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

(Mark one)

x Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the fiscal year ended December 31, 2018

or

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

Commission File No. 1-9035

Pope Resources, A Delaware Limited Partnership

(Exact name of registrant as specified in its charter)

Delaware	**91-1313292**
(State of Organization)	(IRS Employer I.D. No.)

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

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

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

Title of each class	Name of each exchange on which registered
Depositary Receipts (Units)	**NASDAQ**

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

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

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

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

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

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

Large Accelerated Filer ☐	Accelerated Filer x
Non-Accelerated Filer ☐ (Do not check if a smaller reporting company)	Smaller reporting company ☐

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

At June 30, 2018, the aggregate market value of the non-voting equity units of the registrant held by non-affiliates was approximately $241,737,040

The number of the registrant's limited partnership units outstanding as of February 15, 2019 was 4,365,903.

Documents incorporated by reference: None

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PART I

Item 1. BUSINESS

OVERVIEW

When we refer to the "Partnership," the "Company," "we," "us," or "our," we mean Pope Resources, A Delaware Limited Partnership and its consolidated subsidiaries. In some contexts, particularly with respect to our co-investment in our private equity timber funds, "Partnership" may refer to Pope Resources and its wholly-owned subsidiaries, exclusive of the timber funds. References to notes to the financial statements refer to the Notes to the Consolidated Financial Statements of Pope Resources, A Delaware Limited Partnership, included in Item 8 of this report. Statements of intention, belief, or expectation reflect intent, beliefs and expectations of our management and the Board of Directors of our managing general partner as of the date of this report, based on information known to them as of that date. Readers should not place undue reliance on these statements, as they are, in large part, an attempt to predict future outcomes and events, and the section of this report entitled "Item 1A: Risk Factors" contains a non-exhaustive list of factors that may cause us to fall short of our expectations or to deviate from the plans discussed herein.

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

We currently operate in four primary business segments: (1) Partnership Timber, (2) Funds Timber, (3) Timberland Investment Management, and (4) Real Estate. Operations in our two timber segments consist of growing, managing, harvesting, and marketing timber from the Partnership's 120,000 acres of direct timberland ownership in Washington (Partnership Timber) and our private equity timber funds' 134,000 acres (as of December 31, 2018) of timberland in Washington, Oregon, and California that we co-own with our third-party investors (Funds Timber). Our Timberland Investment Management segment is engaged in organizing and managing private equity timber funds using capital invested by third parties and the Partnership. Our Real Estate segment's operations are focused on a portfolio of approximately 2,000 acres in the west Puget Sound region of Washington, most of which are legacy timberlands that have become suitable as development property owing to the expansion of the Puget Sound metropolitan and suburban areas. Recently, we have acquired and developed a couple other properties for sale, either on our own or by partnering with other experienced real estate developers. This segment's activities consist of efforts to enhance the value of our land by obtaining the entitlements and, in some cases, building the infrastructure necessary to enable further development, and then selling those properties, ordinarily to commercial and residential developers. Our Real Estate operations also include ownership and management of commercial properties, including Port Gamble, Washington, now an historic town. Port Gamble was established by Pope & Talbot in 1853 and was operated as a company town for over 165 years and served as the location for a lumber mill for most of that time.

Copies of our reports filed or furnished under the Securities Exchange Act, including our annual reports on Form 10-K, our quarterly reports on Form 10-Q, our current reports on Form 8-K, and all amendments to these reports, are available free of charge at www.poperesources.com. The information contained in or linked through our website is not incorporated by reference into this Annual Report on Form 10-K and should not be considered part of this or any other report filed with or furnished to the Securities and Exchange Commission, or of any report, registration statement, or other filing into which the contents hereof are incorporated by reference. The SEC also maintains an internet database, known as EDGAR, at www.sec.gov that contains our current and periodic reports and all of our other securities filings.

DESCRIPTION OF BUSINESS SEGMENTS

Partnership Timber and Funds Timber

Background. The 120,000 timberland acres that we own under the Partnership Timber segment consist of the approximately 67,000-acre Hood Canal tree farm, located in western Washington, and the 53,000-acre Columbia tree farm located in southwest Washington. The Hood Canal and Columbia tree farms are the Partnership's core holdings, and we manage them as a single operating unit for planning harvest volumes. When we refer to these two tree farms, we will describe them as the "Partnership's tree farms." We have owned the Hood Canal tree farm, substantially as currently comprised, since our formation in 1985. We acquired the bulk of the Columbia tree farm in 2001, a smaller block in 2004, added over 8,000 acres to this tree farm in 2016, and over 1,000 acres in each of 2017 and 2018.

The Funds Timber segment includes the operations and management of ORM Timber Fund II (Fund II), ORM Timber Fund III (Fund III), and ORM Timber Fund IV (Fund IV), which are consolidated into Pope Resources' financial

statements. Fund IV was launched in December 2016 and acquired its first two timberland properties in January 2018, and another in October 2018, totaling 46,000 acres in Washington and Oregon. In January 2019, Fund IV closed on the acquisition of a 7,100-acre property in western Washington. When referring to all the Funds collectively, depending on context, we use the designations "Fund" or "Funds" interchangeably. The Partnership holds ownership interests of 20% in Fund II, 5% in Fund III, and 15% in Fund IV. The Funds' assets at December 31, 2018, consist of 134,000 acres of timberland as outlined in the table below:

Fund	Acquisition Date	Location	Acres (in thousands)
Fund II	Q4 2009	Northwestern Oregon	5
	Q3 2010	Western Washington	13
	Q3 2010	Northwestern Oregon	13
		Fund II total	31
Fund III	Q4 2012	Northern California	19
	Q4 2013	Southwestern Washington	10
	Q4 2014	Northwestern Oregon	13
	Q4 2015	Southern Puget Sound Washington	15
		Fund III total	57
Fund IV	Q1 2018	Southwestern Oregon	20
	Q1 2018	Southern Puget Sound Washington	17
	Q4 2018	Southern Puget Sound Washington	9
		Fund IV total	46
		Funds total	134

When referring to the Partnership and Fund tree farms together we refer to them as the "Combined tree farms". When referring to the combination of the Partnership's tree farms and its 20%, 5%, and 15% ownership interest in Fund II, Fund III, and Fund IV, respectively, we will refer to the sums as "Look-through" totals. Fund IV acquired its first timberland property in January 2018 and, as such, the information presented in the following tables for 2017 include only Fund II and Fund III.

Operations. As indicated above, operations in these two segments consist primarily of growing, managing, harvesting, and marketing timber from multiple tree farms owned by the Partnership and our private equity timber funds. These segments generated the following percentage of our consolidated revenue for the years ended December 31, 2018, 2017, and 2016:

	2018	**2017**	**2016**
Partnership Timber	44%	38%	45%
Funds Timber	48%	33%	26%

Delivered log sales to domestic manufacturers and export brokers represent the overwhelming majority of timber revenue, but we also occasionally sell rights to harvest timber from our tree farms, known as "timber deed sales". In addition, our tree farms generate revenue from commercial thinning operations, sales of other minor forest products, ground leases for cellular communication towers, and royalties from gravel mines and quarries.

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

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

	2018			2017
Merch Class	**Sawtimber**	**Pulpwood**	**Total**	Total
35 to 39 yrs.	**292**	**15**	**307**	271
40 to 44 yrs.	**93**	**4**	**97**	70
45 to 49 yrs.	**14**	**1**	**15**	19
50 to 54 yrs.	**9**	**—**	**9**	9
55 to 59 yrs.	**5**	**—**	**5**	5
60 to 64 yrs.	**1**	**—**	**1**	1
65+ yrs.	**22**	**1**	**23**	25
	436	**21**	**457**	400

Funds Timber merchantable available volume (in MMBF) as of December 31:

	2018			2017
Merch Class	**Sawtimber**	**Pulpwood**	**Total**	Total
35 to 39 yrs.	**109**	**3**	**112**	69
40 to 44 yrs.	**74**	**1**	**75**	81
45 to 49 yrs.	**90**	**1**	**91**	75
50 to 54 yrs.	**55**	**1**	**56**	49
55 to 59 yrs.	**43**	**—**	**43**	23
60 to 64 yrs.	**38**	**—**	**38**	15
65+ yrs.	**86**	**1**	**87**	17
16+ inches	**161**		**161**	161
	656	**7**	**663**	490

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

	2018 Volume			2017 Volume		
	Partnership		**Look-**	Partnership		Look-
Merch Class	**100% Owned**	**Share of Funds**	**through Total**	100% Owned	Share of Funds	through Total
35 to 39 yrs.	**307**	**14**	**321**	271	8	279
40 to 44 yrs.	**97**	**11**	**108**	70	11	81
45 to 49 yrs.	**15**	**14**	**29**	19	12	31
50 to 54 yrs.	**9**	**9**	**18**	9	7	16
55 to 59 yrs.	**5**	**7**	**12**	5	4	9
60 to 64 yrs.	**1**	**6**	**7**	1	2	3
65+ yrs.	**23**	**12**	**35**	25	2	27
16+ inches	**—**	**8**	**8**	—	8	8
	457	**81**	**538**	400	54	454

Merchantable volume estimates are updated quarterly. Changes in merchantable volume estimates reflect depletion of harvested timber, growth of standing timber, transitions of timber stands from pre-merchantable to merchantable, revised estimates of acres available for harvest, timber inventory measurement (cruising) updates, and timberland acquisition and disposition activity. A portion of each tree farm's timber stands is physically measured or re-measured each year using a statistical sampling process called "cruising". Stands with actual volume are generally cruised every seven years. The comparison of actual volume harvested to the volume carried in our inventory system is referred to as a "cutout analysis"; a quarterly analysis used to monitor the accuracy of our inventory process. Over the last five years, our overall inventory

variances from the cutout analysis have been up to approximately 8% in any one year, but have averaged less than 5% in the aggregate over that time frame.

The dominant timber species on the Partnership's tree farms is Douglas-fir, which has unique growth and structural characteristics that make it generally preferable to other softwoods for producing construction grade lumber and plywood. A secondary softwood conifer species on the Partnership's tree farms is western hemlock, which is similar in color and structural characteristics to several other minor softwood conifer timber species, including the true firs. These secondary species are referred to generically as "whitewoods". Western red cedar is another softwood conifer species found on the Partnership's tree farms. Western red cedar is used in siding, fencing, and decking applications. Hardwood species on the Partnership's tree farms include primarily red alder and smaller volumes of other hardwood species.

The merchantable timber inventory on Fund properties contains a greater proportion of whitewoods than do the Partnership's timberlands. The most significant contributor to the Funds' whitewood volume is from white fir on Fund III's tree farm in northern California. Given that the Partnership holds only a 5% ownership in Fund III, on a Look-through basis the Funds contribute a more equally-weighted species mix between Douglas-fir and whitewoods. White fir is a member of the whitewood species group and is used primarily for lumber and core layers in plywood.

Partnership Timber merchantable available volume as of December 31:

	2018		2017	
Species	**MMBF**	**% of Total**	**MMBF**	**% of Total**
Douglas-fir	**360**	**79%**	307	77%
Western hemlock	**33**	**7%**	32	8%
Western red cedar	**10**	**2%**	10	3%
Other conifer	**21**	**5%**	21	5%
Red alder	**28**	**6%**	25	6%
Other hardwood	**5**	**1%**	5	1%
Total	**457**	**100%**	400	100%

Funds Timber merchantable available volume as of December 31:

	2018		2017	
Species	**MMBF**	**% of Total**	**MMBF**	**% of Total**
Douglas-fir	**327**	**50%**	192	39%
Western hemlock	**105**	**16%**	103	21%
Western red cedar	**15**	**2%**	12	2%
Pine	**59**	**9%**	47	10%
Other conifer	**139**	**21%**	122	25%
Red alder	**15**	**2%**	13	3%
Other hardwood	**3**	**—%**	1	—%
Total	**663**	**100%**	490	100%

Look-through merchantable available volume (in MMBF) as of December 31, 2018:

Species	Partnership 100% Owned	Partnership Share of Funds	Look-through Total	% of total
Douglas-fir	**360**	**47**	**407**	**75%**
Western hemlock	**33**	**15**	**48**	**9%**
Western red cedar	**10**	**2**	**12**	**2%**
Pine	**—**	**4**	**4**	**1%**
Other conifer	**21**	**11**	**32**	**6%**
Red alder	**28**	**2**	**30**	**6%**
Other hardwood	**5**	**—**	**5**	**1%**
Total	**457**	**81**	**538**	**100%**

Look-through merchantable available volume (in MMBF) as of December 31, 2017:

Species	Partnership 100% Owned	Partnership Share of Funds	Look-through Total	% of total
Douglas-fir	307	26	333	74%
Western hemlock	32	14	46	10%
Western red cedar	10	1	11	2%
Pine	—	3	3	1%
Other conifer	21	8	29	6%
Red alder	25	2	27	6%
Other hardwood	5	—	5	1%
Total	400	54	454	100%

The Partnership's tree farms as of December 31, 2018, consist of 103,100 available acres, representing 83% of total acres, that are designated as available acres, meaning land that will grow timber where harvesting that timber is not constrained by physical, environmental, or regulatory restrictions. The Funds' tree farms as of December 31, 2018, totaled 114,500 available acres, representing 86% of total acres. On a Look-through basis, this results in 116,600 available acres, of which over 23% contain merchantable timber. In addition, another 25% of the Look-through productive acres are in the 25-34 year age-class, much of which will begin moving from pre-merchantable to merchantable timber volume over the next five to ten years. There is no age-class associated with the California tree farm because of the historic uneven-aged management regime, resulting in stands that contain timber with multiple ages. Productive acres for our California tree farm are shown in the following tables under the heading "California".

Productive acres are spread by timber age-class as follows as of December 31, 2018 and 2017:

	Productive acres (in thousands)							
	Partnership Timber				Funds Timber			
Age	2018		2017		2018		2017	
Class	Acres	% of Total	Acres	% of Total	Acres	% of Total	Acres	% of Total
Clear-cut	**2.9**	**3%**	3.5	3%	**3.9**	**3%**	2.2	3%
0 to 4	**8.6**	**8%**	8.4	8%	**8.4**	**7%**	5.5	7%
5 to 9	**9.2**	**9%**	8.3	8%	**8.7**	**8%**	5.5	7%
10 to 14	**10.3**	**10%**	11.0	11%	**12.3**	**11%**	6.8	9%
15 to 19	**10.5**	**10%**	11.3	11%	**10.0**	**9%**	6.0	8%
20 to 24	**12.7**	**12%**	10.4	10%	**7.9**	**7%**	4.2	6%
25 to 29	**10.3**	**10%**	12.2	12%	**7.5**	**7%**	6.3	8%
30 to 34	**16.5**	**16%**	17.3	17%	**8.0**	**7%**	6.2	8%
35 to 39	**15.3**	**15%**	13.8	13%	**6.4**	**6%**	3.8	5%
40 to 44	**4.6**	**4%**	3.6	4%	**3.6**	**3%**	3.5	5%
45 to 49	**0.7**	**1%**	0.9	1%	**4.4**	**4%**	3.2	4%
50 to 54	**0.5**	**—%**	0.4	—%	**2.9**	**3%**	1.9	3%
55 to 59	**0.2**	**—%**	0.2	—%	**2.1**	**2%**	0.7	1%
60 to 64	**0.1**	**—%**	0.1	—%	**2.6**	**2%**	0.5	1%
65+	**0.7**	**1%**	0.9	1%	**7.1**	**6%**	0.5	1%
California	**—**	**—%**	—	—%	**18.7**	**16%**	18.7	25%
	103.1		102.3		**114.5**		75.5	

Look-through productive acres are spread by timber age-class as follows:

	12/31/2018 Look-through Productive Acres (in thousands)				12/31/2017 Look-through Productive Acres (in thousands)			
Age	100%	Share of	Look-		100%	Share of	Look-	
Class	Owned	Funds	Through	% of Total	Owned	Funds	Through	% of Total
Clear-cut	**2.9**	**0.5**	**3.4**	**3%**	3.5	0.3	3.8	3%
0 to 4	**8.6**	**1.2**	**9.8**	**8%**	8.4	0.8	9.2	8%
5 to 9	**9.2**	**1.1**	**10.3**	**9%**	8.3	0.6	8.9	8%
10 to 14	**10.3**	**1.4**	**11.7**	**10%**	11.0	0.6	11.6	11%
15 to 19	**10.5**	**1.2**	**11.7**	**10%**	11.3	0.5	11.8	11%
20 to 24	**12.7**	**0.8**	**13.5**	**12%**	10.4	0.3	10.7	10%
25 to 29	**10.3**	**1.1**	**11.4**	**10%**	12.2	0.9	13.1	12%
30 to 34	**16.5**	**0.9**	**17.4**	**15%**	17.3	0.7	18.0	16%
35 to 39	**15.3**	**0.8**	**16.1**	**14%**	13.8	0.5	14.3	13%
40 to 44	**4.6**	**0.6**	**5.2**	**4%**	3.6	0.5	4.1	4%
45 to 49	**0.7**	**0.7**	**1.4**	**1%**	0.9	0.5	1.4	1%
50 to 54	**0.5**	**0.5**	**1.0**	**1%**	0.4	0.3	0.7	1%
55 to 59	**0.2**	**0.4**	**0.6**	**1%**	0.2	0.1	0.3	—%
60 to 64	**0.1**	**0.4**	**0.5**	**—%**	0.1	—	0.1	—%
65+	**0.7**	**1.0**	**1.7**	**1%**	0.9	—	0.9	1%
California	**—**	**0.9**	**0.9**	**1%**	—	0.9	0.9	1%
	103.1	**13.5**	**116.6**		102.3	7.5	109.8	

Site Index. The site index for a given acre of timberland is a measure of the soil's potential to grow timber in a given location. In our Washington and Oregon operating regions, site index is expressed in feet reflecting the measured or projected height of a Douglas-fir tree at age 50. In the California region, it is based on a mix of species. Site index is calculated by tree height and age data collected during the cruising process. Site index measurements are grouped into five site classes and are an

important input into models used for projecting harvest levels on all tree farms. The following table presents site class information for the Partnership and the Funds, and on a Look-through basis.

