Partnership's Consolidated Financial Statements included with this report.

Fee Timber

Revenues and Operating Income. Fee Timber revenue is earned primarily from the harvest and sale of logs from the Partnership's 112,000 acres of fee timber located in western Washington and to a lesser extent from the sale of gravel and cellular communication tower leases. Revenue and operating income generated by the Fee Timber segment for each year in the three-year period ended December 31, 2001, are as follows:

Year ended	Timber	Mineral & Cell Tower	Total Fee Timber Revenue	Operating income
December 31, 2001	**$ 24.1 million**	**$ 0.9 million**	**$ 25.0 million**	**$ 9.2 million**
December 31, 2000	20.6 million	0.8 million	21.4 million	12.9 million
December 31, 1999	22.7 million	0.8 million	23.5 million	13.6 million

Fiscal Year 2001 compared to 2000. Fee Timber revenue increased $3.6 million, or 17%, to $25.0 million in 2001 from $21.4 million in 2000. The increase in revenue is largely the result of the sale of 3,750 acres of timberland from the Columbia tree farm shortly after its acquisition recognizing revenue of $5.2 million. A smaller timberland sale from the Hood Canal tree farm generated $0.2 million in revenue. However, the land sale revenue was offset to some degree by an 8% decline in average log prices and a 3% decrease in harvest volume. Operating income declined $3.7 million, or 29%, to $9.2 million in 2001 from $12.9 million in 2000, primarily as the result of an increase in depletion expense recognized from harvested timber. Depletion expense has increased as a result of the higher average cost basis of the Partnership's timber following the acquisition of the Columbia tree farm. As discussed below, the decline in average log prices realized, and the decrease in harvest volume also negatively affected operating income. The land sales resulted in operating income of $0.3 million in 2001. The Partnership regularly adjusts its timberland portfolio of holdings as part of its active management through acquisitions and dispositions of smaller parcels.

Fiscal Year 2000 compared to 1999. Fee Timber revenue declined $2.1 million, or 9%, to $21.4 million in 2000 from $23.5 million in 1999. Operating income declined $0.7 million, or 5%, to $12.9 million in 2000 from $13.6 million in 1999. The decline in revenue and operating income is primarily due to a decrease in volume harvested that was partially offset by a small improvement in prices. Timber volume harvested for the year ended December 31, 1999 was high as a result of the purchase and subsequent harvest of 500 acres of timberland during the year.

Export Log Market. Log revenues from the Partnership's timberland ownership are significantly affected by export log market conditions. Sales to the export market totaled 20%, 31%, and 33% of segment revenues for 2001, 2000, and 1999, respectively. The majority of the Partnership's export log volume is sold to Japan. Indirect sales to the export market totaled 8.1 MMBF, 9.1 MMBF, and 11.1 MMBF, of softwood logs for 2001, 2000, and 1999, respectively. The decrease in volume sold through the export market in 2001 is indicative of the weak export market experienced in 2001. The decrease in volume sold to the export market in 2000 was consistent with the overall reduction in harvest volumes. The average price per MBF realized for export logs sold was $620, $731, and $694, for 2001, 2000, and 1999, respectively.

While the decline in export prices realized in 2001 was primarily caused by the overall weakness in the export market, it also reflects the difference in markets served by the Hood Canal and Columbia tree farms. The Columbia tree farm is located more closely to destinations used for log exports than the Hood Canal tree farm. As a result, harvest volume from the Columbia tree farm can be sold to the export market at a higher net price than volume from the Hood Canal tree farm where the cost of transportation makes the sale of logs to the export market less profitable. Average export prices realized in 2000 increased from 1999 due to an increase in the size and quality of logs sold to the export market in 2000.

Domestic Log Market. Domestic sawlog volumes were 19.9 MMBF, 19.1 MMBF, and 21.0 MMBF in 2001, 2000, and 1999, respectively. The 4% increase in domestic volume sold from 2000 to 2001 represents a shift in volume from the export market to the domestic market partially offset by the decline in overall harvest volume. The year 2000 decrease in volume sold domestically is consistent with the overall decline in harvest volume in 2000. Average domestic log prices per MBF were $560, $588, and $593 for 2001, 2000, and 1999, respectively. The weakening of domestic log prices during 2001 is due to volume shifting from the export to the domestic market because of weakness in the export market. This shift created some supply imbalance that resulted in a weakening of prices. The decrease in domestic log prices in 2000 reflects the overall slowing of the domestic economy.

Other Timber Products. Pulp, hardwood, and other log volumes were 8.4 MMBF, 9.1 MMBF, and 9.9 MMBF for 2001, 2000, and 1999, respectively. Other log volume harvested decreased in 2001 due to the mix of stands harvested during the year. Other log volumes were down in 2000 relative to 1999 as a result of the decline in overall harvest volumes in 2000. Other log prices were $254, $283, and $255 per MBF for 2001, 2000, and 1999, respectively. The decline in other log prices in 2001 relative to 2000 reflects the overall decline in log prices during the year. The increase in other log prices in 2000 relative to 1999 resulted from the mix of other volume sold during the year, with the Partnership selling more hardwood volume at relatively favorable prices driving the average price up.

Harvest Volumes and Seasonality. The Partnership harvested the following timber for each year in the three-year period ended December 31, 2001:

Year	Softwood Sawlogs		Pulp, Hardwood, and Other		Totals	
	Volume MMBF	Price $/MBF	Volume MMBF	Price $/MBF	Volume MMBF	Price $/MBF
2001	**27.9**	**$577**	**8.4**	**$254**	**36.3**	**$503**
2000	28.2	$634	9.1	$283	37.3	$549
1999	32.1	$628	9.9	$255	42.0	$542

MMBF = million board feet MBF = thousand board feet

The Partnership's 112,000 acres of timberland consist of the 72,000-acre Hood Canal tree farm and the 40,000-acre Columbia tree farm. The Partnership's Hood Canal tree farm is located in the Hood Canal region of Washington State. Most of this tree farm acreage is at a relatively low elevation where harvest activities are possible year-round. As a result of this competitive advantage, the Partnership is often able to harvest and sell a greater portion of its annual harvest in the first half of the year when the supply of logs tends to be lower. For the last several years, harvest activities have tapered off towards the end of September or October as the Partnership reached its planned annual harvest volume. The Columbia tree farm acreage is less accessible during the winter months and, therefore, harvest activities will be concentrated in the summer months. The overall impact to Fee Timber revenue from the Columbia tree farm acquisition should be a flattening of the seasonal spikes experienced in previous years.

Cost of Sales. Fee Timber cost of sales for each year in the three-year period ended December 31, 2001, are as follows:

Year ended	Depletion	Harvest, Haul and Other	Total
December 31, 2001	**$ 6.4 million**	**$ 6.9 million**	**$ 13.3 million**
December 31, 2000	1.0 million	5.8 million	6.8 million
December 31, 1999	1.2 million	6.4 million	7.6 million

Depletion costs in 2001 include $4.4 million in depletion resulting from timberland sales, most notably stemming from the 3,750-acre sale of a portion of the Columbia tree farm. Depletion costs resulting from harvest activities averaged $69, $27, and $29 per MBF for 2001, 2000, and 1999, respectively. Blending the higher relative cost basis of the timber on the recently acquired Columbia tree farm with Hood Canal tree farm's historical basis caused the depletion rate per MBF to increase.

Harvest, haul and other costs averaged $190, $150, and $157 per MBF. Harvest costs vary based upon the physical site characteristics of acres harvested during the year. Acres that are difficult to get to, or are located on a steep hillside are more expensive to harvest. Haul costs vary based upon the distance between the area the timber is harvested and the customer's location. Average harvest, haul and other costs increased in 2001 as a result of the acquisition of the Columbia tree farm where harvest costs are greater than the Hood Canal tree farm as a result of higher elevation and more mountainous terrain. The decrease in the average cost of harvest haul and other costs in 2000 resulted from harvesting fewer units from hillsides in 2000 relative to 1999.

Operating Expenses. Fee Timber operating expenses for each of the three years ended December 31, 2001, 2000, and 1999 were $2.5 million, $1.8 million, and 2.3 million, respectively. Operating expenses in 2001 reflect incremental costs resulting from Columbia tree farm operations. The decrease in operating expenses in 2000 reflects improved efficiency in managing the Partnership's fee timber holdings.