	Partnership Timber		Funds Timber		Share of Funds		Look-through	
Site Class	Net Acres	% of total	Net Acres	% of total	Net Acres	% of total	Net Acres	% of total
I (135+ feet)	12,651	12.3%	8,388	7.3%	801	5.9%	13,452	11.5%
II (115-134 feet)	47,305	45.9%	49,349	43.1%	6,186	45.7%	53,491	45.9%
III (95-114 feet)	34,319	33.3%	23,393	20.4%	2,801	20.7%	37,120	31.8%
IV (75-94 feet)	7,719	7.5%	25,914	22.6%	2,711	20.0%	10,430	8.9%
V (<=74 feet)	1,075	1.0%	7,494	6.5%	1,038	7.7%	2,113	1.8%
Total	103,069	100.0%	114,538	100.0%	13,537	100.0%	116,606	100.0%
Acre-weighted average site index	116 feet		109 feet		109 feet		116 feet	

Long-term Harvest Planning. Long-term harvest plans for the Partnership's and the Funds' tree farms are based on the different ownership time horizons associated with each group. Plans for Partnership timberlands are designed to maintain sustainable harvest levels over an extended time frame, assuming perpetual ownership. "Sustainable harvest level" denotes our assessment of the annual volume of timber that can be harvested from a tree farm in perpetuity. As such, the sustainable harvest level generally resembles the annual growth of merchantable timber. Actual annual harvest levels may vary depending on log market conditions and timberland acquisition or disposition activity. Over multi-year time frames, however, annual harvest volumes will average out to the sustainable harvest levels developed in our long-term harvest plan. In addition, we strategically harvest timber on our Real Estate properties. The Real Estate volume and productive acres, while included in the above merchantable volume tables, are not used to calculate our long-term sustainable harvest level as it has been designated for potential sale as HBU real estate rather than perpetual timber operations.

The harvest levels for the Funds' tree farms are developed to maximize the total return during the investment period of each fund by blending cash flow from harvest with the value of the portfolio upon disposition. This will result in more harvest variability between years for Fund tree farms than is the case with the Partnership's tree farms.

We periodically review the sustainable harvest level for the Partnership and the Funds. In the latter part of 2018, we completed the most recent review of the Partnership's sustainable harvest level. With the addition of small-tract acquisitions over the past few years, continued improvements in our inventory data and growth-and-yield modeling, and recent investments in silviculture, we increased the Partnership's annual sustainable harvest level to 57 MMBF, a 10% increase from the prior 52 MMBF level. This change is effective for our 2019 harvest. Assuming full operations on the Funds' existing tree farms, at December 31, 2018, the long-term planned average annual harvest volume for the Partnership and Fund tree farms (and on a Look-through basis) is presented in the table below:

(amounts in MMBF)	Planned annual harvest volume	Look-through planned annual harvest volume
Partnership tree farms	57	57
Fund tree farms	93	12
Total	150	69

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

Domestic mills buy the majority of our sawlog volume. These customers use the logs as raw material for manufacturing lumber. Higher quality logs sold to the domestic market are generally used to peel veneer necessary to manufacture plywood or specialized beams. Lumber markets tend to rise and fall with new home starts and the repair and remodel market, which in turn drives domestic demand for logs. Additional domestic demand for our logs comes from

producers of utility poles and cedar fencing. Our lowest quality logs are chipped for use by pulp mills in the production of pulp and paper.

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

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

Beginning in 2010, a reduction in China's log imports from Russia, coupled with a strengthening Chinese currency compared to the U.S. dollar, opened an opportunity for North American log producers to supply a larger portion of logs to the growing Chinese market. This resulted in the migration of the U.S. Pacific Northwest (PNW) export market from one focused almost exclusively on Japan and Korea to a broader Asian market that now includes China. Today, China represents the largest export market for PNW sawlogs in Asia. Notwithstanding recent tariffs, and threats of additional tariffs, imposed on U.S. logs exported to China, this export market has provided additional support to log prices during the gradual recovery of U.S. housing over the past several years. Sawlogs sold to China are used chiefly for construction of concrete forms, pallets, and other uses that can be satisfied with whitewood and lower quality Douglas-fir sawlogs.

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

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

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

Forestry, Silviculture, and Stewardship Practices. Silviculture activities on the Combined tree farms include reforestation, control of competing brush in young stands, and density management (thinning) of forests to achieve optimal spacing after stands are established. This is all to ensure that young stands are on a pathway to produce the desired log sorts and species mix. We manage our forests to create a species mix and log top-end diameters of a size and quality that we predict will satisfy what domestic mills and export markets will desire in future years. During 2018, we planted 1.8 million seedlings on 5,500 acres of the Combined tree farms compared to 1.9 million seedlings on 6,300 acres in 2017 and 1.7 million seedlings on 6,600 acres in 2016. Seedlings are generally planted from December to April to restock stands that were harvested during the preceding twelve months. The number of seedlings planted varies from year to year based upon harvest level, the timing of harvest, seedling availability, and weather and soil conditions that control the timing of reforestation. Our policy is to return all timberlands to productive status in the first planting season after harvest, provided any requisite brush control has been completed and seedlings are available.

Harvest and road construction activities are conducted in compliance with federal, state, and local laws and regulations. Many of these regulations are programmatic and include, for example: limitations on the size of harvest areas,

reforestation following harvest, retention of trees for wildlife habitat and water quality, and sediment management on forest roads. Regulations also require project-specific permits or notifications that govern a defined set of forestry operations. An application for harvest or road construction may require specific controls to avoid potential impact to the environment.

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

Timberland Investment Management (TIM)

Background. Our TIM segment provides timberland investment management services for third-parties, for which it earns management fees and incurs expenses resulting from raising, investing, and managing capital which is invested in Pacific Northwest timberland on behalf of third-party investors alongside the Partnership's co-investment. Since the launch of our private equity timber fund strategy in 2003, the activities in this segment have consisted primarily of raising third-party investment capital for the Funds and then acquiring and managing timberland portfolios on their behalf. When we discuss the Fund properties we will refer to either the acquisition values, defined as contractually agreed-upon prices paid for the properties, or the value of assets under management, defined as the current third-party appraised value of the properties. As of December 31, 2018, we manage 134,000 acres of timberland in Washington, Oregon, and California with combined appraised values of $526 million. Following the January 2019 acquisition by Fund IV, we manage over 141,000 acres with combined appraised values of $547 million.

The following table summarizes the committed and called capital for the TIM segment on a cumulative basis since its inception, as well as distributions received by the Partnership, as of December 31, 2018 as well as January 31, 2019, which incorporates the recent timberland acquisition by Fund IV:

	Total Fund		Partnership Co-investment			
(in millions)	Commitment	Called Capital	Commitment	Called Capital	Distributions Received	Ownership Percentage
Fund I *	$ 61.8	$ 58.5	$ 12.4	$ 11.7	$ 15.1	20%
Fund II	84.4	83.4	16.9	16.7	14.4	20%
Fund III	180.0	179.7	9.0	9.0	1.3	5%
Fund IV	388.0	146.9	58.0	22.0	0.4	15%
Total, December 31, 2018	714.2	468.5	96.3	59.4	31.2	
January 2019 Fund IV acquisition	—	20.3	—	3.0	—	
	$ 714.2	$ 488.8	$ 96.3	$ 62.4	$ 31.2	

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

Operations. The TIM segment's key activity is to provide investment and portfolio management services to the Funds. We anticipate growth in this segment as we continue to place the remaining $221 million of Fund IV committed capital, after the January 2019 timberland acquisition, together with any future funds established by the Partnership. The TIM segment represented less than 1% of consolidated revenue for each of the three years ended December 31, 2016 through 2018, as fee revenue is eliminated in consolidation. On an internal reporting basis, before these eliminations, the TIM segment represented 4%, 3%, and 4% of total revenue for the years ended December 31, 2018, 2017, and 2016, respectively.

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

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

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

Marketing. When raising capital for a new Fund, we market opportunities to investors that desire to invest alongside the Partnership in Pacific Northwest (PNW) timberland assets. Our Funds fill a niche among timberland investment management organizations due to our PNW regional specialization, degree of co-investment, and the ability to target relatively small transactions. Additional marketing and business development efforts include regular contact with forest products industry representatives, non-industry owners, and others who provide key financial services to the timberland sector. Our acquisition and disposition activities keep management informed of changes in timberland ownership that can represent opportunities for us to market our services.

Customers. The Funds are the primary customers and users of TIM services. Investors in the Funds are primarily large institutional investors, including pension funds, insurance companies, and endowments.

Competition. We compete against both larger and comparably sized companies providing similar timberland investment management services. There are over 20 established timberland investment management organizations competing with us in this business. Some companies in this group have access to established sources of capital and, in some cases, increased economies of scale that can put us at a disadvantage. Our value proposition to investors is centered on the differentiation we provide relative to other managers, as described above, as well as our long track record of success in the Pacific Northwest.

Real Estate

Background. The Partnership's real estate activities are associated closely with the management of our timberlands. After timberland has been logged, we choose among four primary alternatives to generate value from the underlying land: reforest and continue to operate as timberland, sell as undeveloped property, undertake some level of development to prepare the land for sale as improved property, or hold for later development or sale. We regularly evaluate our timberland for its best economic use. We currently have a 2,000-acre portfolio of properties for which we believe there to be a higher and better use than timberland. In addition, we may acquire and develop other properties for sale, either on our own or by partnering with other experienced real estate developers. To date, this activity has not constituted a material part of our Real Estate segment's operations.

The Real Estate segment's activities generally consist of investing in, and later selling, improved properties as well as holding properties for later development and sale. As a result, revenue from this segment tends to fluctuate substantially, and is characterized by periods during which revenue is low, while costs incurred to increase the value of our development properties may be higher. During periods of diminished demand, we manage our entitlement related costs and infrastructure investment to minimize negative cash flows. Segment expenses do not generally trend directly with segment revenues. When improved properties are sold, income is recognized in the form of sale price net of acquisition and development costs.

Operations. The Real Estate segment represented 8%, 26%, and 29% of consolidated revenue in 2018, 2017, and 2016, respectively. Real Estate operations focus on maximizing the value of the 2,000-acre portfolio mentioned above. For Real Estate projects, we secure entitlements and/or infrastructure necessary to make development possible and then sell the entitled property to a party who will construct improvements. This segment's results also reflect conservation-related transactions with respect to our timberland. These transactions can take the form of sales of timberland for conservation purposes, sales of conservation easements (CE) that encumber Partnership Timber properties and preclude future development but allow continued harvest operations, or sales of timberland on which we retain the right to harvest the standing timber for a period of time, typically up to 25 years. The third and final area of operations in this segment includes leasing residential and commercial properties in Port Gamble, Washington, and leasing out a portion of our corporate headquarters building in Poulsbo, Washington.

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

Information about the location and zoning categories of our Real Estate portfolio is set forth in Part I, Item 2: "Properties."

Development Properties

Projects in Gig Harbor, Port Gamble, Kingston, Bremerton, Hansville, and Port Ludlow, Washington comprise approximately half the acres in our development property portfolio. Depending on each property's size, development complexity, and regulatory environment, a project may be long-term in nature and require extensive time and capital investments to maximize returns.

Gig Harbor. Gig Harbor, a suburb of Tacoma, Washington, is the site of Harbor Hill, a 292-acre mixed-use development project that, at its inception, included the following mix of zoning: 42 acres of commercial/retail sites, 50 acres of business park lots, and 200 acres of land with residential zoning. At December 31, 2018, we still own 18.5 acres of commercial/retail and 21.6 acres of residential lots in this project. A 20-year development agreement was approved by the City of Gig Harbor (City) in late 2010. Key provisions of the development agreement and plat approval include: (a) extending the project development period from 7 to 20 years; (b) reserving sufficient domestic water supply, sanitary sewer, and traffic trip capacity on behalf of the project's residential units; and (c) waiver of park impact fees in exchange for a 7-acre parcel of land for City park purposes. All components of this project have transportation, water, and sewer capacities reserved for full build-out. We received preliminary plat approval in early 2011 for the then 200-acre residential portion of this project that included 554 single-family and 270 multi-family units. At December 31, 2018, the final 65 single-family lots on over 21 acres are nearing completion and are under contract for $12 million. The last 18 acres in the master plan was entitled for a grocery-anchored shopping center in late summer 2018 and was part of a joint venture with another developer. The project is currently on hold as a result of construction cost increases and a proposed doubling of traffic impact fees by the City of Gig Harbor. A smaller project is currently being evaluated for the site.

Port Gamble. Port Gamble fits within both the development and commercial properties aspects of our Real Estate operations. Port Gamble is located northwest of Kingston in Kitsap County. Founded in 1853 by the company that became Pope & Talbot, Inc. ("P&T"), Port Gamble served as a company town for over 140 years, and a mill site and logging port for much of that time, with many of its buildings still standing. The town and mill sites, totaling 113 acres, were acquired from P&T at the time of the Partnership's formation in 1985. The operation and management of the town of Port Gamble is discussed under "Commercial Properties" below.

With respect to our development plans for the site, Port Gamble may be sold on a bulk-sale basis to a developer interested in taking the project forward, or development may take place under a joint venture with a developer or using third-party capital, with the Partnership seeking to limit its own capital in this development. Port Gamble has been designated a "Rural Historic Town" under Washington's Growth Management Act since 1999. This designation allows for substantial new commercial, industrial, and residential development using historic land use patterns and densities while maintaining the town's unique architectural character. On September 6, 2018, we submitted the master plan for the 113-acre townsite and adjoining 205-acre agrarian district to Kitsap County for review. Our plans are focused on bringing back the New England-style homes that have slowly disappeared since Port Gamble's heyday in the 1920s. If approved as proposed, our plat application to Kitsap County will allow for between 200 and 240 additional residential units and 200,000 to 260,000 square feet of additional commercial building space. The proposal also calls for the development of homes, an inn, a dock, waterfront trails, and an agricultural area with greenhouses, orchard, and winery. Walking trails along the shoreline, through the adjoining forestlands, and along pastoral farmland would contribute to the lifestyle of residents and should enhance Port Gamble as a unique tourist attraction. In 2016, the town was connected to the Kitsap County water supply infrastructure. During 2017, a new membrane bioreactor wastewater treatment plant with a large onsite septic system was installed and turned over to Kitsap County's Public Utility District, and the former treatment plant was de-commissioned.

As discussed in greater detail below, P&T's operations at Port Gamble, prior to the Partnership's ownership of the millsite and surrounding areas, resulted in the release of hazardous substances that impacted the upland and submerged portions of the site, and we have an environmental remediation liability as a result of our ownership of Port Gamble.

Kingston. The Partnership owns a 374-acre property in Kingston called "Arborwood" with plans for the development of 663 single-family lots and 88 multi-family units. In 2016, we acquired an adjacent 10 acres to provide another access point to the project and allow it to be divided into three or more smaller projects. Like Port Gamble, we may sell Arborwood on a bulk-sale basis to a developer interested in taking the project forward, or we may develop it under a joint venture with a developer or using third-party capital. An amendment to the preliminary plat was submitted in late 2018. We plan to prepare engineering and construction drawings for the first phase of lot development in 2019, with the goal of starting construction in 2020.

Bremerton. The West Hills area of Bremerton, Washington is the site of a 46-acre industrial park which we have been developing in two phases totaling 24 lots. Construction on the 9 lots covering 10 acres that comprise Phase I was completed in 2007 and four lots have been sold to date. In 2013, we obtained a comprehensive plan designation change from industrial to residential for the 35-acre Phase II portion of this property. In 2014, Phase II was rezoned to single-family residential. In 2018, we sold this phase to a commercial developer.

Hansville. The Partnership owns a 149-acre residential development project in Hansville called "Chatham," with 19 parcels ranging from 3 to 10 acres in size. Construction was completed in late 2007, and the lots are currently being marketed for sale. As of December 31, 2018, 13 lots have been sold.

Port Ludlow. Port Ludlow represents a 256-acre property in Jefferson County located just outside the Master Planned Resort boundary of Port Ludlow, Washington. Development of the property will progress commensurate with demand for rural residential lots in this area.

Rural Residential. We have a number of saleable properties totaling 962 acres for which rural residential development represents a higher and better use compared to continued management as timberland. In general, these properties are non-contiguous smaller lots ranging in size between 5 and 40 acres with zoning ranging from one dwelling unit per 5 acres to one per 80 acres. Development and disposition strategies vary depending on the property's unique characteristics. Development efforts and costs incurred to prepare these properties for sale include work to obtain development entitlements that will increase the property's value as residential property as well as making improvements to existing logging roads, constructing new roads, and extending dry utilities. As is the case with much of the Real Estate portfolio, investments in the rural residential program have been limited to those necessary to achieve entitlements, while deferring construction costs until warranted by market conditions.

North Kitsap County. Since 2011, we have been formally engaged with a coalition of approximately 30 entities to conserve up to 6,500 acres of the Partnership's timberland in north Kitsap County. This effort, known as the Kitsap Forest & Bay Project, saw two closings in 2014 totaling 901 acres. In 2015, an additional 175 acres were sold to Kitsap County utilizing state conservation funds, and in 2016 we sold 1,356 acres to Kitsap County, though we retained a timber deed that will allow us to harvest timber on the property for 25 years. In December 2017, we sold an additional 1,504 acres to Kitsap County and retained a timber deed that will allow us to harvest timber on 1,334 acres of the property for 25 years.

Skamania County. We have been engaged with the Columbia Land Trust in a multi-phase conservation project that includes both fee and conservation easement (CE) sales of the Partnership's timberland in the area. Funding for conservation sales are made available primarily through the Washington Wildlife and Recreation Program. In tandem with this project, we worked with Skamania County to rezone 7,899 acres of our holdings in that county. In 2018, we completed a CE sale on that property.

Commercial Properties

Poulsbo. In May 2011, we purchased a 30,000-square-foot commercial office building in Poulsbo, on a 2-acre parcel of land. We utilize the second floor, basement, and part of the first floor for our own operations. We lease the remaining portion of the first floor to two separate tenants.

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

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

Following the mill shutdown, the Washington State Department of Ecology (DOE) began to examine the environmental conditions at Port Gamble. Under Washington law, both Pope Resources and P&T were considered by DOE to be "potentially liable persons" (PLPs); the Partnership because of its ownership of certain portions of the site, and P&T because of its historical ownership and operation of the site.

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

In 2005, both Pope Resources and P&T received Environmental Excellence Awards from DOE for their work in remediating the contamination that had existed at the Port Gamble townsite and landfill. DOE also issued letters to both parties in 2006 indicating that the agency expected to take no further action regarding conditions at those portions of the site. Pope Resources continued cleaning up the remaining contamination at the millsite. By late 2005, the millsite portion of the site had largely been cleaned and the remaining aspects of that project consisted of test well monitoring and modest additional remediation. The Port Gamble Bay area and related tidelands, for which P&T was responsible under the parties' settlement agreement, had not yet been remediated. In 2007, P&T filed for bankruptcy protection and was eventually liquidated, leaving the Partnership as the only remaining PLP. Because environmental liabilities are joint and several as between PLPs, the result of P&T's bankruptcy was to leave the liability with the Partnership as the only remaining solvent PLP. At that time, we increased our accrual for remediation liabilities by $1.9 million to reflect the resulting increase in risk.

In-water cleanup

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

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

Millsite cleanup

With the in-water portion of the cleanup completed, there will be relatively modest cleanup activity on the millsite and a monitoring period. In February 2018, the Partnership and DOE entered into an agreed order with respect to the millsite under which the Partnership performed a remedial investigation and feasibility study (RI/FS) which it submitted to DOE for review in January 2019. Following the finalization of the RI/FS, the Partnership will work with DOE to develop a CAP. As with the in-

water portion of the project, the CAP will define the scope of the remediation activity for the millsite. Once the CAP is approved by DOE, it will be codified in a consent decree.

Natural Resource Damages (NRD)

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

We accrued an additional $5.6 million in 2018 as a result of updates to our estimates of costs associated with the cleanup of the millsite and estimated NRD costs. It is reasonably possible that these components of the liability may increase as the project progresses. With the in-water cleanup completed, which was by the far the most significant component of the project, and the 2018 adjustments, however, we expect that any future adjustments to the liability should be less significant than they have been historically.

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

Marketing. Marketing efforts for development properties from 2016 to 2018 were focused primarily on our Harbor Hill development and conservation land and easement sales. During this period, we also started investigating and pursuing the acquisition and development of other real estate properties (not owned by the Partnership) and closed on the acquisition of a two-acre parcel on Bainbridge Island, Washington. In 2017, we partnered with another developer to form a joint venture for the acquisition of a 5-acre property on Bainbridge Island, Washington, that will include 18 townhomes for sale and 107 apartments for lease. Efforts were also expended in the last several years to sell North Kitsap lands for conservation.

Customers. We typically market properties from the Real Estate portfolio to private individuals, residential contractors, and commercial developers. Customers for rental space in the Port Gamble townsite consist of both residential and commercial tenants.

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

Transportation. Land values for the Real Estate portfolio are influenced by transportation options between the west side of Puget Sound, where our properties are located, and the Seattle-Tacoma metropolitan corridor. These areas are separated by bodies of water. Transportation options include the Tacoma Narrows Bridge or one of several car and passenger ferries that link the communities of Kingston, Bremerton, and Bainbridge Island to Edmonds and Seattle. A new passenger ferry with 40-minute travel time from Kingston to downtown Seattle started in late 2018 and should have positive impacts on the desirability of the company's holdings in North Kitsap County.

Employees

As of December 31, 2018**,** we employed 62 full-time employees and 3 part-time or seasonal personnel, who are distributed among the segments as follows:

Segment	Full-Time	Part-Time/ Seasonal	Total
Partnership Timber	22	1	23
Timberland Investment Management (TIM)	11	—	11
Real Estate	14	2	16
General & Administrative	15	—	15
Totals	62	3	65

Our Funds Timber segment does not have employees. Rather, this segment is served by employees from the TIM and Partnership Timber segments. None of our employees are subject to a collective bargaining agreement and the Partnership has no knowledge that any steps toward unionization are in progress. We consider our relations with our employees to be good.

Government Regulation

Our timberland and real estate operations are subject to a number of federal, state, and local laws and regulations that govern forest practices and land use. These laws and regulations can directly and indirectly affect our Partnership Timber, Funds Timber, and TIM segments by regulating harvest levels and impacting the market values of forest products and forestland. Our Real Estate operations are also directly and indirectly affected by these laws and regulations by limiting development opportunities and the underlying market value of real estate.

Laws and Regulations that Affect Our Forestry Operations. Our Partnership Timber, Funds Timber, and TIM segments are affected by federal and state laws and regulations that are designed to promote air and water quality and protect endangered and threatened species. Further, each state in which we own or manage timberland has developed "best management practices" (BMP) to reduce the effects of forest practices on water quality and plant and animal habitat. Collectively, these laws and regulations affect our harvest and forest management activities. At times, regulatory agencies and citizens' and environmental groups seek to expand regulations using a wide variety of judicial, legislative, and administrative processes, as well as state ballot initiatives, a process applicable to all three states in which we operate, that allows citizens to adopt laws without legislative or administrative action.

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

Endangered Species Laws

A number of fish and wildlife species that inhabit geographic areas near or within our timberlands have been listed as threatened or endangered under the federal Endangered Species Act (ESA) or similar state laws. Federal ESA listings include the northern spotted owl, marbled murrelet, numerous salmon species, bull trout, steelhead trout, and other species. At times, state endangered species laws impose further restrictions by limiting the proximity of harvest operations to certain plants and wildlife. Legislative, regulatory, and legal efforts to expand the list of protected species and populations may impose further restrictions. Federal and state requirements to protect habitat for threatened and endangered species have imposed restrictions on timber harvest on some of our timberlands, and these protections may be expanded in ways that further affect our operations. These actions may increase our operating costs, further restrict timber harvests or reduce available acres, and adversely affect supply and demand more broadly across our markets.

Further, federal and state regulatory agencies monitor environmental conditions to determine whether existing forest practice rules are effective at protecting threatened and endangered wildlife. New or modified regulations could result in increased costs, additional capital expenditures, and reduced operating flexibility.

Water Quality Laws

Also affecting our forestry operations are laws and regulations that are designed to protect water quality. The preeminent federal law is the Clean Water Act (CWA), which is enforced through associated state laws and regulations in the jurisdictions in which we operate. These state laws and regulations reduce timberlands available for harvest by, among other things, requiring buffers on some streams to meet state water quality standards related to maintaining temperature or reducing or eliminating turbidity. Other laws and regulations could have significant impacts on our harvest activities, including increases in setback requirements. As these rules grow more restrictive, we may face increasing costs associated with our silviculture, may find some areas of our tree farms inaccessible (either physically or because of economic inefficiency), and may face reductions in the portion of our timberlands that can be harvested.

The Federal Insecticide, Fungicide, and Rodenticide Act (FIFRA) and other state laws related to the use of pesticides restrict the use of herbicides. Herbicides are used to promote reforestation and to optimize the growth of regenerated stands of trees. FIFRA and state laws and regulations may reduce the efficiency with which we can produce timber, and they may ultimately reduce the volume of timber that is available for harvest. Further limits to the use of insecticides or herbicides may make our tree farms more vulnerable to disease or infestations.

State Harvest Permitting Processes

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

Climate Change Laws

California has implemented a cap and trade program that limits the amount of greenhouse gases emitted by certain stationary sources as well as transportation sources. This may impact forest landowners through increased costs of energy to our manufacturing customers and logging contractors. Washington state voters rejected a carbon tax initiative in 2018. The Oregon legislature is considering a cap and trade program in the 2019 session.

The effects of these laws and initiatives cannot readily be quantified or predicted. However, management does not expect to be disproportionately affected by these programs in comparison with typical timberland owners. Likewise, management does not expect that these programs will significantly disrupt our planned operations over large areas or for extended periods.

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

Item 1A. RISK FACTORS

Risks Related to Our Industry and Our Markets

Our Partnership Timber and Funds Timber segments are sensitive to demand and price issues relating to our sales of logs in both domestic and foreign markets. We generate timber revenue in these segments primarily by selling softwood logs to domestic mills and to third-party intermediaries who resell them to the export market. The domestic market for logs in our operating area depends heavily on U.S. housing starts. The U.S. housing market has been in recovery for several years, but to the extent this recovery should stall, such a turn of events could have a negative impact on our operating results. For example, interest rates have increased recently and are widely expected to rise in the coming periods. Should this occur, it could have a negative impact on the U.S. housing market. Demand from export markets for Pacific Northwest logs are affected by fluctuations in the economies of the United States, Japan, China, and to a lesser degree, Korea; the foreign currency exchange rate between the currencies of these Asian countries and the U.S. dollar; and by ocean transportation costs. Further, the prices we realize for our logs depend in part upon competition, including the supply of logs from Canada that can be impacted by fluctuations in currency exchange rates and trade relations between the U.S., Canada, and China. The U.S. recently announced tariffs on lumber imported from Canada, with the intention of making U.S.-sourced lumber more competitive. An indirect effect of the tariffs could be support for U.S. log prices. The U.S. and China have both recently announced tariffs on a number of products, including timber exported from the U.S. to China, which has resulted in an element of uncertainty in the trade relationship between the U.S. and China. We cannot predict the ultimate outcome of these trade issues, or the impact on log prices.

Our Partnership Timber, Funds Timber, and Timberland Investment Management (TIM) segments are highly dependent upon sales of commodity products. Revenue from our forestry operations is widely available from producers in

other regions of the United States, as well as Canada and a number of other countries. We do not normally hedge against the financial risks associated with this condition. We are therefore subject to risks associated with the production of commonly available products, such that an increase in supply from abroad as a result of overproduction by competitors in other nations or as a result of changes in currency exchange rates, may reduce the demand for our products in some or all of the markets in which we do business. A bilateral agreement between the United States and Canada, called the Softwood Lumber Agreement, had been intended to help manage potentially harmful effects of international competition between our countries, but that agreement expired in October 2015. In December 2017, the U.S. International Trade Commission (ITC) ruled that the U.S. lumber industry was injured by Canadian lumber imports. The final ruling resulted in countervailing duties (CVD) and anti-dumping duties (ADD) on Canadian lumber shipments to the U.S. The expected net effect of these CV/D and ADD duties is upward price pressure for sawlog producers in the Pacific Northwest, though management cannot predict accurately the precise effects. Similarly, we have seen or may experience an increase in supply or a reduction in demand as a result of international tensions or competition that is beyond our control and that may not be predictable.

Consolidation of sawmills in our geographic operating area may reduce competition among our customers, which could adversely affect our log prices. In the past we have experienced, and may continue to experience, consolidation of sawmills and other wood products manufacturing facilities in the Pacific Northwest. Because a portion of our cost of sales in our Timber segments consists of transportation costs for delivery of logs to domestic sawmills, it could become increasingly expensive to transport logs over longer distances for sales in domestic markets. As a result, a reduction in the number of sawmills, or in the number of sawmill operators, may reduce competition for our logs, increase transportation costs, or both. These consolidations thus may have a material adverse impact upon our Timber segments' revenue, income, or cash flow and, as those segments have traditionally represented our largest business units, upon our results of operation and financial condition as a whole. Any such material adverse impact on timber revenue, income, and cash flow as a result of regional mill consolidations will also indirectly affect our TIM segment in the context of raising capital for investment in Pacific Northwest-based timber funds. Further, this consolidation increases our sensitivity to fluctuations in building demand, and especially residential construction, in the Pacific Northwest. As a result, factors such as a slowdown in home building in the Puget Sound region can have a disproportionate impact on our Timber results.

We are subject to statutory and regulatory restrictions that currently limit, and may increasingly limit, our ability to generate income and cash flow. Our ability to grow and harvest timber can be impacted significantly by legislation, regulations, or court rulings that restrict or stop forest practices. For example, events that focus media attention upon natural disasters and damage to timberlands have at various times brought increasing public attention to forestry practices. Similarly, certain activist groups in Oregon are likely to continue to register ballot initiatives that would eliminate clearcutting, which is the predominant harvest practice across our geographic region. These and other activists also have proposed, and can be expected to continue proposing, bans on herbicides and various methods of applying herbicides, and attempt to inhibit other practices that are commonly used to promote efficient, sustainable forestry practices. While these initiatives have thus far failed to gain traction, such initiatives, alone or in combination, may limit the portion of our timberlands that is eligible for harvest, may make it more expensive or less efficient to harvest all or certain portions of our timberlands, or may restrict other aspects of our operations. Additional regulations, whether or not adopted in response to such events, may make it more difficult or expensive for us to harvest timber and may reduce the amount of harvestable timber on our properties. These and other restrictions on logging, planting, road building, fertilizing, managing competing vegetation, and other activities can increase the cost or reduce available inventory thereby reducing income and cash flow. Any such additional restrictions would likely have a similar effect on our TIM operations. We cannot offer assurances that we will not be alleged to have failed to comply with these regulations, or we may face a reduction in revenues or an increase in costs as a result of complying with newly adopted statutes, regulations and court or administrative decisions. These claims may take the form of individual or class action litigation, regulatory or enforcement proceedings, or both. Any such claims could result in substantial defense costs and divert management's attention from the ongoing operation of our business, and if any such claims were successful, may result in substantial damage awards, fines, or civil penalties.

Environmental and other activist groups may have an adverse impact on the value of our assets or on our ability to generate revenues from our timberlands. In recent years we have seen an increase in activities by environmental groups, Native American tribes, and other activists in the legislative, administrative, and judicial processes that govern all aspects of our operations. For example, on more than one occasion, the Washington Department of Ecology applied more stringent regulatory standards to our existing environmental remediation project at Port Gamble, Washington, after soliciting or receiving input from tribal representatives. These revisions substantially increased the cost associated with our pre-existing remediation plans, and we cannot offer assurances that similar actions will not further protract the process or increase remediation costs. In an ongoing example of this activism, various citizens' and tribal groups are asserting, in their capacities as trustees under the Natural Resources Damages Act, that we are liable for damages to the environment on the basis of our now largely remediated property at Port Gamble, Washington. Similarly, citizens' and environmental groups have significant influence in the entitlement and zoning processes that affect our Real Estate operations. These activities are not likely to

diminish in the foreseeable future, and in some instances may have a material impact upon the revenues we can generate from our properties or upon the costs of generating those revenues.

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

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

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

Risks Relating to Our Operations

We have certain environmental remediation liabilities associated with our Port Gamble property, and that liability may increase. We currently own certain real estate at Port Gamble on the Kitsap Peninsula in western Washington. Sediments adjacent to these properties were alleged to have been impacted by operations of the former owner of the property, Pope & Talbot, Inc. (P&T). However, as current owner of Port Gamble, we have environmental liability for these properties under Washington State's Model Toxics Control Act (MTCA). In December 2013, we reached an agreement with the Washington State Department of Ecology (DOE) in the form of a consent decree ("CD") and clean-up action plan ("CAP") that provided for the cleanup and monitoring of Port Gamble Bay. Together, these documents outline the terms under which the Partnership conducted environmental remediation and will perform monitoring of Port Gamble Bay. In February 2018, the Partnership and DOE entered into an agreed order with respect to the millsite under which the Partnership has performed a remedial investigation and feasibility study and will develop a new CAP. As with the in-water portion of the project, this new CAP will define the scope of the remediation activity for the millsite and be codified in a new CD.

We are pursuing contribution of costs under P&T's insurance policies, though there can be no assurance that we will prevail in this matter. The recorded liability does not reflect any contribution by P&T's insurance policies. Additionally, certain environmental laws allow state, federal, and tribal trustees (collectively, the Trustees) to bring suit against property owners to recover damages for injuries to natural resources (NRD). Like the liability that attaches to current property owners in the cleanup context, liability for natural resource damages can attach to a property owner simply because an injury to natural resources resulted from releases of hazardous substances on that owner's property, regardless of culpability for the release. The Trustees are alleging that Pope Resources has NRD liability because of releases that occurred on its property. We have been in discussions with the Trustees regarding their claims, and the alleged conditions in Port Gamble Bay. We have also been discussing restoration alternatives that might address the damages the Trustees allege. Discussions with the Trustees may result in an obligation for us to fund NRD assessment and restoration activities that are greater than we have estimated.

Management continues to monitor the Port Gamble cleanup processes closely. The $9.1 million remediation accrual as of December 31, 2018, represents our current estimate of the remaining cleanup cost and most likely outcome to various contingencies, though it is reasonably possible that the millsite cleanup and NRD components of the liability may increase. These estimates are predicated upon a variety of factors, including the actual amount of the ultimate cleanup costs. The liability is based upon a number of estimates and judgments that are subject to change as the project progresses. The filing of the CDs

limits our legal exposure for matters covered by the decree, but does not eliminate it entirely. DOE reserves the right to reopen the CDs if new information regarding factors previously unknown to the agency requires further remedial action. While unlikely, a reopening of the CDs may result in adverse financial impacts and may have the effect of distracting management and other key personnel from the day to day operation of our business. These factors, alone or in combination with other challenges, may have a material adverse effect upon our assets, income, cash flow, and operations.