Timberland Management and Consulting

Revenues and Operating Income. The Timberland Management and Consulting segment earns revenue by providing management and consulting services to timberland owners and managers. Revenues and operating income for the Timberland Management and Consulting segment for each year in the three-year period ended December 31, 2001, are as follows:

Year ended	Revenues	Operating income
December 31, 2001	**$ 9.7 million**	**$ 1.7 million**
December 31, 2000	11.0 million	0.1 million *
December 31, 1999	11.7 million	1.9 million

* Net of $0.9 million in asset impairment and exit costs.

Fiscal Year 2001 compared to 2000. Revenue decreased $1.3 million, or 12%, to $9.7 million in 2001 from $11.0 million in 2000. The decrease in revenue resulted principally from a restructuring of a contract to manage and sell over 300,000 acres of industrial forestland in California, Oregon, and Washington. The contract was set to expire in September 2001. However, as a result of weak markets for timberlands the agreement was amended to continue until the properties are sold, to reduce the Partnership's monthly management fee and to increase the Partnership's fee upon successful disposition of the properties. Operating income increased $1.6 million to $1.7 million in 2001 from $0.1 million in 2000. However, excluding the asset impairment charge taken in 2000 of $0.9 million, operating income increased $0.7 million. The increase in operating income is the result of increasing efficiencies in our timberland management and consulting businesses. The majority of the increase in efficiency resulted from a decrease in staffing to a more appropriate level given current business volume.

Fiscal Year 2000 compared to 1999. Revenue declined $0.7, or 6%, to $11.0 million in 2000 from $11.7 million in 1999. The decrease in revenue resulted from a decrease in acres under management. Operating income declined $1.8 million to $0.1 million in 2000 from $1.9 million in 1999 due to the $0.9 million asset impairment charge combined with a decrease in operating income earned through providing timberland management services. The Partnership managed over 500,000 acres for a single timberland management customer during most of 1999. As a result of changes in our timberland management customer's client mix, acres under management for that client declined to just over 200,000 in 2000. The revenue and income loss resulting from this decline in acres managed was partially offset by signing a contract to manage 365,000 acres of industrial timberland for a new timberland management client. While revenue was significantly reduced by the changes to acres under management, the effect on operating income was even greater as a result of the decline in economies of scale.

Operating Expenses. Timberland Management and Consulting operating expenses for each of the three years ended December 31, 2001, 2000, and 1999 were $8.0 million, $10.0 million, and $9.8 million, respectively. Operating expenses decreased in 2001 relative to 2000 and 1999 as a result of cost saving measures taken in response to downward adjustments in a major client's portfolio of timber properties. The small increase in operating expenses in 2000 relative to 1999 resulted from costs incurred during the transfer of our client's timberland properties to new owners.

Limitation on Expenditures. The amendment to the Limited Partnership Agreement authorizing the IPMB strategy limits cumulative net expenditures to $5,000,000, including debt guarantees. As of December 31, 2001, cumulative expenditures, incurred in pursuit of IPMB opportunities, including guarantees, were less than cumulative revenues generated. Therefore, cumulative net expenditures against the $5,000,000 limit are zero.

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

Impairment and Exit Costs. In 2000, the Partnership recognized asset impairment and exit costs of $0.9 million in preparation to sell the forestry consulting operations in British Columbia and the cost of reorganizing timberland management operations following the loss of acres under management in the Timberland Management and Consulting segment. No further asset impairment and exit costs in this regard were recognized in 2001.

Real Estate

Revenues and Operating Income. Real Estate segment revenues are derived from residential development and income-producing properties. Residential development prior to August 2001 consisted of the sale of single-family homes, developed lots, and undeveloped acreage. The majority of revenue and operating income generated by the Real Estate segment in 2001, 2000 and 1999 resulted from operations at the resort community of Port Ludlow, Washington. The Partnership sold all the assets and operations in Port Ludlow in August 2001.

Segment Results Including Port Ludlow. The discussion that follows includes the operations of the entire Real Estate segment in 2001 including Port Ludlow and the remaining portion of the Real Estate segment that is continuing after sale of the Port Ludlow property. Revenues and operating loss for the Real Estate segment for each year in the three-year period ended December 31, 2001, are as follows:

Year ended	Revenues	Operating loss
December 31, 2001	**$ 13.1 million**	**$ (2.7) million ^**
December 31, 2000	18.2 million	(11.6) million *
December 31, 1999	15.7 million	(0.5) million

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

* Includes $11.2 million in asset impairment, exit, and environmental remediation charges.

Fiscal Year 2001 compared to 2000. Revenue generated by the Real Estate segment decreased $5.1 million, or 28%, to $13.1 million in 2001 from $18.2 million in 2000. The decrease in revenue is primarily due to the sale of Port Ludlow on August 7, 2001. August and September are generally high volume months for both the commercial property and development businesses in Port Ludlow. Operating loss declined $8.9 million, or 77%, to $2.7 million in 2001 from $11.6 million in 2000. The decreased operating loss is primarily due to the reduction of asset impairment and other special charges to $1.3 million in 2001 from $11.2 million in 2000, which was partially offset by $1.0 million decrease in results from the portfolio of income producing properties in Port Ludlow prior to the sale.

Fiscal Year 2000 compared to 1999. Revenue generated by the Real Estate segment increased $2.5 million, or 16%, to $18.2 million in 2000 from $15.7 million in 1999 as a result of an increase in homes sold at the resort community of Port Ludlow. Operating income declined $11.1 million as a result of $11.2 million in asset impairment, exit, and environmental remediation charges. Excluding those charges, operating income increased $0.1 million in 2000 reflecting improved operating results related to income producing properties in Port Ludlow.

Port Ludlow. In 2001, Port Ludlow generated revenue of $6.8 million through the sale of two developed lots and 22 homes. This compares to 2000 revenue of $10.9 million through the sale of six developed lots and 34 homes. In 1999 Port Ludlow generated revenue of $7.2 million through the sale of six lots and 28 homes.

Segment Results Excluding Port Ludlow. Real Estate operations following the sale of Port Ludlow ("Continuing Real Estate operations") consist of the rental of residential and commercial properties in Port Gamble and Kingston, and the sale of developed lots at the Seabeck and Grandridge plats. Investments in land at Gig Harbor, Bremerton, Port Gamble, Kingston, and Hansville are also included in the Real Estate segment following the Port Ludlow sale. Revenue and operating loss for the Continuing Real Estate operations for each year in the three-year period ended December 31, 2001, are as follows:

Year ended		Revenues		Operating income/(loss)
December 31, 2001	**$**	**1.2 million**	**$**	**(0.9) million**
December 31, 2000		1.0 million		(2.7) million *
December 31, 1999		2.6 million		0.1 million

* Includes $2.0 million in environmental remediation charges

Fiscal Year 2001 compared to 2000. Revenue generated by the Continuing Real Estate operations increased $0.2 million, or 20%, to $1.2 million in 2001 from $1.0 million in 2000, as a result of a small increase in lots sold at the two remaining land plats of Grandridge and Seabeck. Operating loss decreased as a result of the $2.0 million environmental remediation charge in 2000 that did not recur in 2001.

Fiscal Year 2000 compared to 1999. Revenue generated by the Continuing Real Estate operations decreased $1.6 million, or 62%, to $1.0 million in 2000 from $2.6 million in 1999, The decline in Real Estate segment revenue from 2000 to 1999 is due to a reduction in sales of undeveloped acreage. Other sources of revenue and operating income including Port Gamble and developed lot sales at Seabeck did not fluctuate significantly from 2000 to 1999.

Cost of Sales. Real Estate cost of sales for each of the three years ended December 31, 2001, 2000, and 1999 were $7.2 million, $10.2 million, and $8.2 million, respectively. The decrease in cost of sales in 2001 relative to 2000 reflects the sale of Port Ludlow and resulting decrease in homes sold from 34 homes in 2000 to 22 homes in 2001. The increase in cost of sales in 2000 relative to 1999 is also due to the number of homes sold which increased to 34 homes in 2000 from 28 homes in 1999.