Our leverage may give rise to additional risks. The Partnership's total outstanding debt was $94.5 million at December 31, 2018, of which $26.4 million bears interest at variable rates, with the remaining balance at fixed rates. The Funds' total debt outstanding was $57.4 million at December 31, 2018, all of which bears interest at fixed rates. This debt, particularly that portion that carries variable interest rates, exposes us to certain additional risks, including higher interest expense as interest rates have increased recently and may continue to increase in coming periods. In addition, generally speaking, an increase in our indebtedness may limit our ability to defer timber harvests and potentially restricts our flexibility to take advantage of other investment opportunities that might otherwise benefit our business. In extreme cases, we could be placed in a position in which we default under one or more of our credit arrangements, which could require us to pledge additional portions of our timberland as collateral for our indebtedness or which might require us to take other actions or expose us to other remedies that could have a material adverse effect upon our assets, operations, or business.

Our real estate holdings are highly illiquid, and changes in economic and regulatory factors may affect the value of our properties or the timing of the proceeds, if any, that we expect to receive on the sale of such properties. The value of our real estate investments, and our income from real estate operations, is sensitive to changes in the economic and regulatory environment, as well as various land-use regulations and development risks, including the ability to obtain the necessary permits and land entitlements that would allow us to maximize the revenue from our real estate investments. Our real estate investments are long-term in nature, which raises the risk that unforeseen changes in the economy or laws surrounding development activities may have an adverse effect on our investments. These investments often are highly illiquid and thus may not generate cash flow if and when needed to support our other operations. Further, we occasionally announce contracts relating to the sale of our real estate holdings, but those agreements may contain contingencies and conditions that may delay or prevent the consummation of transactions even after we have agreed to sale terms.

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

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

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

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

We may incur losses as a result of natural disasters that may occur on our properties. Forests are subject to a number of natural hazards, including damage by fire, severe windstorms, insects, disease, flooding, and landslides. Changes in global climate conditions may intensify these natural hazards. Severe weather conditions and other natural disasters can also reduce the productivity of timberlands and disrupt the harvesting and delivery of forest products. While damage from natural causes is typically localized and would normally affect only a small portion of our timberlands at any one time, these hazards are unpredictable and losses might not be so limited. While we carry fire insurance on approximately 27% of our Combined timberland acres, we do not otherwise maintain insurance against loss of standing timber on our timberlands due to natural disasters.

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

We have incurred, and may continue to incur, expenses relating to a recently announced activism campaign from one of our unitholders. On June 18, 2018, James H. Dahl and an individual related to him filed a report on Securities Exchange Act Schedule 13D, purporting to be assignees of more than 5% of our outstanding limited partner units. The filing persons contend in their Schedule 13D that the Partnership is "materially undervalued in the marketplace" by virtue of its governance structure. The filing persons expressed a belief that the Partnership should restructure its operations or explore a "strategic transaction," and contended that management and the General Partner are "entrenched." Further, the filing persons' Schedule 13D also suggested that other unitholders contact management to offer their views about the Partnership's strategic direction. To date, certain unitholders have communicated their thoughts to the board and management and during the latter half of 2018 our managing general partner and our Board of Directors conducted an extensive review of our operating and capital structure and aspects of our business that relates to those matters. In the course of this review, as we have done consistently in the past we also engaged proactively with a number of longstanding unitholders. The outcome of this review is discussed in greater detail in "Management's Discussion and Analysis of Financial Condition and Results of Operations - Executive Overview" in Part II of this report. The Board expects to continue monitoring these factors and will continue its longstanding practice of engaging with investors and considering the input those investors provide.

Activism campaigns against public companies have become increasingly commonplace in recent years, and may impose material adverse impacts upon targeted companies and their security holders. In the case of Pope Resources, the announcement of the recent activism initiative has had, and may in the future have, one or more of the following effects:

- Increasing professional fees and costs and other general and administrative expenses.
- Distracting management and the board from the Partnership's day-to-day operations.
- Creating uncertainty among key employees, which in turn may increase the risk of either losing one or more such employees, or the Partnership's cost of retaining them.
- Increasing the volatility in the trading price and trading volume of the Partnership's units.

Risks Relating to Ownership of Our Securities

We are controlled by our managing general partner. As a master limited partnership, substantially all of our day-to-day affairs are controlled by our managing general partner, Pope MGP, Inc. The board of directors of Pope MGP, Inc. serves as our board of directors and, by virtue of a stockholder agreement, each of the two controlling shareholders of Pope MGP, Inc. has the ability to designate one of our directors and jointly appoint two others, with the fifth board position taken by our chief executive officer, who serves as a director by virtue of his executive position. Limited partners may remove the managing general partner only in limited circumstances, including, among other things, a vote by the limited partners holding two-thirds of the "qualifying units," which generally means the units that have been owned by their respective holders for at least five

years prior to such vote, or by limited partners holding ninety percent (90%) of all units outstanding (excluding, in each case, limited partner units held by the general partner whose removal is sought). By virtue of the terms of our amended and restated agreement of limited partnership, as amended, or "partnership agreement", our managing general partner directly, and the general partner shareholders indirectly, have substantial ability to control or exercise substantial influence over the following: transactions that would result in a change of control of the Partnership; preventing or causing the sale of the assets of the Partnership; admitting assignees and unitholders as limited partners; and causing the Partnership to take or refrain from taking certain other actions that might be perceived to be in the Partnership's best interest. Under our partnership agreement, we are required to pay to Pope MGP, Inc. an annual management fee of $150,000, and to reimburse Pope MGP, Inc. for certain expenses incurred in managing our business.

We have a limited market capitalization and a relatively low historic trading volume, as a result of which the trading prices of our units may be more volatile than would an investment in a more liquid security. Our relatively small public float and our limited trading volume may, in some instances, make trading in our units more volatile, as a result of which our price may deviate more significantly, and opportunities to buy or sell our units may be more limited, than investors might experience with a more liquid security. This circumstance may be magnified during times of significant or prolonged selling pressure on our securities. Further, we are simultaneously maintaining both a distribution reinvestment plan, which may have the effect of increasing the number of outstanding units, and a unit repurchase plan, which has had and may continue to have the effect of reducing the number of outstanding units. These factors together make it difficult to predict the effect, if any, on our liquidity or our market capitalization.

Our limited partner units trade at a discount to their net asset value (NAV), and unitholders may be unable to realize that NAV in the near or long term. As we have commonly disclosed in our investor materials, we believe the underlying NAV of our units is significantly higher than the trading price of our units on the Nasdaq Global Select Market. While NAV is a difficult concept to establish with any degree of precision, our recent timberland purchases and our knowledge of timberland markets in our operating region suggest that the value of our timberlands, net of debt, would be higher than our recent unit trading prices imply.

Discounts to NAV are common among publicly traded limited partnerships, and we do not expect that we can fully eliminate this discount. Our general partner believes that this characteristic is largely associated with our status as a master limited partnership, which conveys substantial tax, operating, and governance benefits. Accordingly, unitholders should expect that our units continue to trade at a discount to NAV for the foreseeable future, and there can be no assurance that this discount will be reduced, or even that it will not grow more significant.

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

Item 1B. UNRESOLVED SECURITIES AND EXCHANGE COMMISSION COMMENTS

None

Item 2. PROPERTIES

The following table reconciles acreage owned as of December 31, 2018, to acreage owned as of December 31, 2017. As noted previously, we own 20% of Fund II, 5% of Fund III, and 15% of Fund IV, though Fund IV did not acquire its first property until January 2018. This table includes the acres of timberland owned by the Funds and also presents the acreage on a Look-through basis. Properties are typically transferred from the Fee Timber segment to the Real Estate segment at the point in time when the Real Estate segment takes over responsibility for managing the properties with the goal of maximizing the properties' value upon disposition.

Description	Timberland Acres (in thousands) by Tree Farm				
	2017	Acquisitions	Sales	Transfer	**2018**
Hood Canal tree farm (1)	67.0	—	—	—	**67.0**
Columbia tree farm (1)	51.5	1.4	—	—	**52.9**
Partnership Timberland acres	118.5	1.4	—	—	**119.9**
Fund II tree farms (2)	30.8	—	—	—	**30.8**
Fund III tree farms (2)	56.7	—	—	—	**56.7**
Fund IV tree farms (3)	—	46.2	—	—	**46.2**
Funds Timberland acres	87.5	46.2	—	—	**133.7**
Partnership share of Funds	9.0	6.9	—	—	**15.9**
Total Real Estate acres (see detail below)	2.1	—	(0.1)	—	**2.0**
Combined Look-through total acres (3)	129.6	8.3	(0.1)	—	**137.8**

(1) A subset of this property is used as collateral for the Partnership's long-term debt, which does not include debt of the Funds. The Hood Canal tree farm is located in northwestern Washington and the Columbia tree farm is located in western Washington.

(2) A subset of these properties is used as collateral for the Funds' long-term debt. Fund II's tree farms are located in western Washington and northwestern Oregon. Fund III's tree farms are located in southern Puget Sound and southwestern Washington, northwestern Oregon and northern California. The Partnership holds a 20% interest in Fund II and a 5% interest in Fund III.

(3) Fund IV's tree farms are located in southwestern Oregon and southern Puget Sound, Washington. In January 2019, Fund IV acquired nearly 7,100 acres of timberland in western Washington. The Partnership holds a 15% ownership interest in Fund IV.

Project Location	Real Estate Acres Detail					Basis
	2017	Acquisitions	Sales	Transfers	**2018**	(in thousands)
Bremerton	46		(38)		**8**	**$ 1,487**
Gig Harbor	40				**40**	**11,847**
Hansville	78		(12)		**66**	**445**
Kingston - Arborwood	374				**374**	**2,422**
Port Gamble town and mill sites	113				**113**	**5,370**
Port Gamble Agrarian District	205				**205**	**1,758**
Port Ludlow	256				**256**	**726**
Poulsbo	2				**2**	**491**
Bainbridge Island	1				**1**	**353**
Other Rural Residential	984		(22)		**962**	**1,689**
Total	2,099	—	(72)	—	**2,027**	**$ 26,588**

The following table provides dwelling unit (DU) per acre zoning for the Partnership's development properties as of December 31, 2018, and land sold during 2018. The table does not include sales of development rights or small timberland sales from tree farm properties:

Real Estate Land Inventory by Zoning Category - December 31, 2018		2018 Sales from RE Portfolio		
Zoning Designation	Acres	Acres	$/Acre	Total Sales (in thousands)
Urban zoning - residential	386	36	$ 52,361	$ 1,885
Historic Rural Town	114			
Commercial/retail	20			
Business park/industrial	8	2	200,000	400
1 DU per 5 acres	378	8	10,000	80
1 DU per 10 acres	33			
1 DU per 20 acres	547	26	14,077	366
1 DU per 40 acres	38			
1 DU per 80 acres	298			
Agrarian District	205			
Total	2,027	72	$ 37,931	$ 2,731

Item 3. LEGAL PROCEEDINGS

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

In 2015, the Partnership filed a lawsuit seeking coverage under insurance policies in place around the time it acquired the Port Gamble site from Pope & Talbot (P&T). Pursuant to an order from P&T's bankruptcy court, the Partnership later amended its complaint to add claims against P&T and P&T's historical liability insurers. The Partnership is seeking to obtain a judgment against P&T and to enforce that judgment against any applicable insurance coverage available through P&T's carriers. The litigation is currently pending in King County Superior Court.

Item 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

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

Market Information

The Partnership's equity securities are listed on NASDAQ and traded under the ticker symbol "POPE".

Distributions

The Partnership has no directors. Instead, the board of directors of its managing general partner, Pope MGP, Inc. (the Managing General Partner), serves in that capacity. References to the "Board" or words of similar construction in this report are to the board of the Managing General Partner, acting in its management capacity with respect to the Partnership. All cash distributions are at the discretion of the Board of Directors. During 2018, The partnership made two quarterly distributions of 70 cents per unit each, one distribution of 80 cents per unit, and one distribution of $1.00 per unit, totaling $13.9 million in the aggregate. During 2016 and 2017, the Partnership made four quarterly distributions of 70 cents per unit each, totaling $12.2 million in the aggregate for each year.

Our Board of Directors increased our quarterly distribution by $0.10 per unit, or 14% in the third quarter of 2018 and by $0.20 per unit, or 25%, in the fourth quarter of 2018. The Board, in its discretion, determines the amount of the quarterly distribution and regularly evaluates distribution levels. As such, the quarterly determination of distribution amounts, if any, will reflect the expectations of management and the Board for the Partnership's liquidity needs.

Unitholders

As of January 31, 2019, there were 4,365,903 outstanding units, held by 210 holders of record. Units outstanding include 39,318 units that are currently restricted from trading and that were granted to 24 holders of record who are either current or former employees or members of the Board of Directors. The trading restriction for these units is removed as the units vest. These restricted units vest over four years, either ratably or 50% on the third anniversary of the grant date and the remaining 50% upon reaching the fourth anniversary.

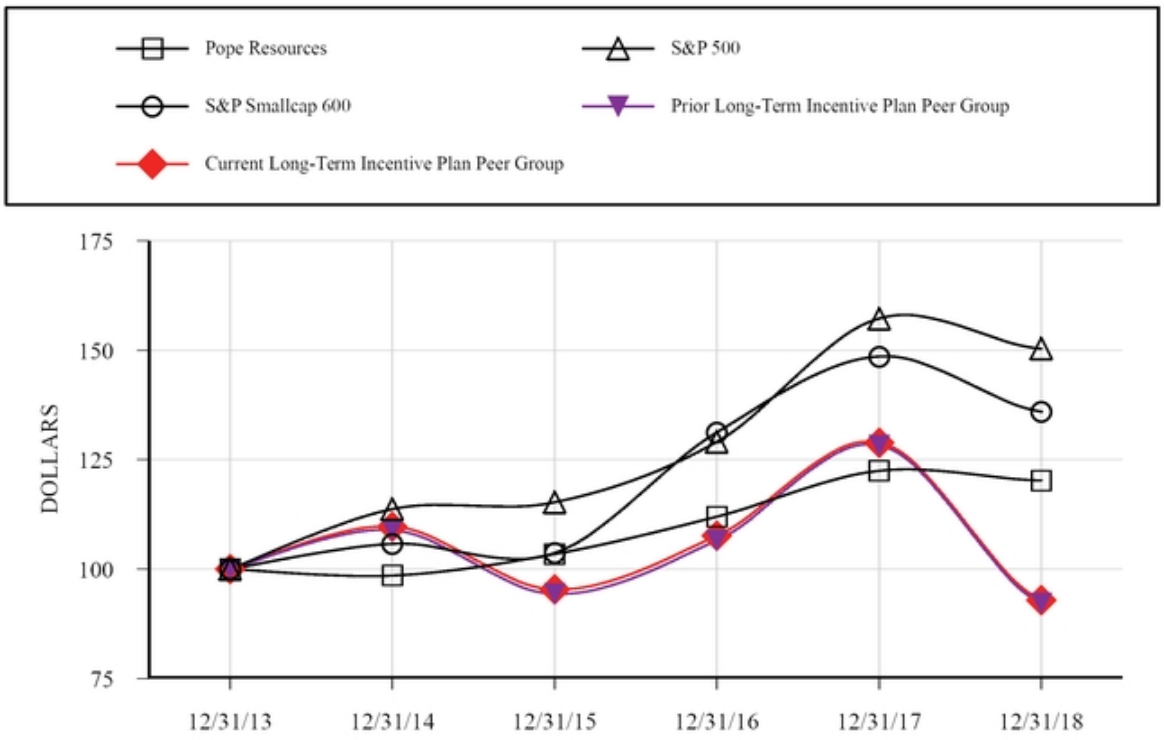
Equity Compensation Plan Information

The Partnership maintains the Pope Resources 2005 Unit Incentive Plan, which authorizes the granting of nonqualified equity compensation in order to provide incentives to align the interests of management with those of unitholders. Pursuant to the plan, the Partnership issues restricted unit grants that vest over four years. As of December 31, 2018, there were 39,202 unvested and outstanding restricted units and 858,267 limited partnership units remaining issuable under the plan. Additional information regarding equity compensation arrangements is set forth in Note 10 to Consolidated Financial Statements and Item 11 - Executive Compensation. Such information is incorporated herein by reference.

Performance Graph

The following graph shows a five-year comparison of cumulative total unitholder returns for the Partnership, the Standard and Poor's 500 Index, the Standard and Poor's Smallcap 600 Index, and both the current and prior Long-Term Incentive Plan Peer Groups for the five years ended December 31, 2018. The total unitholder return assumes $100 invested at the beginning of the period in the Partnership's units, the Standard and Poor's 500 Index, the Standard and Poor's Smallcap 600 Index, and the current and prior Long-Term Incentive Plan Peer Groups. The graph assumes distributions are reinvested.

UNIT PERFORMANCE GRAPH
Total Return
Stock Price Plus Reinvested Dividends



*$100 invested on 12/31/13 in stock or index, including reinvestment of dividends.
Fiscal year ending December 31.

	12/31/13	12/31/14	12/31/15	12/31/16	12/31/17	12/31/18
Pope Resources	100.00	98.51	103.42	111.97	122.44	120.23
S&P 500	100.00	113.69	115.26	129.05	157.22	150.33
S&P Smallcap 600	100.00	105.76	103.67	131.20	148.56	135.96
Prior Long-Term Incentive Plan Peer Group	100.00	108.86	94.33	106.54	128.24	92.16
Current Long-Term Incentive Plan Peer Group	100.00	109.71	95.37	107.59	128.88	92.88

Issuance of Unregistered Securities

The Partnership did not conduct any unregistered offering of its securities in 2016, 2017, or 2018.

Repurchase of Equity Securities

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

Period	(a) Total Number of Units Purchased	(b) Average Price Paid per Unit	(c) Total Number of Units Purchased as Part of Publicly Announced Plans or Programs (1)	(d) Maximum Approximate Dollar Value of Units that May Yet Be Purchased Under the Plans or Programs
October 2018	1,601	$73.27	1,601	$109,000
November 2018	1,519	$70.89	1,519	$1,000

(1) Units purchased pursuant to plan adopted under Rule 10b5-1 of the Securities Exchange Act of 1934 and announced publicly on May 30, 2017 and extended and expanded the plan on December 7, 2017. The plan allowed for the repurchase of units with an aggregate value of up to $2.5 million through December 7, 2018. The plan was not extended.

Item 6. SELECTED FINANCIAL DATA

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

(In thousands, except per unit data)	Year Ended December 31,				
Statement of operations data	**2018**	2017	2016	2015	2014
Revenue:					
Partnership Timber	**$ 45,422**	$ 39,672	$ 36,275	$ 28,914	$ 33,848
Funds Timber	**49,819**	33,842	21,029	23,250	31,356
Timberland Investment Management	**9**	9	8	—	—
Real Estate	**8,304**	26,300	23,116	25,864	22,266
Total revenue	**$ 103,554**	$ 99,823	$ 80,428	$ 78,028	$ 87,470
Operating income/(loss):					
Partnership Timber	**21,326**	19,127	15,726	12,012	14,961
Funds Timber	**8,415**	15,586	1,403	1,289	29,939
Timberland Investment Management	**(4,486)**	(3,511)	(2,823)	(2,965)	(2,940)
Real Estate (1)	**(5,402)**	4,592	(3,609)	5,313	(2,720)
General & Administrative	**(7,217)**	(5,742)	(5,076)	(4,972)	(3,781)
Total operating income	**$ 12,636**	$ 30,052	$ 5,621	$ 10,677	$ 35,459
Net income attributable to unitholders	**$ 6,821**	$ 17,891	$ 5,942	$ 10,943	$ 12,415
Earnings per unit – basic and diluted	**$ 1.54**	$ 4.10	$ 1.35	$ 2.51	$ 2.82
Distributions per unit	**$ 3.20**	$ 2.80	$ 2.80	$ 2.70	$ 2.50
Balance sheet data					
Total assets	**$ 508,249**	$ 380,673	$ 399,050	$ 370,056	$ 344,826
Total long-term debt - Partnership	**94,056**	70,160	73,142	27,405	32,506
Total long-term debt - Funds	**57,313**	57,291	57,268	57,246	57,224
Partners' capital	**57,477**	64,547	59,133	64,548	64,216
Noncontrolling interests	**281,123**	176,079	189,331	198,518	163,413

(1) Real Estate operating results in 2018, 2016 and 2014 included $5.6 million, $7.7 million, and $10.0 million, respectively, of environmental remediation charges.

Management uses cash available for distributions (CAD), a non-GAAP measure, as a meaningful indicator of liquidity and, as such, has provided this information in addition to the generally accepted accounting principles-based presentation of cash provided by operating activities. CAD is a measure of cash generated by the Partnership that starts with consolidated cash provided by operating activities and subtracts cash provided by operating activities for the Funds and maintenance capital expenditures by the Partnership only, excluding the Funds, and adds back distributions received by the Partnership from the

Funds. CAD represents cash generated that is available to fund capital allocation alternatives, such as distributions to unitholders, repurchasing units, paying down debt, co-investing in the Funds, or acquisition of timberland and real estate. Management considers this metric in evaluating capital allocation alternatives described above. Management recognizes that there are varying methods of calculating CAD and has provided the information below to illustrate this particular metric's calculation.

(In thousands)	Year Ended December 31,				
Cash Available for Distribution (CAD):	**2018**	2017	2016	2015	2014
Cash provided by operations - consolidated	**$ 39,778**	$ 31,980	$ 5,146	$ 20,170	$ 30,795
Less: Cash provided by operations - Funds	**(20,801)**	(11,970)	(3,561)	(5,824)	(10,025)
Less: Partnership maintenance capital expenditures (1)	**(2,297)**	(1,381)	(1,114)	(1,251)	(1,010)
Add: Partnership's share of Fund distributions	**1,852**	6,443	274	2,172	13,328
Cash available for distribution (CAD)	**$ 18,532**	$ 25,072	$ 745	$ 15,267	$ 33,088
Other data					
Distributions to unitholders	**$ 13,943**	$ 12,215	$ 12,177	$ 11,708	$ 11,037
Timber acres owned/managed (thousands)	**254**	206	212	205	193
Timber sold (MMBF)	**137**	112	97	84	97

(1) Capital expenditures by the Partnership only and excluding timberland acquisitions.

The percentage of annual harvest volume, including timber deed sales, by quarter on a look-through basis for each year in the three-year period ended December 31, 2018, was as follows:

Year ended	Q1	Q2	Q3	Q4
2018	**30%**	**15%**	**25%**	**29%**
2017	27%	25%	21%	27%
2016	17%	21%	20%	42%

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

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

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

EXECUTIVE OVERVIEW

Pope Resources, A Delaware Limited Partnership ("we" or the "Partnership"), is engaged in four primary businesses. By far the most significant segments in terms of owned assets and operations, are our two timber segments, which we refer to as Partnership Timber and Funds Timber. These segments include timberlands owned directly by the Partnership and operations

of our three private equity funds ("Fund II", "Fund III", and "Fund IV", collectively, the "Funds"). We refer to the timberland owned by the Partnership as the Partnership's tree farms, and our Partnership Timber segment reflects operations from those properties. We refer to timberland owned by the Funds as the Funds' tree farms, and operations from those properties are reported in our Funds Timber segment. When referring collectively to the Partnership's and Funds' timberland, we refer to them as the Combined tree farms. Operations in each of these segments consist of growing timber to be harvested as logs for sale to domestic manufacturers and export brokers.

Our Timberland Investment Management segment is engaged in organizing and managing private equity timber funds using capital invested by third parties and the Partnership. The Funds are consolidated into our financial statements, but then income or loss attributable to equity owned by third parties is subtracted from consolidated results in our Condensed Consolidated Statements of Comprehensive Income under the caption "Net and comprehensive (income) loss attributable to non-controlling interests-ORM Timber Funds" to arrive at "Net and comprehensive income attributable to unitholders".

Our primary strategy for adding timberland acreage is centered on our private equity timber fund business model, although in some instances where not restricted by the Funds' governing documents, we may acquire timberlands for the Partnership. As of December 31, 2018, we have assets under management totaling approximately $526 million based on the most recent appraisals. Through our 20% co-investment in Fund II, our 5% co-investment in Fund III, and our 15% co-investment in Fund IV, we have deployed $48 million of Partnership capital. Our co-investment affords us a share of the Funds' operating cash flows while also allowing us to earn asset and timberland management fees, as well as potential future incentive fees, based upon the overall success of each fund. We also believe that this strategy allows us to maintain more sophisticated expertise in timberland acquisition, valuation, and management on a more cost-effective basis than we could for the Partnership's timberlands alone. We believe our co-investment strategy also enhances our credibility with existing and prospective Fund investors by demonstrating that we have both an operational and a financial commitment to the Funds' success.

Our Real Estate segment's activities primarily include securing permits, entitlements, and, in some cases, installing infrastructure for raw land development and then realizing that land's value by selling larger parcels to buyers who will take the land further up the value chain by either selling homes to retail buyers or lots to developers of commercial property. Since these land projects span multiple years, the Real Estate segment may incur losses for multiple years while a project is developed, and will not recognize operating income until that project is sold. In addition, within this segment we sometimes negotiate and sell development rights in the form of conservation easements (CE's) on Partnership Timber properties which preclude future development, but allow for continued harvest operations. The strategy for our Real Estate segment centers around how and when to "harvest" a parcel of land and optimize value realization by selling the property, balancing the long-term risks and costs of carrying and developing a property against the potential for income and cash flows upon sale. Land held for development by our Real Estate segment represents property in western Washington that has been deemed suitable for residential and commercial building sites. Land held for sale represents those properties in the development portfolio that we expect to sell in the next year.

Our consolidated revenue in 2018, 2017, and 2016, on a percentage basis by segment, was as follows:

Segment	**2018**	2017	2016
Partnership Timber	**44%**	40%	45%
Funds Timber	**48%**	34%	26%
Timberland Investment Management *	**—%**	—%	—%
Real Estate	**8%**	26%	29%

* Fee revenue earned from managing the Funds is eliminated in consolidation. See Part II, Item 7: "Management's Discussion and Analysis of Financial Condition and Results of Operations – Timberland Investment Management (TIM)," and "– Noncontrolling Interests - ORM Timber Funds" for further information.

Additional segment financial information is presented in Note 13 to the Partnership's Consolidated Financial Statements included with this report.

Outlook

We expect 2019 harvest volume will range between 59-65 MMBF for the Partnership, and 91-98 MMBF for the Funds, including timber deed sales. In addition, to the Partnership's new sustainable annual harvest level of 57 MMBF, 2019 forecasted volume includes 4-6 MMBF of volume from timber located on real estate properties not factored into our long-term, sustainable harvest plan. On a look-through basis, total 2019 harvest volume, including timber deed sales, is expected to be 73-75 MMBF.

We expect the Partnership to close on the sale of the final 65 residential lots from our Harbor Hill project in Gig Harbor, Washington in 2019, as well as an assortment of residential and industrial lots plus conservation easements.

Review of Longer-Term Opportunities

In the third quarter of 2018, we announced that our management and Board of Directors, with the assistance of outside legal and financial advisors, were undertaking a review of the Partnership's longer-term opportunities, including capital allocation priorities, business mix, and organizational structure.

As for capital allocation, the review process prompted us to prioritize a higher payout rate through our unitholder distribution. To that end, we increased our quarterly distribution from $0.70 to $1.00 in two separate steps, representing a cumulative increase of 43%. Giving priority to distributions will impact the allocation of growth capital to our mix of businesses. And lastly, the review affirmed our view that the MLP structure continues to best serve the interests of our unitholders compared to other options evaluated. While we have concluded this review process, we continue to focus on thinking strategically about the Partnership's opportunities and priorities, and about managing capital allocation to maximize long-term value for our unitholders. We are keenly focused on both optimizing long-term investments and maintaining the quality of our balance sheet.

RESULTS OF OPERATIONS

Timber - Overall

As of December 31, 2018, Timber results include operations on 120,000 acres of timberland owned by the Partnership (Partnership Timber) in western Washington, and 134,000 acres of timberland owned by the Funds (Funds Timber) in western Washington, northwestern Oregon, southwestern Oregon, and northern California. In January 2019, Fund IV acquired an additional 7,100 acres in southwestern Washington.

Timber revenue is earned primarily from the harvest and sale of logs from these timberlands and is driven primarily by the volume of timber harvested and the average log price realized on the sale of those logs. Our harvest volume represents delivered log sales to domestic mills and log export brokers. We also occasionally sell rights to harvest timber (timber deed sales) from the Combined tree farms. The metrics used to calculate volumes sold and average price realized during the reporting periods exclude timber deed sales, except where stated otherwise. Harvest volumes are generally expressed in million board feet (MMBF) increments while harvest revenue and related costs are generally expressed in terms of revenue or cost per thousand board feet (MBF).

Logs from the Combined tree farms serve a number of different domestic and export markets, with domestic mills historically representing our largest market destination. Export customers consist of log brokers who sell the logs primarily to Japan, China and, to a lesser degree, Korea. The ultimate decision of whether to sell our logs to the domestic or export market is based on the net proceeds we receive after taking into account both the delivered log prices and the cost to deliver logs to the customer. As such, our reported log price realizations will reflect our properties' proximity to customers as well as the broader log market.

Revenue in our timber segments is also derived from commercial thinning operations, ground leases for cellular communication towers, and royalties from gravel mines and quarries, all of which are included in other revenue in the tables that follow. Commercial thinning consists of the selective cutting of timber stands not yet of optimal harvest age. The smaller diameter logs harvested in these operations do, however, have some commercial value, thus allowing us to earn revenue while at the same time improving the projected value at harvest of the remaining timber in the stand.

Log Prices and Harvest Volume. Combined tree farm log prices increased 9% to $714/MBF for the current year from $656/MMF in the prior year. Harvest volume similarly increased to 113 MMBF from 104 MMBF. Log prices during 2018 were volatile, with the first three quarters of the year characterized by strong log prices resulting from supply disruptions for both logs and lumber. These disruptions resulted from a severe 2017 fire season in British Columbia, Washington, and Oregon that prevented producers from building log inventories early in 2018 and from winter weather-related disruptions to Canada's rail network. Log markets weakened substantially during the fourth quarter as log supply increased, uncertainties arose in the export market from trade tensions and tariffs on U.S. logs exported to China, and the domestic housing market softened due to rising mortgage rates and home prices that rose more rapidly than household incomes. These factors collectively reduced log prices by the end of 2018 to levels last seen in the first half of 2017. The increase in harvest volume resulted from additional harvest activity on our expanding portfolio of fund properties and increased harvest activity on Partnership timberland in response to the strong log markets for most of 2018.

Partnership Timber

Partnership Timber operating results for each year in the three-year period ended December 31, 2018, are as follows:

	2018	2017	2016
Partnership			
Overall delivered log price per MBF	**$ 726**	$ 676	$ 592
Total volume (in MMBF)	**59.7**	55.6	57.8
(in thousands)			
Log sale revenue	**$ 43,038**	$ 37,093	$ 33,823
Timber deed sale revenue	**92**	422	347
Other revenue	**2,292**	2,157	2,105
Total revenue	**45,422**	39,672	36,275
Cost of sales	**(17,828)**	(14,874)	(15,497)
Operating expenses	**(6,268)**	(5,671)	(5,821)
Gain on sale of timberland	**—**	—	769
Operating income	**$ 21,326**	$ 19,127	$ 15,726

Operating Income

Fiscal Year 2018 compared to 2017. Operating income increased $2.2 million, or 11%, in 2018 from 2017, reflecting a 7% increase in log volume, including timber deed sales, and a 7% increase in weighted-average log price realizations. These results reflect the favorable operating environment we enjoyed through the first three quarters of 2018.

Fiscal Year 2017 compared to 2016. Operating income increased by $3.4 million, or 22%, in 2017 from 2016 primarily as a result of a 14% increase in average realized log prices, which was partially offset by a 4% decrease in delivered log and timber deed sale volume and a $769,000 gain from timberland sales that had no counterpart in 2017.

Revenue

Fiscal Year 2018 compared to 2017. Log sale revenue in 2018 increased by $5.9 million, or 16%, from 2017, due to a 7% increase in harvest volume, including timber deed sales, and a 7% rise in average realized log prices. The $330,000 decrease in timber deed sale revenue was partially offset by a $135,000 increase in cell tower leases and mineral sales included in other revenue. Through much of 2018, log prices were strong as domestic housing continued its rebound and supply disruptions caused log and lumber prices to rise. Beginning in the fourth quarter, these factors reversed and trade tensions with China caused a decline in export log prices, but not before we were able to take advantage of the relatively strong markets in the first three quarters of the year.

Fiscal Year 2017 compared to 2016. Log sale revenue increased by $3.3 million, or 10%, in 2017, due to a 14% increase in average realized log prices, which was partially offset by a 4% decrease in harvest volume, including timber deed sales. Additional revenue included increases of $75,000 in timber deed sales and $52,000 in mineral sales included in other revenue.

Log Prices

Partnership Timber log prices for each year in the three-year period ended December 31, 2018, were as follows:

Average price realizations (per MBF)	**2018**	2017	2016
Partnership			
Douglas-fir domestic	**$ 777**	$ 734	$ 628
Douglas-fir export	**849**	766	654
Whitewood domestic	**607**	532	428
Whitewood export	**692**	721	573
Pine	**—**	—	587
Cedar	**1,270**	1,452	1,384
Hardwood	**732**	678	586
Pulpwood	**370**	316	302
Overall delivered log price	**726**	676	592
Timber deed sales	**230**	594	520

Fiscal Year 2018 compared to 2017. Average realized log prices increased by 7% in 2018. Our overall average is influenced heavily by price movements for Douglas-fir and whitewood. Douglas-fir is a single species whereas whitewood represents a collection of species with very similar wood characteristics. Douglas-fir will command a premium over whitewood and that premium will widen in a strong domestic market for logs. Domestic buyers will generally pay a premium for Douglas-fir due to its strength characteristics and relative efficiency when manufactured into lumber relative to whitewood. During the first half of 2018, we saw a widening of this Douglas-fir premium as domestic markets gained traction with improved housing starts. The Douglas-fir premium weakened after mid-year as concerns over the domestic housing recovery mounted. Douglas-fir realized log prices increased 7%, while whitewood realized log prices remained flat. The Douglas-fir component of the total volume mix increased 4% from 2017, which was additive to the overall delivered log price.

Whitewood log prices are strongly influenced by the export market to China, which weakened after mid-year with the onset of trade tensions and tariffs, resulting in a flat blended (domestic and export) whitewood log price for the year. The 17% price increase for pulpwood resulted from relatively strong log markets during the first three quarters of the year, which caused logs that otherwise would have been chipped for pulp being diverted into mills for sawlogs. This diversion of volume away from the pulp mills supported stronger pricing for pulpwood. Hardwood log prices increased 8% and cedar prices decreased 13%. Both of these are relatively minor species to the Partnership and as such the price often reflects the relative quality of the logs harvested during the period.

Fiscal Year 2017 compared to 2016. Overall realized log prices increased 14% in 2017. The average price for Douglas-fir and whitewood increased by 17% and 27%, respectively, in 2017 as the domestic and export markets for logs strengthened. The Douglas-fir component of the total volume mix increased 6% from 2016, which was additive to the overall delivered log price. Price increases in 2017 for other species groups include: hardwood (16%), pulpwood (5%) and cedar (5%). Log markets in 2017 were characterized by unfavorable winter weather conditions early in the year, fire-related operating constraints over the summer, and competitive pressure from the log export market throughout the year, all of which combined to put upward pressure on log prices.