Cost of sales in the Real Estate segment are expected to decrease significantly in 2002 as a result of a full year of operations without Port Ludlow. Following the sale of Port Ludlow the Partnership's operations will no longer include building and selling homes. Real Estate cost of sales will consist of the cost basis of developed lots sold from the Partnership's two remaining active development projects: Seabeck and Grandridge.

Operating Costs. Real Estate operating expenses for each of the three years ended December 31, 2001, 2000, and 1999 were $7.4 million, $8.4 million, and $8.0 million, respectively. The decrease in operating expenses in 2001 relative to 2000 is due to the sale of Port Ludlow. Operating expenses in Port Ludlow included the cost of operating several commercial properties and the cost of administering the Partnership's real estate development activities in Port Ludlow. The increase in operating expenses in 2000 relative to 1999 is due to increased costs administering the Partnership's real estate development activities in Port Ludlow.

Following the sale of Port Ludlow, operating expenses of the Real Estate segment will decrease significantly. The number of employees in the Real Estate segment has decreased to five full-time and one part time employee at December 31, 2001 from 66 full-time and up to 122 part time employees at December 31, 2000. The decrease in employees is indicative of the expected decrease in Real Estate operating expense in 2002.

Impairment and Exit Costs. In connection with the sale of the Port Ludlow assets, the Partnership recorded asset impairment and exit costs of $9.2 million in 2000. As a result of continued negotiations surrounding the sale, an additional $1.3 million in asset impairment cost was recorded in March 2001.

Environmental Remediation Costs. The Partnership has an accrued liability of $1.4 million and $1.9 million for the years ending December 31, 2001 and 2000, respectively. The accrual represents estimated environmental remediation costs in and around the townsite of Port Gamble. Port Gamble is a historic town that was owned by P&T until 1985 when the townsite and other assets were spun off into the Partnership. P&T continued to lease the mill site at Port Gamble until January 2002, when a settlement agreement was signed between the Partnership and P&T which divided up the responsibility for paying for environmental remediation costs in Port Gamble. The mill site had an operating lumber mill through 1995 that was dismantled by the end of 1996. The liability recorded represents management's estimate of the Partnership's share of Port Gamble environmental remediation costs.

Seasonality. Real Estate operations have historically been very seasonal as a result of the resort properties at Port Ludlow. After the sale of the Port Ludlow assets, Real Estate operations are not expected to be significantly seasonal in the future.

General and Administrative (G&A)

Fiscal Year 2001 compared to 2000. G&A costs decreased $2.1 million, or 30%, to $5.1 million in 2001 from $7.3 million in 2000. This decrease is the result of downsizing in anticipation of the 2001 sale of Port Ludlow. The majority of the decrease was from a reduction in administrative staff to 17 at the end of 2001 from 41 at the end of 2000. The Partnership expects to further reduce G&A expenses in 2002, though not to the same extent as realized during 2001.

Fiscal Year 2000 compared to 1999. G&A decreased $1.0 million or 12%, to $7.3 million in 2000 from $8.3 million in 1999. The decrease was due to cost saving measures taken in the last half of 2000 following the decline in acres under management in the Timberland Management and Consulting segment.

Other Income/Expense

Fiscal Year 2001 compared to 2000. Net interest expense increased $2.3 million to $3.0 million in 2001 from $0.7 million in 2000, as a result of the Partnership's acquisition of the Columbia tree farm in March 2001. The acquisition resulted in additional mortgage debt of $30 million and revolving credit of $17 million (the latter of which was paid off through proceeds from the sale of Port Ludlow and cash generated from operations). Interest expense in 2002 will reflect a whole year of increased mortgage debt.

Fiscal Year 2000 compared to 1999. Net interest expense decreased $0.3 million, or 33%, to $0.7 million in 2000 from $1.0 million in 1999 due largely to increased interest income as a result of an increase in cash and short-term investments.

Taxes

Fiscal Year 2001 compared to 2000. The provision for income taxes increased $0.7 million to $0.4 million tax expense in 2001 from a tax benefit of $0.3 million in 2000, as a result of improved operating results in the Partnership's Timberland Management and Consulting segment. This business segment is conducted through corporate entities that are subject to federal and state income tax.

Fiscal Year 2000 compared to 1999. The provision for income taxes decreased $0.6 million to a $0.3 million tax benefit in 2000 from a $0.3 million tax expense in 1999, due primarily to the loss of operating income as a result of the decline in acres under management in the Timberland Management and Consulting segment.

Minority Interest

Fiscal Year 2001 compared to 2000. The minority interest charge increased $0.2 million from zero in 2000 as a result of improved operating results in the Partnership's Timberland Management and Consulting segment.

Fiscal Year 2000 compared to 1999. The minority interest charge decreased $0.3 million to zero, due primarily to the loss of operating income as a result of the decline in acres under management in the Timberland Management and Consulting segment.

Liquidity and Capital Resources

Cash Flows

Cash Position. The Partnership's overall cash and cash equivalents decreased $8.8 million, or 89%, to $1.0 million at year-end 2001 from $9.9 million at year-end 2000.

Working Capital. Working capital decreased $27.6 million to ($1.0) million at year end 2001 from $26.6 million at year end 2000, and the current ratio was .77 to 1 and 5.4 to 1 at year end 2001 and 2000, respectively. This decrease was primarily due to the sale of assets and operations in Port Ludlow that generated $10.2 million in cash, offset by the acquisition of the Columbia tree farm that consumed cash of $54.6 million. In 2000, working capital increased $10.9 million, or 69% to $26.6 million at year end from $15.7 million at year end 1999, and the current ratio was 5.4 to 1 and 5.0 to 1 at year end 2000 and 1999, respectively. This increase was primarily due to moving long-term assets in Port Ludlow to current assets held for sale.

Operations. In 2001, consolidated net cash provided by operations was $11.2 million including $5.4 million of cash generated from the sale of timberland, an increase of $1.2 million, or 12%, from the $10.0 million provided in 2000. Cash flow from operations before changes in working capital provided $8.0 million, with the decrease in working capital providing $3.2 million. In 2000, consolidated net cash provided by operations increased $1.6 million or 19%, from the $8.3 million provided in 1999. Cash flow from operations before changes in working capital provided $2.7 million while increases in working capital provided $7.3 million.

In 2001, cash flow from operations combined with cash reserves were used to fund $14.5 million of the Columbia tree farm acquisition, to fund $2.0 million in other capital expenditures, and to make debt payments of $3.5 million. Cash provided by operating activities in 2000 was used for cash payments to unit holders of $1.8 million, capital expenditures of $2.9 million, repayment of long-term debt of $0.4 million, and a minority interest distribution of $0.2 million.

Investing Activities. The cash needed to meet the Partnership's capital expenditures, investments and other requirements in 2001 was generated principally from internal cash flows, $10.6 million in cash received from the sale of Port Ludlow and the Columbia tree farm mortgage financing.

Capital spending by segment, excluding the Columbia tree farm acquisition, over the past three years was as follows:

Segment		**2001**		2000		1999
Fee Timber	**$**	**1,150**	$	1,046	$	2,608
Timber Management and Consulting		**142**		194		209
Real Estate		**463**		1,440		551
Other		**240**		178		396
Total	**$**	**1,995**	$	2,858	$	3,764

During 2001, the Partnership expended $54.6 million to purchase the Columbia tree farm, with $30 million in mortgage financing, $10.1 million from the Port Ludlow sale proceeds and $14.5 million from internal cash flows. Bridge financing in the form of a revolving debt facility was used to fund $17 million of the Columbia tree farm acquisition until the Port Ludlow sale and cash generated from operations were used to pay off the revolving debt facility. Other capital expenditures in 2001 totaled $2 million, down 31% from the $2.9 million spent in 2000.

Financing Activities. The Partnership increased its interest-bearing debt by $26.5 million during the year through issuance of the $30 million new mortgage on the Columbia tree farm, and by paying down $3.5 million in existing long-term debt. In 2000, The Partnership decreased its interest-bearing debt by $0.4 million. The Partnership's debt-to-total-capital ratio was 46% at the end of 2001, as compared with 21% at the end of 2000.

The Partnership currently has a $17 million revolving term loan agreement. There was no balance outstanding on the agreement as of December 31, 2001. The agreement expires on September 27, 2002. As of December 31, 2000 the Partnership had a $20 million revolving term loan agreement with no balance outstanding.