Log Volume

The Partnership sold the following log volumes by species for each year in the three-year period ended December 31, 2018:

Volume (in MMBF)	**2018**		2017		2016	
Partnership						
Douglas-fir domestic	**34.8**	**59%**	29.1	53%	28.0	50%
Douglas-fir export	**8.4**	**14%**	8.7	16%	7.6	13%
Whitewood domestic	**1.9**	**3%**	2.1	4%	3.0	5%
Whitewood export	**1.6**	**3%**	3.2	6%	3.7	6%
Pine	**—**	**—%**	—	—%	0.1	—%
Cedar	**1.2**	**2%**	1.2	2%	2.6	5%
Hardwood	**2.5**	**4%**	1.6	3%	2.2	4%
Pulpwood	**8.9**	**15%**	9.0	16%	9.9	17%
Log sale volume	**59.3**	**100%**	54.9	100%	57.1	100%
Timber deed sale volume	**0.4**		0.7		0.7	
Total volume	**59.7**		55.6		57.8	

Fiscal Year 2018 compared to 2017. 2018 total volume increased by 4.1 MMBF, or 7% from 2017. The increase in volume is attributable to harvest activity on recent small-tract acquisitions and Real Estate properties. Volume sold to the domestic market increased relative to the export market due to a mid-year weakening of China exports as U.S-China trade tensions developed during the second half of 2018. This reduced the whitewood premium normally paid by our export market customers to divert volume away from the domestic market, in turn resulting in an increase in the proportion of log volume sold to the domestic market.

Fiscal Year 2017 compared to 2016. Harvest volume, including timber deed sales, decreased 2.2 MMBF, or 4%, in 2017. The decline in harvest volume results from fewer timber-rich small-tract acquisitions in 2017 compared to 2016. The 0.8 MMBF increase of Douglas-fir and whitewood delivered log volume in 2017 was more than offset by 3.0 MMBF less volume of other species. Douglas-fir harvest volume, as a percentage of overall harvest, increased to 69% in 2017 from 63% in 2016, while harvest volume from the other species groups decreased from 26% to 21%. In general, the relative volume mix in a given year depends on the species mix of the stands harvested.

Cost of Sales

Cost of sales in this segment, which consist predominantly of harvest, haul and depletion costs, vary primarily with harvest volume. Harvest costs are affected by terrain, with steeper slopes requiring more expensive cable systems and a high labor component relative to more moderate slopes. Haul costs vary with the distance traveled from logging sites to the customers and will also reflect the volatility of fuel costs. Commercial thinning costs are a primary component of other cost of sales.

Partnership Timber cost of sales for each year in the three-year period ended December 31, 2018, is as follows, with the first part of the table expressing these costs in total dollars and the second part of the table expressing those costs that are driven by volume on a per MBF basis:

(in thousands)	**2018**	2017	2016
Partnership			
Harvest, haul, and tax	**$ 13,701**	$ 10,855	$ 11,875
Depletion	**4,114**	4,019	3,550
Other	**13**	—	72
Total cost of sales	**$ 17,828**	$ 14,874	$ 15,497
Amounts per MBF *			
Harvest, haul, and tax	**$ 231**	$ 198	$ 208
Depletion	**$ 69**	$ 72	$ 61

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

Fiscal Year 2018 compared to 2017. Cost of sales increased $3.0 million, or 20%, in 2018 due to a 7% increase in harvest volume, including timber deed sales, and a 17% increase in the per-MBF harvest, haul and tax rate. The increase in the per-MBF harvest, haul and tax rate reflects a higher relative proportion of harvesting operations occurring on steeper terrain compared to 2017.

Fiscal Year 2017 compared to 2016. Cost of sales decreased $623,000, or 4%, in 2017 primarily due to a 4% decrease in harvest volume, including timber deed sales, in 2017.

Gain on Sale of Timberland

Our 2016 results include a $769,000 gain on the sale of 159 acres of timberland.

Operating Expenses

Operating expenses include the cost of both maintaining existing roads and building temporary roads for harvesting, silviculture costs, and other management expenses. For the years ended December 31, 2018, 2017, and 2016, operating expenses were $6.3 million, $5.7 million, and $5.8 million, respectively. The increase from 2017 to 2018 was due to higher road costs, professional services expenses, and personnel costs related to increased harvest activity. The decrease from 2016 to 2017 was due to lower management expenses, which were partially offset by higher silviculture and road maintenance expenses.

Funds Timber

Funds Timber operating results for each year in the three-year period ended December 31, 2018, are as follows:

	2018	2017	2016
Funds			
Overall delivered log price per MBF	**$ 700**	$ 632	$ 560
Total volume (in MMBF)	**77.0**	55.9	39.5
(in thousands)			
Log sale revenue	**$ 37,262**	$ 30,947	$ 19,165
Timber deed sale revenue	**11,440**	2,337	1,440
Other revenue	**1,117**	558	424
Total revenue	**49,819**	33,842	21,029
Cost of sales	**(36,732)**	(26,910)	(17,145)
Operating expenses - internal	**(9,239)**	(7,261)	(5,974)
Gain on sale of timberland	**—**	12,547	226
Operating income - internal	**3,848**	12,218	(1,864)
Eliminations *	**4,567**	3,368	3,267
Operating income - external	**$ 8,415**	$ 15,586	$ 1,403

* Represents management fees charged to the Funds and eliminated from operating expenses in consolidation. In the TIM segment, these fees are reflected as revenue, on an internal reporting basis, and eliminated in consolidation.

Operating income

Fiscal Year 2018 compared to 2017. Similar to the results generated by Partnership Timber, Funds Timber benefited from a favorable operating environment through most of the year. Funds Timber also added operations from the acquisition of two tree farms for Fund IV in early 2018 and a third in the 4th quarter of 2018. Operating income decreased $7.2 million, or 46% in 2018. Our 2017 results reflect a $12.5 million gain on the January 2017 sale of a 6,500-acre tree farm on the Oregon

coast by Fund II. Excluding this gain, operating income increased by $5.5 million, driven by a $6.3 million rise in log sale revenue and a $9.1 million increase in timber deed sale revenue, which were partially offset by $10.8 million and $1.4 million increases in cost of sales and operating expenses, respectively.

Fiscal Year 2017 compared to 2016. Operating income increased by $14.2 million in 2017. Our 2017 results reflect a $12.5 million gain on the January 2017 sale of a 6,500-acre tree farm on the Oregon coast by Fund II. Excluding this gain, and the much smaller gain in 2016, operating income was $3.0 million in 2017 compared to $1.2 million in 2016. The increase in operating income before timberland sales resulted primarily from a 42% increase in harvest and timber deed sale volume and a 13% increase in average realized log prices.

Revenue

Fiscal Year 2018 compared to 2017. Log sale revenue increased $6.3 million, or 20%, from 2017. This increase was driven by a 9% rise in delivered log volume and an 11% increase in average realized log prices from the strong log markets we enjoyed during the first three quarters of the year. Timber deed sale revenue increased $9.1 million in 2018, driven primarily by timber deed sales from two properties acquired by Fund IV in January of 2018. The $559,000 increase in other revenue was primarily driven by a $425,000 easement sale for a cell tower and a $90,000 increase in ground leases for cell towers.

Fiscal Year 2017 compared to 2016. Log sale revenue increased by $11.8 million, or 61%, in 2017, due to a 42% increase in harvest volume, including timber deed sales, and a 13% increase in average realized log prices. Other revenue increased $134,000 in 2017 due to the net result of $428,000 of commercial thinning revenue, that had no counterpart in 2016, offset by decreases in a variety of items included in other revenue.

Log Prices

Funds Timber log prices for each year in the three-year period ended December 31, 2018, were as follows:

Average price realizations (per MBF)	**2018**	2017	2016
Funds			
Douglas-fir domestic	**$ 784**	$ 705	$ 605
Douglas-fir export	**853**	810	746
Whitewood domestic	**649**	585	537
Whitewood export	**693**	687	568
Pine	**545**	496	469
Cedar	**1,203**	1,164	1,116
Hardwood	**729**	687	592
Pulpwood	**365**	295	267
Overall delivered log price	**700**	632	560
Timber deed sales	**480**	332	273

Fiscal Year 2018 compared to 2017. For the Funds, overall realized log prices were 11% higher in 2018 as we took advantage of particularly strong log markets during the first three quarters of 2018. Realized log prices for Douglas-fir and whitewood sawlogs (volume-weighted) increased 10% and 7%, respectively. Price increases relative to 2017 were driven by strengthening domestic demand from the continued recovery in the domestic housing market, however, log prices dropped precipitously after the third quarter as the export market to China lost steam as trade tensions intensified. Price increases for other species groups include: pine (10%), cedar (3%), hardwood (6%), and pulpwood (24%), again brought on by overall log market strength that weakened after the third quarter. The average price realized on timber deed sales increased 45% due to the sale of timber deeds from our recent Fund IV acquisitions in very strong log markets, as well as a higher mix of Douglas-fir volume in 2018 versus 2017 timber deed sales, which contained a higher proportion of whitewood volume.

Fiscal Year 2017 compared to 2016. Overall realized log prices increased 13% in 2017. Realized sawlog prices for Douglas-fir and whitewood (volume-weighted) increased 17% and 13%, respectively, while their combined relative mix of total harvest volume was consistent between the two periods. Log price increases for the minor species and pulpwood included: hardwood (16%), pulpwood (10%), pine (6%) and cedar (4%). The price increases observed for all species and sorts during

2017 reflect tight log markets throughout the Pacific Northwest that were created by unfavorable winter weather conditions early in the year, fire-related operating constraints over the summer, and competitive pressure from the log export market.

Log Volume

The Funds sold the following log volumes by species for each year in the three-year period ended December 31, 2018:

Volume (in MMBF)	**2018**		2017		2016	
Funds						
Douglas-fir domestic	**16.5**	**31%**	16.4	35%	12.9	38%
Douglas-fir export	**8.3**	**16%**	5.9	12%	2.5	7%
Whitewood domestic	**14.6**	**27%**	12.3	25%	10.6	31%
Whitewood export	**3.2**	**6%**	4.5	9%	1.9	6%
Pine	**3.1**	**6%**	3.6	7%	2.1	6%
Cedar	**0.8**	**2%**	0.5	1%	0.5	1%
Hardwood	**1.2**	**2%**	0.6	1%	0.6	2%
Pulpwood	**5.5**	**10%**	5.1	10%	3.1	9%
Log sale volume	**53.2**	**100%**	48.9	100%	34.2	100%
Timber deed sale volume	**23.8**		7.0		5.3	
Total volume	**77.0**		55.9		39.5	
Partnership's share of Funds	**9.0**		6.2		5.1	

Fiscal Year 2018 compared to 2017. Volume from harvest and timber deed sales increased by 21.1 MMBF, or 38%, in 2018. The increase was driven by a 16.8 MMBF increase in timber deed sales, which are primarily related to two properties that were acquired during Q1 2018 by Fund IV, and a 4.3 MMBF increase in delivered log sales. Douglas-fir export volume increased modestly as a percentage of total volume while Douglas-fir sold to domestic markets retreated, which was driven primarily by the quality of the Douglas-fir stands harvested during 2018. High quality Douglas-fir is often exported to the Japan market, and we harvested a greater proportion of high-quality Douglas-fir in 2018 than 2017. We observed the opposite situation with whitewood volume. Whitewood exports shrank as a percent of total volume due to weakness in the export market to China. As trade tensions increased in the latter half of 2018, the export market to China weakened, causing a reduction in the premium paid to divert volume from the domestic to the export market.

Fiscal Year 2017 compared to 2016. Total harvest volume increased 16.4 MMBF, or 42%, in 2017, consisting of a 14.7 MMBF increase in delivered log volume and a 1.7 MMBF increase in timber deed sale volume. The relative share of export volume increased from 13% in 2016 to 21% in 2017, which reflects both the strength of the export market and an increase in log quality in 2017 relative to 2016.

Cost of Sales

Cost of sales in this segment, which consist predominantly of harvest, haul and depletion costs, vary primarily with harvest volume. Harvest costs are also affected by terrain, with steeper slopes requiring more expensive cable systems and a high labor component relative to more moderate slopes. Haul costs vary with the distance traveled from logging sites to the customers and with the volatility of fuel costs. Commercial thinning costs are a primary component of other cost of sales. Because of the relatively recent acquisition dates of the Funds' tree farms relative to the Partnership's tree farms, the Funds' properties were acquired at more recent, and higher, timberland values. Accordingly, the depletion rates associated with harvests from the Fund properties are considerably higher than those for the Partnership's tree farms. The depletion rate charged to harvest tends to decrease over time as a result of the purchase price allocation process, in which the most valuable, merchantable timber at the time of acquisition is assigned a higher cost than the younger timber. Over time, the depletion rate on an individual tree farm declines as we begin harvesting what was the younger timber at the time of acquisition.

Funds Timber cost of sales for each year in the three-year period ended December 31, 2018, is as follows, with the first part of the table expressing these costs in total dollars and the second part of the table expressing those costs that are driven by volume on a per MBF basis:

(in thousands)	**2018**	2017	2016
Funds			
Harvest, haul, and tax	**$ 13,304**	$ 11,478	$ 8,074
Depletion	**23,007**	15,168	9,071
Other	**421**	264	—
Total cost of sales	**$ 36,732**	$ 26,910	$ 17,145
Partnership's share of Funds	**$ 3,928**	$ 2,706	$ 2,061
Amounts per MBF *			
Harvest, haul, and tax	**$ 250**	$ 235	$ 236
Depletion	**$ 299**	$ 271	$ 230

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

Fiscal Year 2018 compared to 2017. Cost of sales increased $9.8 million, or 36%, in 2018 due to a 9% increase in delivered log volume, a 240% increase in timber deed sale volume, a 6% increase in the per-MBF harvest, haul and tax rate, and a 10% increase in the per-MBF depletion rate. The increase in the harvest, haul, and tax rate reflects a more varied terrain across which we harvested in 2018 versus 2017. The change in the average depletion rate between years reflects the change in the mix of volume from each tree farm in any year, as each tree farm carries a unique depletion rate.

Fiscal Year 2017 compared to 2016. Cost of sales increased $9.8 million, or 57%, in 2017 primarily due to the 42% increase in harvest volume (including timber deed sales) in 2017 and an 18% increase in the per-MBF depletion rate, which reflects an increase in the proportionate harvest volume from Fund III properties that carry higher depletion rates as they were purchased more recently at higher timberland valuations than Fund II properties.

Operating Expenses

Operating expenses include the cost of maintaining existing roads and building temporary roads for harvesting, silviculture costs, and other management expenses that include the asset and timberland management fees charged to the Funds. These fees, which are the source of revenue for our Timberland Investment Management segment (discussed below), are eliminated in consolidation. The following table presents operating expenses on an internal and external reporting basis.

(in thousands)	**2018**	2017	2016
Funds			
Operating expenses - internal	**$ 9,239**	$ 7,261	$ 5,974
Elimination of asset and management fees	**(4,567)**	(3,368)	(3,267)
Operating expenses - external	**$ 4,672**	$ 3,893	$ 2,707

The increase from 2017 to 2018 was due to increases in professional services, silviculture and road expenses attributed to the two tree farms acquired in early 2018, as well as the increase in harvest volume. Similarly, the increase in operating expenses from 2016 to 2017 spanned all major components of operating expenses as a result of the increase in harvest activity, as well as 2017 representing the first full year of operations on the entire Fund III portfolio of timberland.

Gain on Sale of Timberland

The $12.5 million gain on sale of timberland in the first quarter of 2017 resulted from the sale of a 6,500-acre tree farm on the Oregon coast by Fund II for $26.5 million. The Partnership's share of this gain was $2.5 million. The $226,000 gain on the sale of timberland in the first quarter of 2016 resulted from the sale of two parcels of timberland from Fund II and Fund III totaling 205 acres. The total sales price for these two parcels was $774,000, and the Partnership's share of the combined gain was $31,000.

Other information

The table below reflects the Partnership's share of the Funds' results based on its 20%, 5%, and 15% ownership interest in Fund II, Fund III, and Fund IV, respectively. We present this as additional information to help readers understand the financial impact from investing in these private equity vehicles and the resulting economics of owning Pope Resources units. These results will fluctuate between periods based on the relative activity in each fund and the Partnership's different ownership interest in each fund:

	Year Ended December 31,		
	2018	2017	2016
Partnership's share of Funds			
Total volume (MMBF)	**9.0**	6.2	5.1
(in thousands)			
Log sale revenue	**$ 4,064**	$ 3,666	$ 2,615
Timber deed sale revenue	**1,609**	117	72
Other revenue	**127**	94	30
Total revenue	**5,800**	3,877	2,717
Cost of sales	**(3,928)**	(2,706)	(2,061)
Operating expenses - internal	**(1,105)**	(793)	(656)
Gain on sale of timberland	**—**	2,503	31
Operating income - internal	**767**	2,881	31
Eliminations *	**504**	328	343
Operating income - external	**$ 1,271**	$ 3,209	$ 374

* Represents the Partnership's share of management fees charged to the Funds and eliminated from operating expenses in consolidation. In the TIM segment, these fees are reflected as revenue, on an internal reporting basis, and eliminated in consolidation.

Timberland Investment Management (TIM)

Fund Distributions and Fees Paid to the Partnership

The Partnership received combined distributions from the Funds of $1.9 million, $6.4 million, and $598,000 in 2018, 2017, and 2016, respectively. Fund distributions are paid from available Fund cash, generated primarily from the harvest and sale of timber after paying Fund expenses, management fees, and recurring capital costs. Fund distributions received by the Partnership during 2017 included $5.5 million generated by the sale of one of Fund II's tree farms in January 2017.

The Partnership earned investment and timberland management fees from the Funds which totaled $4.6 million, $3.4 million, and $3.3 million in 2018, 2017, and 2016, respectively. These fees are eliminated in the Partnership's consolidated financial statements, but generate cash for the Partnership.

Revenue and Operating Loss

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

Revenue and operating loss for the TIM segment for each year in the three-year period ended December 31, 2018, were as follows:

(in millions, except acre and volume data)	Year ended December 31, 2018	2017	2016
Revenue - internal	**$ 4.6**	$ 3.4	$ 3.3
Intersegment eliminations	**(4.6)**	(3.4)	(3.3)
Revenue - external	**$ —**	$ —	$ —
Operating income (loss) - internal	**$ —**	$ (0.2)	$ 0.4
Intersegment eliminations	**(4.5)**	(3.3)	(3.2)
Operating loss - external	**$ (4.5)**	$ (3.5)	$ (2.8)
Invested capital	**$ 386**	$ 240	$ 258
Acres under management	**134,000**	88,000	94,000
Harvest volume, including timber deed sales - Funds (MMBF)	**77.0**	55.9	39.5

Fiscal Year 2018 compared to 2017. TIM generated management fee revenue of $4.6 million and $3.4 million from managing the Funds in 2018 and 2017, respectively. The increase in fee revenue resulted from the acquisition of two tree farms by Fund IV in Q1 2018 and a third tree farm in Q4 2018.

Fiscal Year 2017 compared to 2016. TIM generated management fee revenue of $3.4 million and $3.3 million from managing the Funds in 2016 and 2015, respectively. The increase in harvest volume from the Funds' tree farms increased associated fees by $286,000. This amount was offset by a $184,000 decrease in the fees associated with the sale of a Fund II property in the first quarter of the year.

Operating expenses incurred by the TIM segment totaled $4.5 million in 2018, $3.5 million in 2017, and $2.8 million in 2016. The increase in operating expenses in is attributable to the costs associated with placing Fund IV capital and managing Fund IV's expanding portfolio of timberland.

Real Estate

Revenue and Operating Income

The Real Estate segment's activities consist of investing in and later reselling improved properties, holding properties for later development and sale, and managing commercial properties. Revenue is generated primarily from the sale of land within our 2,000-acre portfolio, sales of development rights known as conservation easements (CE's), sales of tracts from the Partnership's timberland portfolio, and residential and commercial rents from our Port Gamble and Poulsbo properties. The CE sales allow us to continue conducting harvest operations on the timberland, but bar any future subdivision, or real estate development on, the property. The Partnership's Real Estate holdings are located primarily in the Washington counties of Pierce, Kitsap, and Jefferson with sales of land for this segment typically falling into one of three general types:

- Commercial, business park, and residential plat land sales represent land sold after development rights have been obtained and generally are sold with prescribed infrastructure improvements.
- Rural residential lot sales that generally require some capital improvements such as zoning, road building, or utility access improvements prior to completing the sale.
- The sale of unimproved land, which generally consists of larger acreage sales rather than single lot sales and is normally completed with very little capital investment prior to sale.

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

Results from Real Estate operations are expected to vary significantly from year to year as we make multi-year investments in entitlements and infrastructure prior to selling entitled or developed land. Further, Real Estate results will vary as a result of adjustments to our environmental remediation liability related to Port Gamble. These adjustments are reflected in our Real Estate segment within operating expenses. Real Estate segment revenue and gross margin for each year in the three-year period ended December 31, 2018, consisted of the following components:

(in thousands except acres)						Per acre/lot *	
Description	**Revenue**	**Gross margin**	**Gross margin %**	**Units Sold**		**Revenue**	**Gross margin**
Development rights (CE)	**$ 3,730**	**$ 3,485**	**93%**	**Acres:**	**7,800**	**$ 478**	**$ 447**
Bremerton residential	**1,375**	**292**	**21%**	**Lots:***	**110**	**12,500**	**2,655**
Other residential	**751**	**247**	**33%**	**Lots:***	**3**	**250,333**	**82,333**
Other commercial	**400**	**124**	**31%**	**Acres:**	**1**	**400,000**	**124,000**
Unimproved land	**205**	**166**	**81%**	**Acres:**	**13**	**15,769**	**12,769**
Total land	**6,461**	**4,314**	**67%**				
Rentals and other	**1,843**	**(787)**					
2018 Total	**$ 8,304**	**$ 3,527**	**42%**				
Conservation land sales	$ 5,056	$ 4,289	85%	Acres:	1,720	$ 2,940	$ 2,494
Gig Harbor residential	14,157	3,557	25%	Lots:*	93	152,226	38,247
Gig Harbor commercial	3,500	1,414	40%	Acres:	12	291,667	117,833
Other residential	2,255	924	41%	Lots:	12	187,917	77,000
Total land	24,968	10,184	41%				
Rentals and other	1,332	(84)					
2017 Total	$ 26,300	$ 10,100	38%				
Conservation land sales	$ 2,360	$ 2,152	91%	Acres:	1,356	$ 1,740	$ 1,587
Development rights (CE)	2,080	1,880	90%	Acres:	1,497	1,389	1,256
Gig Harbor residential	15,247	2,719	18%	Lots: *	136	112,110	19,993
Unimproved land	1,784	1,503	84%	Acres:	264	6,758	5,693
Total land	21,471	8,254	38%				
Rentals and other	1,645	231					
2016 Total	$ 23,116	$ 8,485	37%				

* Lots represent residential single-family lots

Revenue

Land transactions. In the second quarter of 2018, we closed on the sale of a conservation easement covering 7,800 acres in Skamania County to the Washington State Department of Natural Resources for $3.7 million. In the second and third quarters of 2018 we sold four residential parcels in Bremerton, Bainbridge Island, and northern Kitsap County, Washington for a combined $2.1 million. The remaining land sales in 2018 included a commercial parcel in Bremerton for $400,000 and two parcels of undeveloped land for $205,000.

In the fourth quarter of 2017, we closed on two conservation land sales totaling 1,720 acres for $5.1 million. Under one of these sales, we retained the right to harvest timber on 1,234 acres for a period of 25 years. In our Harbor Hill project, we closed on the sale of 93 single-family residential lots (15 in the third quarter and 78 in the fourth quarter) for $14.2 million and an 11.5-acre business park lot for $3.5 million in the fourth quarter. Included in the residential lot revenue from this project is $285,000 of revenue recognized on the percentage-of-completion method on lots sold in the fourth quarter of 2016. Over the course of the year, we also sold 12 residential lots from other properties for $2.2 million.

In the fourth quarter of 2016, we closed on a conservation land sale of 1,356 acres for $2.4 million, with similar 25-year harvest rights as the 2017 transaction described above. Also in the fourth quarter of 2016, we closed on a conservation easement sale covering 1,497 acres of timberland for $2.1 million. Over the course of the year, we closed on the sale of 136 single-family residential lots (nine in the first quarter and 127 in the fourth quarter) from our Harbor Hill project for $15.2 million and on sales of 267 acres of unimproved land for $1.8 million in the third quarter. We had post-closing obligations on some of the Harbor Hill closings and recognized revenue utilizing the percentage of completion method.

Rentals and other. Rental and other activities in our Real Estate segment are much less volatile from year-to-year than land sales. Rentals and other in 2018 included development and investment management fees related to the first year's activity of our joint-venture project on Bainbridge Island. Rentals and other in 2016 included a forfeiture of an earnest money deposit from our Harbor Hill project that resulted in the 2016 amounts being higher than 2017.

Cost of Sales

Real Estate cost of sales for each of the three years ended December 31, 2018, 2017, and 2016 was $3.5 million, $16.2 million, and $14.6 million, respectively, with these amounts comprised of land basis, legal, other closing costs, and costs incurred in the generation of rental revenue. Unlike fee simple sales which include land basis in cost of sales, CE sales typically have little or no cost basis as part of the transaction. The changes in cost of sales from year-to-year are driven directly by the volume and types of sales.

Operating Expenses

Real Estate operating expenses for each of the three years ended December 31, 2018, 2017, and 2016 were $10.2 million, $5.5 million, and $12.1 million, respectively. Excluding environmental remediation charges, described below, Real Estate operating expenses for each of the three years ended December 31, 2018, 2017, and 2016 were $4.6 million, $5.5 million, and $4.4 million, respectively. The decrease from 2017 to 2018 is due primarily to lower professional fees in connection with planning and development for properties, as well as reduced labor costs resulting from lower personnel in the Real Estate segment in 2018 as the Harbor Hill project progresses towards completion. The increase from 2016 to 2017 is due primarily to costs for long-term planning and development for properties where entitlements had not yet been obtained, legal and professional fees in connection with pursuing potential insurance recoveries for our Port Gamble environmental remediation costs, and the negotiations and legal action with respect to the Washington Department of Natural Resources.

Environmental Remediation

The environmental remediation liability represents estimated costs to remediate and monitor certain areas in and around the townsite/millsite of Port Gamble, Washington. The history of that site is summarized at "Business – Real Estate – Environmental Remediation."

We have adjusted the liability from time to time based on evolving circumstances. We recorded a $5.6 million increase to the liability in 2018 and a $7.7 million increase to the liability in 2016. Following is a summary of each of these adjustments and the next steps for the project:

2018 Adjustments and next steps

During 2018, we have been working with the Washington State Department of Ecology (DOE) to formulate the design of the millsite cleanup. Based on this design work, we discovered during the second quarter that we will need to remove a greater volume of soil from the millsite than we previously anticipated. The discovery of a higher volume of material to excavate, related capping, and updated estimates of long-term monitoring costs, led us to increase our accrual by $2.9 million in the second quarter of 2018.

During the second half of 2018, we continued to refine the design of the millsite cleanup and submitted a draft remedial investigation and feasibility study (RI/FS) to DOE in January 2019 that contains the proposed scope of the millsite cleanup. We also made progress on the Natural Resource Damages (NRD) component of the project during the second half of 2018. As we have disclosed previously, certain environmental laws allow state, federal, and tribal trustees (collectively, the Trustees) to bring suit against property owners to recover damages for injuries to natural resources. Like the liability that attaches to current property owners in the cleanup context, liability for NRD can attach to a property owner simply because an injury to natural resources resulted from releases of hazardous substances on that owner's property, regardless of culpability for the release. In the case of Port Gamble, the Trustees are alleging that the Partnership has NRD liability because of releases that occurred on its property. We have been in discussions with the Trustees regarding their claims and the alleged conditions in Port Gamble Bay and have also been discussing restoration alternatives that might address the damages the Trustees allege. These discussions have progressed to the point where we believe we can identify a short list of restoration projects that will resolve the Trustees' NRD claims. We have re-evaluated our liability to incorporate the information included in the RI/FS submission and the current status of the discussions with the NRD trustees and recorded an additional $2.7 million increase to our liability. This, along with the second quarter adjustment described above, brings the total adjustment to the liability to $5.6 million for 2018.

The RI/FS for the millsite will be reviewed by DOE prior to being finalized. This will be followed by the development of a cleanup action plan (CAP) that will outline the specific cleanup plan for the millsite and will be codified in a consent decree. For the NRD component of the project, discussions with the Trustees will continue, and we expect will ultimately result in a settlement agreement. At present, we expect the CAP and consent decree for the millsite and the NRD settlement agreement to be finalized in 2019. In both cases, it is reasonably possible that our cost estimates could change as a result of changes to either the millsite cleanup or the NRD restoration components of the liability, or both. With the 2018 adjustment and the in-water cleanup completed, however, we expect that any future adjustments to the liability should be less significant than they have been historically. We currently expect the millsite cleanup and NRD restoration to occur over the next two to three years.

Finally, there will be a monitoring period of approximately 15 years during which we will monitor conditions in the Bay, on the millsite, and at the storage location of the dredged and excavated sediments, which is on land that we own a short distance from the town of Port Gamble. During this monitoring phase, conditions may arise that require corrective action, and monitoring protocols may change over time. In addition, extreme weather events could cause damage to the sediment caps that would need to be repaired. These factors could result in additional costs.

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

2016 Adjustment

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

The required dredging activity was completed in January 2017. The sediments stockpiled on the millsite were moved to their permanent storage location by the end of the third quarter of 2017. This effectively concluded the component of the project related to the in-water cleanup of Port Gamble Bay.

General & Administrative (G&A)

G&A expenses were $7.2 million, $5.7 million, and $5.1 million for 2018, 2017, and 2016, respectively. The increase from 2017 to 2018 was due primarily to professional fees associated with a review of the Partnership's capital allocation strategy, business mix, and organizational structure. The increase from 2016 to 2017 was due primarily to higher personnel costs, particularly equity-based compensation, and professional fees.

Interest Income and Expense

(in thousands)	**2018**	2017	2016
Interest income - Partnership	**$ 132**	$ 3	$ 11
Interest expense - Partnership	**(3,075)**	(2,644)	(1,895)
Interest expense - Funds	**(2,247)**	(2,321)	(2,255)
Capitalized interest expense - Partnership	**295**	491	733
Net interest expense	**$ (4,895)**	$ (4,471)	$ (3,406)

The increases in interest expense for the Partnership are due to increasing debt balances. In 2018, the Partnership borrowed on its credit facilities to finance its co-investment in Fund IV's timberland acquisitions and in July 2016 borrowed $32.0 million to finance the acquisition of the Carbon River block of the Columbia tree farm. The Partnership also carried balances on its operating line of credit during all three years to fund expenditures for environmental remediation and development of residential lots in our Harbor Hill project until the lots were sold, primarily in December of 2017 and 2016. The Partnership's and Fund III's debt arrangements with Northwest Farm Credit Services (NWFCS) include an annual rebate of a portion of interest expense paid in the prior year (patronage). This NWFCS patronage program is a feature common to most of

this lender's loan agreements. The patronage program reduced interest expense by $1.4 million, $1.0 million and $810,000 in 2018, 2017, and 2016, respectively. The increase in the patronage rebate is due to the higher debt balances as well as higher patronage rates in 2018 and 2017.

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

Income Taxes

We recorded income tax expense of $104,000, $1.2 million and $252,000 in 2018, 2017 and 2016, respectively, based on taxable income in our taxable corporate subsidiaries. The increase in income tax expense for 2017 resulted primarily from stronger log prices and higher harvest volumes which generated higher taxable income in 2017, particularly in the taxable corporations in our timber funds.

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

Noncontrolling Interests-ORM Timber Funds

Noncontrolling interests-ORM Timber Funds represents the portion of 2018, 2017, and 2016 net (income) losses of the Funds attributable to third-party owners of the Funds. Included in these results are the management fees charged by ORM LLC (as subsidiary of the Partnership) to the Funds, interest, and income taxes. The portion of the loss or (income) attributable to these third-party investors is added back or deducted to determine "Net and comprehensive (income) loss attributable to unitholders" as follows:

(in thousands)

Noncontrolling interest-2018	**Fund II**	**Fund III**	**Fund IV****	**Total**
Management fees paid to ORM LLC	**$ (1,032)**	**$ (2,321)**	**$ (1,200)**	**$ (4,553)**
Operations	**5,359**	**2,188**	**854**	**8,401**
Fund operating income (loss) - internal	**4,327**	**(133)**	**(346)**	**3,848**
Interest expense	**(1,086)**	**(1,161)**	**—**	**(2,247)**
Income tax benefit (expense)	**23**	**(203)**	**—**	**(180)**
Fund net income (loss) - internal	**3,264**	**(1,497)**	**(346)**	**1,421**
Net (income) loss attributable to noncontrolling interest	**$ (2,611)**	**$ 1,421**	**$ 295**	**$ (895)**

Noncontrolling interest-2017	Fund II *	Fund III	Fund IV **	Total
Management fees paid to ORM LLC	$ (1,063)	$ (2,305)	$ —	$ (3,368)
Operations	16,461	(483)	(392)	15,586
Fund operating income (loss) - internal	15,398	(2,788)	(392)	12,218
Interest expense	(1,087)	(1,235)	—	(2,322)
Income tax expense	(448)	(440)	—	(888)
Fund net income (loss) - internal	13,863	(4,463)	(392)	9,008
Net (income) loss attributable to noncontrolling interest	$ (11,092)	$ 4,240	$ 336	$ (6,516)

Noncontrolling interest-2016	Fund II	Fund III	Fund IV **	Total
Management fees paid to ORM LLC	$ (1,200)	$ (2,067)	$ —	$ (3,267)
Operations	2,023	(619)	—	1,403
Fund operating income (loss) - internal	823	(2,686)	—	(1,864)
Interest expense	(1,087)	(1,169)	—	(2,256)
Income tax expense	(121)	(9)	—	(130)
Fund net loss - internal	(385)	(3,864)	—	(4,250)
Net loss attributable to noncontrolling interest	$ 307	$ 3,672	$ —	$ 3,979

* Fund II recognized a gain of $12.5 million on the sale of one of its tree farms in January 2017.
** Fund IV was launched in December 2016, but did not acquire its first tree farm until January 2018.

Liquidity and Capital Resources

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

The Partnership's debt consists of mortgage debt with fixed and variable interest rate tranches and an operating line of credit with Northwest Farm Credit Services (NWFCS). The Partnership's mortgage debt at December 31, 2018, includes a $71.8 million credit facility with NWFCS structured in eight tranches that mature from 2019 through 2036, as well as a $40.0 million delayed-draw facility under which the Partnership may borrow at any time through October 2023. This facility matures in October 2028 and $4.0 million was outstanding at December 31, 2018. The Partnership's credit arrangements with NWFCS include an accordion feature under which the Partnership may borrow, subject to lender approval, up to an additional $50.0 million under either the $71.8 million or the $40.0 million facility. The Partnership has a $30.0 million operating line of credit that matures in October 2023, and had $16.4 million outstanding as of December 31, 2018. The operating line of credit carries a variable interest rate that is based on the one-month LIBOR rate plus 1.6%. All of these facilities are collateralized by portions of the Partnership's timberland. In addition, our commercial office building in Poulsbo, Washington is collateral for a $2.3 million amortizing loan from NWFCS that matures through 2023.

These debt agreements contain covenants that are measured annually, consisting of the following:

- a maximum debt-to-total-capitalization ratio of 30%, with total capitalization calculated using fair market (vs. carrying) value of Partnership timberland, roads and timber; and
- a maximum loan-to-appraised value of collateral of 50%.

The Partnership is in compliance with these covenants as of December 31, 2018, and management expects to remain in compliance for at least the next twelve months.