The Partnership did not sell any of its partnership units in 2001 or 2000. However, in 2001, the Partnership paid $162,000 to repurchase 10,000 units in a privately negotiated transaction from one unit holder.

The Partnership did not make any distributions to its unitholders in 2001, as opposed to the $1.8 million distributed in 2000. The Partnership plans to make distributions in future years to cover the estimated flow-through tax liability incurred by unitholders as a result of owning the Partnership's units.

Funding Variables and Timing

In addition to cash flow from regular operations and access to its revolving credit facility, the Partnership has the following other sources of additional funds:

Payments on Port Ludlow Note. The Partnership received a note from the purchaser of the Port Ludlow assets in the amount of $5.8 million. Lots and homes in the process of being built for sale in Port Ludlow secure the note. At December 31, 2001 the balance of the note was $3.9 million. Payments are due on the note as the underlying properties securing the note are sold. The note expires in 2004.

Fee Timber Harvest. Management has discretion to increase or decrease the level of logs cut and thereby may increase or decrease net income and cash flow, assuming log prices and demand remain stable. Management's current plan is to harvest approximately 45 million board feet of softwood timber from its tree farms in 2002. Since harvest plans are based on demand and pricing, actual harvesting may vary subject to management's ongoing review.

Timber Management Property Disposition. In connection with one of the Partnership's timberland management contracts, a fee for disposition services is earned when properties belonging to that client are sold. In 2001, the Partnership generated $0.2 million in service fee revenue as a result of these disposition efforts. Fees earned in 2002 from similar services are contingent on closing transactions that are difficult to predict.

Real Estate Disposition. The Partnership may realize value from its Continuing Real Estate investments though a sale, or possibly through a joint venture with an experienced land developer. The Partnership expects some sales revenue to occur within the next five years.

Risks and Uncertainties

The Partnership competes against much larger companies in each of its business segments. These larger competitors may have access to larger amounts of capital and significantly greater economies of scale.

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

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

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

Timberland Management and Consulting. Over 62% of Timberland Management and Consulting revenue is generated through two clients. Contracts covering services to those two clients expire in the fourth quarter of 2002 but the Partnership expects renewals or extensions at this time. The Partnership is working to expand its customer base through market outreach efforts. The current market for timber products and timberland is relatively weak, which the Partnership believes may create additional management and consulting opportunities as prospective clients look to lower costs and improve efficiencies. Given the current mix of clients, if a major customer's contract were not renewed, the impact on segment revenue and earnings would be significant.

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

Contractual Obligations, Commercial Commitments and Contingencies

The Partnership's commitments consist of its revolving term loan, performance bonds, letters of credit, and operating leases entered into in the normal course of business.

		Payments Due By Period/ Commitment Expiration Period			
Obligation or Commitment	Total	Less than 1 year	1-3 years	4-5 years	After 5 years
Revolving Term Loan					
$17.0 million facility	$0	-	-	-	-
Performance Bonds	$270,000	-	-	-	-
Operating Leases	$625,000	$368,000	$257,000	-	-

The Partnership also has long-term debt totaling $39.7 million with the contractual maturities described in Note 4 of Partnership's Consolidated Financial Statements included with this report.

As described above, the Partnership recorded a $1.9 million contingent liability in 2000 for environmental remediation in and around the Port Gamble townsite. At December 31, 2001 $1.4 million of the environmental remediation liability remains on the Partnership's balance sheet to cover the estimated remaining cost to complete the Partnership's share of remediation costs at Port Gamble. The environmental liability at December 31, 2001 includes $0.9 million that the Partnership expects to expend in 2002 and $0.5 million thereafter.

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

Capital Expenditures and Commitments

Capital expenditures in 2002 are currently expected to be approximately $2 million, however, these expenditures could be increased or decreased as a consequence of future economic conditions. The Partnership expects that the funds for these expenditures will be generated internally through operations and externally through financing.

Cost of Compliance with Government Regulation

Compliance with these laws, regulations and demands usually involves capital expenditures as well as operating costs. The Partnership cannot easily quantify future amounts of capital expenditures required to comply with these 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 the Partnership has not included herein a quantification of future capital requirements to comply with any new reflected on the records of the Partnership and that the notes to the financial statements are prepared in a fashion that informs readers of possible outcomes and risks associated with the conduct of business.

CONSOLIDATED BALANCE SHEETS

As of December 31 (In thousands)	**2001**	2000
ASSETS		
Current assets:		
Cash and cash equivalents	**$ 1,047**	$ 9,882
Accounts receivable	**1,119**	1,933
Work-in-progress	**518**	1,088
Current portion of contracts receivable	**25**	490
Prepaid expenses and other	**505**	555
Assets held for sale (Note 2)	**-**	18,790
Total current assets	**3,214**	32,738
Properties and equipment:		
Land and land improvements	**19,358**	10,315
Roads and timber, net of accumulated depletion of $15,368 and $11,025	**52,191**	12,394
Buildings and equipment, net of accumulated depreciation of $5,838 and $4,599	**4,269**	3,847
Total properties and equipment	**75,818**	26,556
Other assets:		
Contracts receivable (net of current portion)	**4,806**	1,167
Other	**349**	396
Total other assets	**5,155**	1,563
Total assets	**$84,187**	$ 60,857
LIABILITIES AND PARTNERS' CAPITAL		
Current liabilities:		
Accounts payable	**$ 275**	$ 761
Accrued liabilities	**1,700**	2,449
Environmental remediation	**909**	1,870
Current portion of long-term debt	**1,075**	442
Minority interest	**225**	128
Deposits	**9**	446
Total current liabilities	**4,193**	6,096
Long-term debt	**38,592**	12,685
Other long-term liabilities	**729**	796
Commitments and contingencies (Notes 8)		
Partners' capital (units outstanding: 4,518 and 4,528)	**40,673**	41,280
Total liabilities and partners' capital	**$84,187**	$ 60,857

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF OPERATIONS

Years ended December 31 (In thousands, except per unit information)	**2001**	2000	1999
Revenues			
Fee timber	**$ 24,999**	$ 21,444	$ 23,467
Timberland management and consulting	**9,703**	11,011	11,705
Real estate	**13,143**	18,202	15,681
Total revenues	**47,845**	50,657	50,853
Costs and expenses			
Cost of sales			
Fee timber	**(13,271)**	(6,784)	(7,566)
Real estate	**(7,160)**	(10,186)	(8,233)
Total Cost of Sales	**(20,431)**	(16,970)	(15,799)
Operating expenses			
Fee timber	**(2,538)**	(1,765)	(2,292)
Timberland management and consulting	**(8,018)**	(9,996)	(9,844)
Real estate	**(7,442)**	(8,448)	(7,956)
Unallocated general & administrative	**(5,110)**	(7,254)	(8,282)
Total operating expenses	**(23,108)**	(27,463)	(28,374)
Impairment, exit, and environmental remediation costs			
Timberland management and consulting	**-**	(940)	-
Real estate	**(1,250)**	(9,205)	-
Environmental remediation	**-**	(1,956)	-
Total impairment, exit, and environmental remediation costs	**(1,250)**	(12,101)	**-**
Operating income/(loss) by operating unit			
Fee timber	**9,190**	12,895	13,609
Timberland management and consulting	**1,685**	75	1,861
Real estate	**(2,709)**	(11,593)	(508)
Unallocated general & administrative	**(5,110)**	(7,254)	(8,282)
Income/(loss) from operations	**3,056**	(5,877)	6,680
Other income (expense)			
Interest expense	**(3,443)**	(1,273)	(1,298)
Interest income	**482**	573	259
Total other expense	**(2,961)**	(700)	(1,039)
Income/(loss) before income taxes and minority interest	**95**	(6,577)	5,641
Income tax provision	**(356)**	326	(259)
Income/(loss) before minority interest	**(261)**	(6,251)	5,382
Minority interest	**(171)**	-	(316)
Net income/(loss)	**$ (432)**	$ (6,251)	$ 5,066
Earnings/(loss) per unit:			
Basic	**$ (0.10)**	$ (1.38)	$ 1.12
Diluted	**$ (0.10)**	$ (1.38)	$ 1.11

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF PARTNERS' CAPITAL

In thousands	General Partners	Limited Partners	Total
January 1, 1999	$ 632	$ 45,264	$ 45,896
Net Income	316	4,750	5,066
Translation loss	(1)	(37)	(38)
Comprehensive income	315	4,713	5,028
Issuance of Partnership units		188	188
Distributions	(24)	(1,786)	(1,810)
December 31, 1999	$ 923	$ 48,379	$ 49,302
Net loss	0	(6,251)	(6,251)
Translation gain	0	13	13
Comprehensive loss	0	(6,238)	(6,238)
Equity based compensation		27	27
Distributions	(24)	(1,787)	(1,811)
December 31, 2000	$ 899	$ 40,381	$ 41,280
Net Income/(loss)	171	(603)	(432)
Translation loss	0	(13)	(13)
Comprehensive income	171	(616)	(445)
Partnership unit repurchase	0	(162)	(162)
December 31, 2001	**$ 1,070**	**$ 39,603**	**$ 40,673**

Weighted average units outstanding	**12/31/2001**	12/31/2000	12/31/1999
Basic	**4,526**	4,528	4,523
Diluted	**4,526**	4,528	4,548

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOW

Years ended December 31 (In thousands)	**2001**	2000	1999
Cash flows from operating activities:			
Cash received from customers	**$44,918**	$ 51,026	$ 50,055
Cash paid to suppliers and employees	**(30,897)**	(40,515)	(40,006)
Interest received	**490**	585	234
Interest paid, net of amounts capitalized	**(3,264)**	(1,200)	(1,394)
Income taxes (paid)/received	**(10)**	77	(542)
Net cash provided by operating activities	**11,237**	9,973	8,347
Cash flows from investing activities:			
Capital expenditures	**(1,995)**	(2,858)	(3,764)
Proceeds from sale of fixed assets	**7**	319	-
Proceeds from the sale of Port Ludlow	**10,151**		
Columbia tree farm acquisition	**(54,555)**	-	-
Net cash used for investing activities	**(46,392)**	(2,539)	(3,764)
Cash flows from financing activities:			
Cash distributions to unitholders	**-**	(1,811)	(1,810)
Issuance of long-term debt	**30,000**		
Repayment of long-term debt	**(3,460)**	(424)	(497)
Issuance/(purchase) of Partnership units	**(162)**	-	188
Minority interest distribution	**(58)**	(239)	(208)
Net cash provided/(used) for financing activities	**26,320**	(2,474)	(2,327)
Net increase (decrease) in cash and cash equivalents	(8,835)	4,960	2,256
Cash and cash equivalents:			
Beginning of year	**9,882**	4,922	2,666
End of year	**$ 1,047**	$ 9,882	$ 4,922
Reconciliation of net income/(loss) to net cash provided by operating activities:			
Net income/(loss)	**$ (432)**	$ (6,251)	$ 5,066
Cost of land sold	**777**	31	1,200
Minority interest	**156**	-	316
Land resale expenditures	**-**	-	(7)
Depreciation and amortization	**1,290**	1,898	1,530
Depletion	**6,408**	1,001	1,156
Unit option compensation	**-**	27	
Deferred profit	**(568)**	340	(147)
Asset impairment	**-**	5,651	-
Increase (decrease) in cash from changes in operating accounts:			
Accounts receivable	**814**	(351)	(944)
Work in progress	**7,541**	4,012	(834)
Contracts receivable	**(3,174)**	663	71
Accounts payable and accrued liabilities	**(1,220)**	2,861	1,007
Other long-term liabilities	**-**	(21)	(20)
Deposits	**(437)**	358	16
Loan fees and other	**47**	(203)	10
Other, net	**35**	(43)	(73)
Net cash provided by operating activities	**$11,237**	$ 9,973	$ 8,347

Supplemental Disclosure of non-cash investing activity:
During 2001 in connection with its sale of Port Ludlow the purchaser assumed $476 of liabilities from the Partnership.

See notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31

Note 1
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of operations. Pope Resources, A Delaware Limited Partnership (the "Partnership"), is a publicly traded limited partnership engaged principally in managing timber resources on its own properties as well as those owned by others, and real estate development activities in the northwest region of the United States. The managing general partner is Pope MGP, Inc. Fee Timber represents the growing and harvesting of trees from owned properties. Timberland Management and Consulting represents management and consulting services provided to third party owners of timberlands. Real Estate includes the sale of single-family homes, finished lots and undeveloped acreage, and various commercial property operations. As described in Note 2, the majority of those real estate operations were sold during 2001.

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

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

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

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

Timber depletion. The depletion rate is calculated by dividing merchantable timber inventory by the cost basis of merchantable inventory. A single depletion rate is calculated and utilized for both tree farms. For purposes of the depletion calculation, merchantable inventory is defined as timber volume in excess of 40 years old. Reforestation costs are initially capitalized to pre-merchantable timber. After 40 years such costs are moved from pre-merchantable to merchantable timber and are then incorporated into the cost base for purposes of calculating the depletion rate. This rate is then applied to timber volume harvested which results in depletion expense.

Concentration of credit risk. Financial instruments that potentially subject the Partnership to concentrations of credit risk consist principally of accounts receivable. Foreign sales represent 68% and 73% of the Partnership's accounts receivable balance as of December 31, 2001 and 2000, respectively. The Partnership limits its credit exposure by considering the creditworthiness of potential customers. The Partnership believes that allowances for doubtful accounts are adequate to absorb estimated losses.

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

Minimum principal payments on contracts receivable for the next five years are due as follows:

2002	$25,000
2003	$37,000
2004	$114,000
2005	$39,000
2006	$32,000

The long-term portion of contracts receivable includes a $3.9 million note receivable resulting from the Port Ludlow sale as discussed in Note 2. This note is secured by homes and lots in Port Ludlow and payments on this note are due as the properties are sold.

Properties and equipment. Depreciation is provided using the straight-line method over the estimated useful lives of the assets, which range from 5 to 39 years. Depletion of logging roads and costs of fee timber harvested are provided at rates based on unrecovered costs and estimated recoverable volume of softwood timber.

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 cash flows. Upon indication that the carrying value of such assets may not be recoverable, the Partnership would recognize an impairment loss by a charge against current operations (See Note 2).

Revenue recognition. Revenue on timber sales is recorded when title and risk of loss passes to the buyer. Revenue on real estate sales is recorded on the date the sale closes. The Partnership uses the installment method of accounting for real estate sales transactions until 20% of the contract sales value has been collected, at which time the full accrual method of accounting is used. Management fees and consulting service revenues are accrued as the services are provided. Accounts receivable includes earned but unbilled services of $283,000 and $376,000 at December 31, 2001 and 2000, respectively.

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

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

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

New accounting pronouncements. Statement of Financial Accounting Standards (SFAS) No. 133, Accounting for Derivative Instruments and Hedging Activities, is effective for all fiscal years beginning after June 15, 2000. SFAS No. 133, as amended, establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts and for hedging activities. Under SFAS No. 133, certain contracts that were not formerly considered derivatives may now meet the definition of a derivative. The Partnership adopted SFAS No. 133 effective January 1, 2001, and such adoption did not have a significant impact on the financial position, results of operations, or cash flows of the Partnership.

SFAS No. 141, Business Combinations, SFAS No. 142, Goodwill and Other Intangible Assets, SFAS No. 143, Accounting for Asset Retirement Obligations, and SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, were recently issued. SFAS No. 141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001, and that the pooling-of-interest method no longer be allowed. SFAS No. 142 requires that amortization of goodwill be replaced with periodic tests of the goodwill's impairment and that intangible assets other than goodwill be amortized over their useful lives. SFAS No. 143 requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The fair value of the liability is added to the carrying amount of the associated asset and this additional carrying amount is depreciated over the life of the asset. The liability is accreted at the end of each period through charges to operating expense. If the obligation is settled for other than the carrying amount of the liability, the Partnership will recognize a gain or loss on settlement. SFAS No. 144 supercedes SFAS No. 121, Accounting for Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of. SFAS No. 144 applies to all long-lived assets and consequently amends Accounting Principles Board Opinion No. 30, Reporting Results of Operations– Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions. SFAS No. 142 and SFAS No. 144 are effective for fiscal years beginning after December 15, 2001. SFAS No. 143 is effective for fiscal years beginning after June 15, 2002. The Partnership is evaluating the impact of the adoption of these standards.

Note 2
ASSET DISPOSITIONS

In August of 2001, the Partnership sold its real estate assets in Port Ludlow, Washington. The assets and operations consist of a golf course, marina, 37-room inn, water and sewer services, commercial property leases and homes and lots for retail sale. The Partnership received $10.2 million in cash, a $5.8 million note secured by homes and lots in Port Ludlow and the purchaser assumed $0.5 million in liabilities upon closing of the sale. The Partnership recorded asset impairment and exit costs of $9.2 million in 2000 and as a result of continued negotiations surrounding the sale an additional $1.3 million in asset impairment cost was recorded in March of 2001.

In connection with the year 2000 decision to sell the Port Ludlow assets, the Partnership recognized $9.2 million in asset impairment costs in 2000 and an additional $940,000 in asset impairment costs on the forestry consulting business in Canada.

Assets held for sale as of December 31, 2000 represent assets that the Partnership expected to sell during 2001 in connection with the disposition of Real Estate operations at Port Ludlow and forestry consulting in Canada. Assets held for sale consisted of the following:

In thousands		
Work in progress	$	7,279
Fixed assets		7,477
Land		2,979
Unallocated amenities		1,055
Total	$	18,790

Unallocated amenities primarily represent common area facilities located in Port Ludlow.

The Partnership marketed the Canadian forestry consulting business for sale in 2001. As a result of a lack of interested parties this business is no longer being marketed for sale. The Canadian forestry consulting operation’s fixed assets classified as assets held for sale in 2000 were reclassified to fixed assets in 2001.

Note 3
INCOME TAXES

The Partnership is not subject to income taxes. Instead, partners are taxed on their share of the Partnership’s taxable income, whether or not cash distributions are paid. The provision for income taxes relating to taxable corporate subsidiaries of the Partnership consists of the following:

In thousands		**2001**		2000		1999
Current	**$**	**82**	$	(298)	$	263
Deferred		**274**		(28)		(4)
Total	**$**	**356**	$	(326)	$	259

The following schedule reconciles net income/(loss) reported for financial statement purposes to consolidated taxable income/(loss):

In thousands	2001	2000	1999
Net income/(loss) per financial statements	**$ (432)**	$ (6,251)	$ 5,066
Undistributed subsidiary corporation loss	**502**	2,217	371
Difference in reporting depreciation and depletion	**(604)**	(106)	(40)
Cost basis of land, timber and homes sold	**66**	155	139
Deferred profit on real property sold	**90**	61	224
Asset impairment and environmental accrual		10,066	
Loss realized on the sale of Port Ludlow	**(3,746)**		
Olympic Water and Sewer, Inc. dividend	**833**		
Environmental clean-up expenditures	**(461)**		
Other	**10**	107	108
Taxable income/(loss)	**$ (3,742)**	$ 6,249	$ 5,868

Note 4
LONG-TERM DEBT

Long-term debt at December 31 consists of:

In thousands	2001	2000
Mortgage note payable to an insurance company, with interest at 9.65%, collateralized by timberlands, with monthly interest payments and annual principal payments maturing April 2011	**$ 12,799**	$ 12,930
Mortgage note payable to an insurance company, with interest at 7.63%, collateralized by timberlands, with monthly interest payments and annual principal payments maturing April 2011	**26,717**	
Local improvement district assessments, with interest ranging from 5.87% to 8%, due through 2009	**151**	197
	39,667	13,127
Less current portion	**(1,075)**	(442)
Total long-term debt	**$ 38,592**	$ 12,685

The Partnership has a $17 million revolving term loan facility. There was no balance outstanding on the facility as of December 31, 2001. The facility expires on September 27, 2002. As of December 31, 2000, the Partnership had a $20 million revolving term loan facility with no balance outstanding.

The Partnership's debt agreements contain a required debt service coverage ratio and a debt to market capitalization ratio. As of December 31, 2001, the Partnership was in compliance with its loan covenants.

Principal payments on long-term debt for the next five years are due as follows:

In thousands		
2002	$	1,075
2003		1,582
2004		1,570
2005		1,549
2006		1,549
Thereafter	$	32,342

Note 5
FAIR VALUE OF FINANCIAL INSTRUMENTS

The Partnership's financial instruments include cash and cash equivalents, accounts receivable, contracts receivable, and variable rate debt, for which the carrying amount of each approximates fair value. The fair value of contracts receivable was determined based on current yields for similar contracts. The fair value of fixed rate debt having a carrying value of $39.7 million and $13.1 million has been estimated based on current interest rates for similar financial instruments and totals $41.9 million and $14.8 million as of December 31, 2001 and 2000, respectively.

Note 6
UNIT OPTION PLAN

The Partnership's 1997 Unit Option Plan authorized the granting of nonqualified unit options to employees, officers, and directors of the Partnership. A total of 1,500,000 units have been reserved for issuance under the plan. Unit options are granted at prices not less than the fair value of the limited partnership units on the date of the grant. The options generally become exercisable annually over a fouryear period and have a maximum term of ten years. Unit options vested were 90,562 and 60,618 at December 31, 2001 and 2000, respectively. Unit options outstanding were as follows:

	Number of units (thousands)	Weighted average strike price
Balance, January 1,1999	92.5	$ 23.51
Granted	57.5	27.88
Exercised	(8.6)	21.79
Balance, December 31,1999	141.4	25.39
Granted	120.7	22.30
Exercised	-	-
Expired	(77.1)	25.30
Balance, December 31,2000	185.0	23.40
Granted	50.8	21.30
Exercised	-	-
Expired	(50.2)	(25.30)
Balance, December 31,2001	**185.6**	**$ 22.40**

The Partnership accounts for unit-based compensation in accordance with APB Opinion No. 25, Accounting for Stock Issued to Employees. Accordingly, compensation cost for unit options is measured as the excess, if any, of the fair value of the Partnership's units at the date of grant over the amount an employee must pay to acquire the unit. During 2000, $27,000 in compensation expense was recognized for the issuance of 5,206 unit options to a member of the board of directors for interim management services.

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

In thousands	**2001**	2000	1999
Net income/(loss) as reported	**$ (432)**	$ (6,251)	$ 5,066
Pro forma net income/ (loss) under SFAS No. 123	**$ (805)**	$ (6,479)	$ 4,819

The fair value of options was calculated using the Black-Scholes option-pricing model, with the following assumptions:

	2001	2000	1999
Expected life	**5 years**	5 years	5 years
Risk-free interest rate	**4.97%**	5.90%	6.00%
Dividend yield	**1.75%**	2.10%	1.40%
Volatility	**.56**	.49	.49

Note 7
EMPLOYEE BENEFITS

Employees with six months of service are eligible to receive benefits under a defined contribution plan (the plan). During 2001 the Partnership matched 50% of the employees' contribution up to 8% of compensation. In the first half of 2000, the Partnership made a voluntary contribution of 3% of eligible employee compensation. In the last half of 2000 the Partnership matched 50% of the employees' contribution up to 8% of compensation. The Partnership was required to contribute 3% of eligible employee compensation into the plan during 1999.

The Partnership's contributions to the plan amounted to $103,000, $190,000, and $308,000 for each of the years ended December 31, 2001, 2000, and 1999, respectively.

Note 8
COMMITMENTS AND CONTINGENCIES

Environmental remediation: The Partnership recorded an accrual for estimated environmental remediation costs of $1.4 million and $1.9 million as of December 31, 2001 and 2000, respectively. Of this amount $0.9 million is expected to be expended in 2002. The accrual represents estimated payments to be made to remedy and monitor certain areas in and around the townsite of Port Gamble. Port Gamble is a historic town that was operated by Pope & Talbot, Inc. (P&T), a related party, until 1985 when the townsite and other assets were spun off into the Partnership. P&T leased the mill site at Port Gamble through January 2002, when it signed an agreement with the Partnership dividing the responsibility for environmental remediation of Port Gamble between the two parties.

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

Performance bonds and letters of credit: In the ordinary course of business, and as part of the entitlement and development process, the Partnership is required to provide performance bonds and letters of credit to ensure completion of certain public facilities. The Partnership had performance bonds and letters of credit totaling $270,000 and $458,000 outstanding at December 31, 2001 and 2000, respectively.

Operating leases: The Partnership has non-cancelable operating leases for automobiles, office space, office and computer equipment. The lease terms are from 12 to 36 months. Rent expense under the operating leases totaled $949,000, $1,579,000, and $1,691,000 for the years ending December 31, 2001, 2000, and 1999, respectively.

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

Year	Amount
2002	$368,000
2003	173,000
2004	73,000
2005	11,000

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

Note 9
RELATED PARTY TRANSACTIONS AND MINORITY INTEREST

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

The minority interest represents Pope MGP, Inc.'s interest in the IPMB. The 1997 amendment to the Limited Partnership Agreement authorizing management to pursue the IPMB specifies that net income from the IPMB will be split using a sliding scale allocation method, commencing with 80% to ORM, Inc., a subsidiary of Pope Resources, and 20% to Pope MGP, Inc. The sliding scale allocation method will allocate income evenly between ORM, Inc. and Pope MGP, Inc. once net income from the IPMB reaches $7.0 million in a fiscal year. The aforementioned amendment authorizing pursuit of the IPMB limits cumulative net expenditures to $5.0 million, including debt guarantees. As of December 31, 2001 accumulated income from IPMB exceeds the balance of IPMB expenditures and debt guarantees.

A director of Pope MGP, Inc. is also a director of Pope & Talbot, Inc. (P&T). In 2001, 2000, and 1999, the Partnership received annual lease payments of $75,000 from P&T for lease of a log sorting and storage site (referred to above as the millsite) at Port Gamble, Washington.

The Partnership held a promissory note from the retired president and CEO of the Partnership with a balance of $271,000 at December 31, 2000. The note accrued Interest at 6.48% and was cancelled in January 2001 in consideration for a Port Ludlow residence. The residence was sold during 2001.

Note 10
SEGMENT AND MAJOR CUSTOMER INFORMATION

The Partnership's operations are classified into three segments: Fee Timber, Timberland Management and Consulting, and Real Estate. The Fee Timber segment consists of the harvest and sale of timber from the Partnership's 112,000 acres of fee timberland in Washington State. The Timberland Management and Consulting segment manages over 500,000 acres of timberland properties for third-parties and provides timberland consulting services throughout Canada and the Western United States. Timberlands under management are in Washington, Oregon, California and British Columbia. For the year ended December 31, 2001, there was one major customer with 9% of total revenue. For the year ended December 31, 2000 and 1999, there were two major customers with 17% and 11%; and 21% and 9% of total revenues, respectively.

The Real Estate segment built and sold homes and lots and managed several commercial properties including a marina, golf course, sewer and water facilities and other commercial properties. The majority of these operations were sold in August of 2001. After the disposition, Real Estate consists of the sale of developed lots from two separate land development projects, the management of 2,000 acres of early stage development properties, and the rental of residential and commercial properties in Port Gamble and Kingston, Washington. All of the Partnership's real estate activities are in Washington State.

Identifiable assets are those used exclusively in the operations of each industry segment or those allocated when used jointly. The Partnership does not allocate cash, accounts receivable, certain prepaid expenses or the Partnership's administrative office for purposes of evaluating segment performance. Details of the Partnership's operations by business segment for the years ended December 31 were as follows:

In thousands	**2001**	2000	1999
Revenues			
Fee timber	**$24,999**	$ 21,444	$ 22,796
Timberland management and consulting	**9,703**	11,011	11,705
Real estate	**13,143**	18,202	16,352
Total	**47,845**	50,657	50,853
Operating income/(loss)			
Fee timber	**9,190**	12,895	13,609
Timberland management and consulting	**1,685**	75	1,861
Real estate	**(2,709)**	(11,593)	(508)
Unallocated general and admin	**(5,110)**	(7,254)	(8,282)
Total	**3,056**	(5,877)	6,680
Depreciation and Depletion			
Fee timber	**6,520**	1,044	1,188
Timberland management and consulting	**241**	208	213
Real estate	**402**	1,110	799
Unallocated general and admin	**535**	537	483
Total	**7,698**	2,899	2,683
Identifiable Assets			
Fee timber	**70,712**	19,653	18,567
Timberland management and consulting	**492**	708	1,226
Real estate	**4,019**	30,813	36,862
Unallocated general and admin	**8,964**	9,683	10,225
Total	**84,187**	60,857	66,880
Capital and land expenditures			
Fee timber	**55,761**	1,047	2,664
Timberland management and consulting	**142**	193	255
Real estate	**407**	1,440	424
Unallocated general and admin	**240**	178	421
Total	**$56,550**	$ 2,858	$ 3,764

Revenues by product line for the year ended December 31, 2001, 2000, and 1999 are as follows:

In thousands	**2001**	2000	1999
Sales of forest products:			
Domestic	**$ 19,982**	$ 9,417	$ 15,108
Export, indirect	**5,017**	6,182	7,688
Sales of homes, lots, and undeveloped acreage	**7,647**	11,249	9,254
Fees for service:			
Domestic	**10,983**	20,472	16,495
Foreign	**4,216**	3,337	2,308
Total Revenue	**$ 47,845**	$ 50,657	$ 50,853

Note 11
QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

In thousands	Revenues	Income/(loss) from Operations	Net Income/(loss)	Net Income/(loss) per Partnership unit diluted
2001				
First quarter	**$ 10,805**	**$ 62**	**$ (417)**	**$ (0.09)**
Second quarter	**15,332**	**1,890**	**624**	**0.14**
Third quarter	**12,465**	**2,522**	**1,412**	**0.31**
Fourth quarter	**9,243**	**(1,418)**	**(2,051)**	**(0.46)**
2000				
First quarter	$ 13,449	$ 2,476	$ 2,367	$ 0.52
Second quarter	14,096	1,795	1,457	0.32
Third quarter	12,119	1,115	871	0.19
Fourth quarter	10,993	(11,263)	(10,946)	(2.41)
1999				
First quarter	$ 12,566	$ 2,994	$ 2,567	$ 0.57
Second quarter	14,228	2,904	2,488	0.55
Third quarter	14,349	2,321	2,089	0.46
Fourth quarter	9,710	(1,539)	(2,078)	(0.47)

Independent Auditors' Report

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

We have audited the accompanying consolidated balance sheets of Pope Resources, A Delaware Limited Partnership, and subsidiaries (collectively, the Partnership) as of December 31, 2001 and 2000, and the related consolidated statements of operations, partners' capital, and cash flows for each of the three years in the period ended December 31, 2001. Our audits also included the consolidated financial statement schedule listed in the index at Item 14. These financial statements and financial statement schedule are the responsibility of the Partnership's management. Our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits.

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

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Pope Resources, A Delaware Limited Partnership, and subsidiaries as of December 31, 2001 and 2000, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2001, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such consolidated financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

Deloitte & Touche LLP

DELOITTE & TOUCHE LLP
Seattle, Washington
February 22, 2002

11-Year Financial Summary

(Dollar amounts are in thousands except per unit data)

Results of operations:		2001	2000	1999
Revenues:				
Fee Timber	$	**24,999**	$ 21,444	$ 23,467
Timberland Management & Consulting		**9,703**	11,011	11,705
Real Estate		**13,143**	18,202	15,681
Total revenues		**47,845**	50,657	50,853
Costs and expenses:				
Cost of sales		**20,431**	16,970	15,799
Operating expenses		**17,998**	20,209	20,092
General and administrative expenses		**5,110**	7,254	8,282
Impairment, exit, and environmental remediation costs		**1,250**	12,101	
Total costs and expenses		**44,789**	56,534	44,173
Income from operations		**3,056**	(5,877)	6,680
Depreciation and depletion		**7,698**	2,899	2,683
Net interest expense		**2,961**	700	1,039
Income tax expense/(benefit)		**356**	(326)	259
Minority interest		**171**	-	316
Net income/(loss)		**(432)**	(6,251)	5,066
Per unit results:				
Net income/(loss) (per diluted units outstanding)		**($0.10)**	($1.38)	$1.11
Distributions		**-**	0.40	0.40
Partners' capital		**8.99**	9.12	10.90
Weighted average units outstanding (000)		**4,526**	4,528	4,523
Diluted units (000)		**4,526**	4,528	4,548
Cash flow:				
Net cash provided by operating activities	$	**11,237**	$ 9,973	$ 8,347
Investing activities		**(46,932)**	2,539	3,764
Distributions to unitholders		**-**	1,811	1,810
Payment/(issuance) of long-term debt		**26,540**	424	497
EBITDDA *		**10,583**	(2,978)	9,047
Financial position:				
Working capital	$	**(979)**	$ 26,642	$ 15,720
Land and timber, net of depletion		**71,549**	25,411	28,002
Buildings and equipment, net of depreciation		**4,269**	11,996	15,921
Total assets		**84,187**	60,857	66,880
Long-term debt		**38,592**	12,685	13,282
Partners' capital		**40,673**	41,280	49,302
**Financial ratios: ** **				
Current Ratio		**0.8**	5.4	5.0
Total Debt to Total Capitalization		**49%**	24%	22%
Debt to EBITDDA		**3.6**	(4.3)	1.5
Return on Assets		**-1%**	-10%	8%
Return on Equity		**-1%**	-14%	11%
Unit trading prices:				
High	$	**24.50**	$ 29.25	$ 35.00
Low		**14.00**	19	27.88
Year End		**14.75**	25	29.25
Market capitalization (year end - millions)		**67**	111	132
Timberlands harvest (MMBF)		**36.3**	37.3	42.0
Employees at December 31, (full time equivalent)		**123**	241	257

* EBITDDA = Net income before interest expense, interest income, taxes, depreciation, depletion, and amortization
** Current Ratio = Current assets divided by current liabilities
Total Debt to Total Capitalization = Long-term debt plus current portion of long-term debt divided by total debt plus partners' capital
Debt to EBITDDA = Long-term debt divided by EBITDDA
Return on Assets = Net income divided by the average of beginning and ending total assets
Return on Equity = Net income divided by the average of beginning and ending partners' capital

1998	1997	1996	1995	1994	1993	1992	1991
$ 20,981	$ 19,694	$ 21,772	$ 26,604	$ 19,083	$ 25,716	$ 10,004	$ 8,692
8,906							
13,065	10,415	11,241	9,558	11,002	8,615	15,469	17,649
42,952	30,109	33,013	36,162	30,085	34,331	25,473	26,341
12,120	10,937	12,160	13,437	12,947	10,787	13,366	15,616
13,355	9,773	7,275					
7,105	4,545	3,760	6,367	5,232	5,289	3,899	5,122
32,580	25,255	23,195	19,804	18,179	16,076	17,265	20,738
10,363	4,854	9,818	14,799	10,572	16,576	5,960	4,371
2,053	1,647	1,458	1,559	1,334	1,679	2,248	1,232
788	1,008	1,106	1,326	1,439	1,751	902	1,108
310							
256							
8,792	3,509	8,334	13,090	8,893	14,825	5,058	3,263
$1.94	$0.78	$1.84	$2.90	$1.93	$3.00	$0.86	$0.55
0.40	0.49	0.82	1.06	0.72	1.20	0.14	0.15
10.16	8.61	8.32	7.30	5.48	4.51	4.68	3.96
4,519	4,519	4,519	4,520	4,605	4,938	5,883	5,883
4,534	4,526	4,519	4,520	4,605	4,938	5,883	5,883
$ 9,152	$ 5,820	$ 12,330	$ 17,040	$ 7,416	$ 20,071	$ 6,571	$ 6,338
5,582	3,515	2,581	3,564	4,137	1,206	5,089	2,916
2,260	1,763	3,706	4,790	3,260	5,560	811	894
2,594	333	3,289	7,663	(1,201)	(2,572)	744	2,949
11,943	6,164	10,898	15,975	11,666	18,255	8,208	5,603
$ 12,685	$ 13,816	$ 14,635	$ 12,297	$ 12,991	$ 9,030	$ 10,684	$ 6,649
27,973	26,095	26,077	27,068	24,443	21,455	21,226	20,561
16,028	10,944	9,600	9,040	9,484	9,642	10,207	8,768
62,706	56,319	54,599	54,147	52,879	48,101	51,236	48,941
13,818	14,323	14,678	17,992	25,545	24,348	21,720	20,204
45,896	38,911	37,616	32,988	24,824	20,875	27,548	23,301
5.5	6.1	9.5	7.1	8.4	4.6	10.2	2.6
24%	27%	29%	36%	51%	54%	44%	49%
1.2	2.3	1.3	1.1	2.2	1.3	2.6	3.6
15%	6%	15%	24%	18%	30%	10%	7%
21%	9%	24%	45%	39%	61%	20%	15%
$ 32.50	$ 31.00	$ 23.40	$ 21.80	$ 18.80	$ 16.40	$ 10.10	$ 7.80
24.06	17.40	15.80	15.25	14.40	9.60	6.40	4.45
32.50	30.00	20.00	20.80	16.80	14.80	9.70	6.40
147	136	90	94	77	73	57	38
38.9	33.2	31.6	37.9	29.7	36.3	20.0	24.2
157	88	56	62	56	80	78	71

DIRECTORS

Douglas E. Norberg
Vice Chairman
Wright, Runstad & Company
Seattle, Washington

Peter T. Pope
Chairman and CEO, Retired
Pope & Talbot, Inc.
Portland, Oregon

Joseph O. Tobin II
Private Investor
San Francisco, California

David L. Nunes
President and Chief Executive Officer
Pope Resources
Poulsbo, Washington

Marco F. Vitulli
President
Vitulli Ventures, Ltd.
Bellevue, Washington

OFFICERS

David L. Nunes
President and Chief Executive Officer

Thomas M. Ringo
Vice President and Chief Financial Officer

HEADQUARTERS

Pope Resources
19245 10th Avenue NE
Poulsbo, Washington 98370
Phone: (360) 697-6626
Fax: (360) 697-1156
Web site: www.orm.com

STOCK EXCHANGE LISTING

Units trade on The Nasdaq Stock Market under the symbol POPEZ

INVESTOR CONTACT

Any questions or information requests can be referred to:

Thomas M. Ringo
Vice President and Chief Financial Officer
(360) 697-6626

UNIT TRANSFER AGENT AND REGISTRAR

Mellon Investor Services, LLC
85 Challenger Road
Ridgefield Park, NJ 07660
(800)356-2017
www.chasemellon.com

ANNUAL MEETING

No annual meeting is required for the Partnership.

FORM 10-K

Additional copies of this report and Pope Resources' Report on Form 10-K are available without charge upon written request to:

Pope Resources
Investor Relations Department
19245 10th Avenue NE
Poulsbo, Washington 98370

INDEPENDENT ACCOUNTANTS

Deloitte & Touche LLP
700 Fifth Avenue, Suite 4500
Seattle, Washington 98104

UNIT PRICE PERFORMANCE BY QUARTER

	2001		2000	
	High	**Low**	High	Low
First Quarter	**$24.50**	**$19.50**	$29.25	$17.75
Second Quarter	**$20.00**	**$17.00**	$25.00	$19.75
Third Quarter	**$20.00**	**$16.30**	$21.00	$18.13
Fourth Quarter	**$18.00**	**$14.00**	$25.50	$19.25

FINANCIAL HIGHLIGHTS

(Dollar amounts are in thousands except per unit data)	2001	2000	1999
Revenues:			
Fee Timber	$ 24,999	$ 21,444	$ 23,467
Timberland Management & Consulting	9,703	11,011	11,705
Real Estate	13,143	18,202	15,681
Total Revenues	47,845	50,657	50,853
Total Income/(loss) from Operations	3,056	(5,577)	6,680
Net income/(loss)	(432)	(6,251)	5,066
Net income/(loss) per Unit - Diluted	(0.10)	(1.38)	1.11
Distributions per Unit		0.40	0.40
Total Assets	84,137	60,857	66,880
Long-term Debt, including current portion	39,667	13,127	12,688
Partners' Capital	40,673	41,280	49,302
Acres Owned/Managed (in Thousands)	513	655	534
Timberlands Harvest (MMBF)	36.3	37.3	42.0

19245 10TH AVENUE NE
POULSBO, WA 98370

POPE RESOURCES