Mortgage debt within our private equity funds is collateralized by Fund properties only, with no recourse to the Partnership. Fund II has a timberland mortgage comprised of two fixed-rate tranches totaling $25.0 million with MetLife Insurance Company. The tranches are non-amortizing and both mature in September 2020. The loans allow for, but do not require, annual principal payments of up to 10% of outstanding principal without incurring a make-whole premium. This mortgage is collateralized by a portion of Fund II's timberland portfolio. Fund II's covenants contain a requirement to maintain a loan-to-value ratio of less than 50%, with the denominator defined as fair market value of the timberland pledged as collateral. Fund III has a timberland mortgage comprised of two fixed rate tranches totaling $32.4 million with NWFCS. This mortgage is collateralized by a portion of Fund III's timberland and is non-amortizing, with an $18.0 million tranche maturing in December 2023 and a $14.4 million tranche maturing in October 2024. Fund III's loan contains covenants, measured annually, that require Fund III to maintain an interest coverage ratio of 1.5:1, not exceed a debt-to-appraised value of collateral of 50%, and maintain working capital of $500,000. Fund II and Fund III are in compliance with these covenants as of December 31, 2018, and we expect they will remain in compliance for at least the next twelve months.

The Partnership's and Fund III's debt arrangements with Northwest Farm Credit Services (NWFCS) include an annual rebate of a portion of interest expense paid in the prior year (patronage). The weighted average interest rates on debt for the Partnership and Funds were as follows at December 31, 2018:

	Weighted Average Interest Rate	
	Gross	**Net After Patronage**
Partnership debt	4.80%	3.75%
Funds debt	4.58%	3.88%

The change in cash flows from 2018 to 2017 and 2017 to 2016, respectively, is broken down in the following table:

(in thousands)	2018	Change	2017	Change	2016
Cash provided by operations	**$ 39,778**	$ 7,798	$ 31,980	$ 26,834	$ 5,146
Investing activities					
Capital expenditures	**(4,101)**	(1,601)	(2,500)	(527)	(1,973)
Proceeds from sale of property and equipment	**42**	12	30	5	25
Proceeds from sale of timberland	**—**	(26,590)	26,590	24,987	1,603
Investment in real estate joint venture	**—**	5,790	(5,790)	(5,790)	—
Deposits for acquisitions of timberland - Funds	**(1,005)**	4,683	(5,688)	(5,688)	—
Acquisition of timberland - Partnership	**(6,356)**	(475)	(5,881)	33,915	(39,796)
Acquisition of timberland - Funds	**(140,639)**	(140,639)	—	—	—
Cash provided by (used in) investing activities	**(152,059)**	(158,820)	6,761	46,902	(40,141)
Financing activities					
Line of credit borrowings	**32,475**	4,475	28,000	4,674	23,326
Line of credit repayments	**(12,275)**	13,525	(25,800)	(10,474)	(15,326)
Repayment of long term debt	**(123)**	4,996	(5,119)	(5,005)	(114)
Proceeds from issuance of long-term debt	**4,000**	4,000	—	(38,000)	38,000
Debt issuance costs	**(233)**	(129)	(104)	72	(176)
Proceeds from unit issuances	**215**	206	9	9	—
Unit repurchases	**(1,189)**	116	(1,305)	(1,305)	—
Payroll taxes paid on unit net settlements	**(101)**	(7)	(94)	58	(152)
Excess tax benefit from equity-based compensation	**—**	—	—	(53)	53
Cash distributions to unitholders	**(13,943)**	(1,728)	(12,215)	(38)	(12,177)
Cash distributions - ORM Timber Funds, net of distributions to Partnership	**(15,507)**	15,396	(30,903)	(25,695)	(5,208)
Capital call - ORM Timber Funds, net of Partnership contribution	**119,735**	114,498	5,237	5,237	—
Capital call - Real Estate, net of Partnership contribution	**—**	(5,900)	5,900	5,900	—
Cash provided by (used in) financing activities	**113,054**	149,448	(36,394)	(64,620)	28,226
Net increase (decrease) in cash and restricted cash	**$ 773**	$ (1,574)	$ 2,347	$ 9,116	$ (6,769)

Operating cash activities. The increase in cash provided by operating activities of $7.8 million from 2017 to 2018 resulted primarily from a 9% increase in log prices and a 22% increase in harvest volume. This was offset partially, however, by an $18.5 million decrease in Real Estate sales. In addition, a $6.3 million decrease in environmental remediation expenditures and a $4.4 million decrease in real estate project expenditures contributed to the increase in cash provided by operations.

The increase in cash provided by operating activities of $26.8 million from 2016 to 2017 resulted primarily from a 13% increase in log prices and a 15% increase in harvest volume. In addition, a $6.4 million decrease in real estate project expenditures and a $3.9 million decrease in environmental remediation expenditures contributed to the increase in cash provided by operations.

Investing cash activities. The $158.8 million decrease in cash from investing activities from 2017 to 2018 and the $46.9 million increase in cash from investing activities from 2016 to 2017 were due primarily to sales and acquisitions of timberland by the Partnership and Funds. In addition, a consolidated subsidiary of the Partnership invested $5.8 million in an unconsolidated real estate joint venture in 2017.

Financing activities. The $149.4 million increase in cash from financing activities from 2017 to 2018 resulted primarily from a $108.6 million net increase in capital calls from the funds and real estate joint venture, a $27.0 million net

increase in borrowings under our credit facilities, and a $15.4 million decrease in distributions by the Funds, primarily because 2017 included a distribution by Fund II of the proceeds from the sale of one of its tree farms.

The $64.6 million decrease in cash from financing activities from 2016 to 2017 resulted primarily from a $48.9 million decrease in net borrowings on credit facilities in 2017 and a $25.7 million increase in distributions from the Funds, driven in large part by Fund II's distribution of the proceeds from the sale of one of its tree farms in January 2017. These factors were offset partially by capital calls, net of the Partnership's contribution, of $5.2 million for Fund IV, primarily to fund earnest money deposits for timberland acquisitions, and a capital call, net of the Partnership's contribution, of $5.9 million related to an investment in a new unconsolidated real estate joint venture.

Expected Future Changes to Cash Flows

Operating activities. We expect total annual log harvest and timber deed sale volume for 2019 of 59-65 MMBF for the Partnership and 91-98 MMBF for the Funds, (73-75 MMBF on a look-through basis) though changing log markets could cause us to deviate from this projection as the year unfolds.

We expect the Partnership to close on the sale of the final 65 residential lots from our Harbor Hill project in Gig Harbor, Washington in 2019, as well as an assortment of residential and industrial lots plus conservation easements.

Investing activities. We anticipate $3.5 million of capital expenditures for 2019, excluding any potential timberland acquisitions. These expenditures are comprised primarily of reforestation and mainline road construction costs on the Combined tree farms to support future harvest operations.

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

Seasonality

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

The percentage of total annual harvest volume, on a Combined basis and excluding timber deed sales, by quarter for each year in the three-year period ended December 31, 2018, was as follows:

Year ended	Q1	Q2	Q3	Q4
2018	**23%**	**26%**	**25%**	**26%**
2017	26%	22%	19%	31%
2016	17%	23%	21%	41%

Timberland Investment Management. Management revenue generated by this segment consists of asset and timberland management fees. These fees, which relate primarily to our activities on behalf of the Funds and are eliminated in consolidation, vary based upon the amount of invested capital, the number of acres owned by the Funds, and the volume of timber harvested from properties owned by the Funds. Only the latter has any component of seasonality as it is based on harvest volume.

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

Contractual Obligations, Commercial Commitments and Contingencies

Our commitments at December 31, 2018, are presented in the following table:

(in thousands)	Payments Due By Period /Commitment Expiration Date				
Obligation or Commitment	**Total**	**Less than 1 year**	**1-3 years**	**4-5 years**	**After 5 years**
Debt - Partnership	$ 94,537	$ 128	$ 271	$ 18,337	$ 75,801
Debt - Funds	57,380	—	25,000	17,980	14,400
Operating leases	339	177	158	4	—
Interest on debt - Partnership	45,089	4,392	8,770	8,561	23,366
Interest on debt - Funds	11,050	2,629	4,901	3,039	481
Environmental remediation	9,083	1,082	6,185	508	1,308
Other long-term obligations	126	25	50	50	1
Total contractual obligations or commitments	$ 217,604	$ 8,433	$ 45,335	$ 48,479	$ 115,357

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

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

Off-Balance Sheet Arrangements

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

Capital Expenditures and Commitments

Projected capital expenditures in 2019 are $6.8 million, of which $2.8 million relates to our Harbor Hill project, $3.0 million for reforestation and mainline road construction costs on the Combined tree farms to support future harvest operations, $506,000 for other Real Estate development projects, and the remaining $500,000 for buildings and equipment. These expenditures could be increased or decreased as a consequence of future economic conditions. Projected capital expenditures are subject to permitting timetables and progress towards closing on specific land sale transactions. See “Business - Government Regulation” and “Risk Factors - We are subject to statutory and regulatory restrictions that currently limit, and may increasingly limit, our ability to generate income and cash flow”.

Government Regulation

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

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

ACCOUNTING MATTERS

Accounting Standards Not Yet Implemented

In February 2016, the FASB established Topic 842, Leases, which requires lessees to recognize leases on the balance sheet and disclose certain information about leasing arrangements. The new standard establishes a right-of-use (ROU) model that requires a lessee to recognize a ROU asset and lease liability on the balance sheet for all leases with a term longer than 12 months. Leases will be classified as financing or operating, with classification affecting the pattern and classification of expense recognition in the income statement. For lessors, leases will be classified as a sales-type, direct financing, or operating lease. A lease is classified as a sales-type lease if any one of five criteria are met, each of which indicate that the lease, in effect, transfers control of the underlying asset to the lessee. If none of those five criteria are met, but two additional criteria are both met, indicating that the lessor has transferred substantially all the risks and benefits of the underlying asset to the lessee and a third party, the lease is a direct financing lease. All leases that are not sales-type or direct financing leases are operating leases.

The new standard is effective for us on January 1, 2019. We will adopt the new standard effective January 1, 2019 and use the effective date as our date of initial application. Consequently, financial information will not be updated and the disclosures required under the new standard will not be provided for dates and periods before January 1, 2019. The new standard provides a number of optional practical expedients in transition. We expect to elect all of the new standard's available transition practical expedients.

Due to the Partnership's limited leasing activity, we do not expect the effect of this standard to be material to the Partnership's consolidated financial statements. As a lessee, we currently believe that the most significant effect relates to the recognition of new ROU assets and lease liabilities on our balance sheet for our leases, which consist principally of leases of office equipment and office space. We expect to elect the practical expedient to not separate lease and non-lease components for all leases. As a lessor, we currently believe that all of our leases, which consist of leases of real estate, will continue to be classified as operating leases under the new standard.

Critical Accounting Estimates

Our significant accounting policies are discussed in note 1 to our consolidated financial statements. Certain of our accounting policies have a higher degree of complexity, and they involve estimates requiring a higher degree of judgment. We believe the accounting policies discussed below represent the most complex, difficult, and subjective matters in this regard.

Purchased timberland cost allocation. When the Partnership or the Funds acquire timberlands, a purchase price allocation is performed that allocates cost between the categories of merchantable timber, pre-merchantable timber, roads, and land based upon the relative fair values pertaining to each of these categories. Land value may include uses other than timberland, including potential conservation easement sales and development opportunities. The allocation of costs between the asset categories is driven largely by estimates of the volume of timber at the time of acquisition and future log prices, harvest and haul costs, volume at harvest, timing of harvest, silviculture costs, other operating expenses, and capital expenditures. These factors must be estimated for periods of several decades depending on the age class distribution of the acquired timberland. The allocation among the asset categories, particularly merchantable timber, pre-merchantable timber, and roads, forms the basis for calculating the depletion rate used to record depletion expense as the timber is harvested.

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

The standing timber inventory system is subject to three processes each quarter to monitor and maintain accuracy. The first is the cruise update process, the second is a comparison of the volume actually extracted by harvest to the volume in the standing inventory system at the time of the harvest (otherwise known as "cutout analysis"), and the third is necessary adjustments to productive acres based on actual acres harvested. The portion of productive acres of timber stands on the Combined tree farms that are physically measured or re-measured by cruising is such that generally stands with actual volume are cruised every seven years. Specific acres are first selected for cruising with a bias towards those acres that have gone the longest without a cruise and, second, with a bias towards those acres that have been growing the longest. Only stands older than 20 years are selected as subject to a cruise and, as the cruise is performed, only those trees with a diameter at breast height (DBH) (approximately 4.5 feet from the ground) of at least 5.6 inches are measured for inclusion in the inventory. For younger

stands, all trees are tallied during the cruise process so that growth models can accurately predict how future stands will develop. The cutout analysis compares the total volume for a stand which was grown annually using systems designed to predict future yields, based on growth models, to actual harvest volumes. Due to the nature of statistical sampling, the results of the quarterly cutout analysis is meaningful only in the context of accumulated results over several years, and not in the context of a single harvest unit. Minor adjustments both up and down to productive acres are made quarterly after foresters and managers accurately map those harvested acres in the Geographic Information System (GIS). These adjusted acres are linked to the inventory system and are used to drive the estimates of future available volume. Over the last five years, our overall volume variances from the cutout analysis, which examines harvested stands rather than the entire population of merchantable timber, have been as much as approximately 8% in any one year, but have averaged less than 5% in the aggregate over that time frame. Moreover, as our volume estimates in our standing inventory system are adjusted regularly as part of the cruising process, our depletion rates are continually incorporating the resulting updated volumes.

The estimate of timber inventory impacts our financial statements in the following ways:

Depletion expense. Depletion represents the cost of timber harvested and the cost of the permanent road system that is charged to operations by applying a depletion rate to volume harvested during the period. The depletion rate is calculated on January 1st of each year by dividing the recorded cost of merchantable timber and the cost of the permanent road system by the volume of merchantable timber. For purposes of the depletion calculation, merchantable timber is defined as timber that is equal to or greater than 35 years of age for all of our tree farms except California, for which merchantable timber is defined as timber with a DBH of 16 inches or greater because of the uneven-aged management regime of that tree farm. On an annual basis, the volume and recorded cost for stands that become 35 years of age or 16 inches in DBH are incorporated in the depletion rate calculation.

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

A hypothetical 5% change in estimated merchantable timber volume would have changed 2018 depletion expense by approximately $1.2 million.

Timber deed sale revenue. Our timber deed sale contracts provide the customer the legal right to harvest timber on the Partnership's or Funds' property. Revenue is generally recognized when the contract is signed, as this transfers control of the timber to the customer. The value of a timber deed contract is determined based on the estimated timber volume by tree species multiplied by the contracted price. The total contract value is an estimate as it is based on the estimated timber inventory and species mix of the harvest units subject to the contract. A hypothetical 5% change in the estimated timber inventory volume of timber deed sale contracts would have changed 2018 revenue by approximately $349,000.

Environmental remediation. The Partnership has an accrual for estimated environmental remediation costs of $9.1 million and $5.0 million as of December 31, 2018 and 2017, respectively. The environmental remediation liability represents estimated payments to be made to remedy and monitor certain areas in and around Port Gamble Bay and complete related natural resource damages restoration projects. Additional information about the Port Gamble site is presented in "Business – Real Estate – Environmental Remediation" above and in "Management's Discussion and Analysis – Real Estate". The remaining costs for the project include costs to clean up the millsite and monitor the conditions in Port Gamble Bay, on the millsite, and at the storage location of the dredged sediments. The millsite remediation will include primarily excavation of contaminated soils and placement of clean caps. Monitoring costs include primarily evaluating and maintaining caps, as well as sampling and surveying the conditions at the site and taking any corrective action that may be necessary based on the results. The monitoring period is estimated to be approximately 15 years, but could be shorter or longer depending on the information gathered during the monitoring period.

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

Uncertainty with respect to the millsite cleanup: Although we do not anticipate material changes to our estimated costs for this element of the project, the design and scope of this work has not yet been finalized and our estimates could change.

Natural Resource Damages (NRD): Certain environmental laws allow state, federal, and tribal trustees (collectively, the Trustees) to bring suit against property owners to recover damages for injuries to natural resources. Like the liability that attaches to current property owners in the cleanup context, liability for natural resource damages can attach to a property owner

simply because an injury to natural resources resulted from releases of hazardous substances on that owner's property, regardless of culpability for the release. The Trustees are alleging that Pope Resources has NRD liability because of releases that occurred on its property. We have been in discussions with the Trustees regarding their claims and the alleged conditions in Port Gamble Bay. We have also been discussing restoration alternatives that might address the damages the Trustees allege. Discussions with the Trustees may result in an obligation for us to fund NRD restoration activities and past assessment costs that are greater than we have estimated, and it is reasonably possible that this component of the liability may increase.

Unforeseen conditions: As we transition to the maintenance and monitoring phases of the project, conditions may arise that require corrective action, and monitoring protocols may change over time. In addition, extreme weather events could cause damage to caps that would need to be repaired. These factors could result in additional costs. Likewise, we cannot accurately predict the impacts, if any, of the alleged NRD claims.

Item 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rate Risk

At December 31, 2018, the Partnership and Funds had a combined $125.5 million of fixed-rate debt outstanding with a fair value of approximately $126.3 million based on the current interest rates for similar financial instruments. A change in the interest rate on fixed-rate debt will affect the fair value of the debt, whereas a change in the interest rate on variable-rate debt will affect interest expense and cash flows. A hypothetical 1% change in prevailing interest rates would change the fair value of our fixed-rate long-term debt obligations by $3.8 million and result in a $264,000 change in annual interest expense from our variable-rate debt balance of $26.4 million at December 31, 2018.

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Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

POPE RESOURCES

A DELAWARE LIMITED PARTNERSHIP

YEARS ENDED DECEMBER 31, 2018, 2017, AND 2016

CONTENTS

Report of Independent Registered Public Accounting Firm

To the Unitholders of Pope Resources, A Delaware Limited Partnership and Board of Directors of Pope MGP, Inc.

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of Pope Resources, A Delaware Limited Partnership, and subsidiaries (the Partnership) as of December 31, 2018 and 2017, the related consolidated statements of comprehensive income, partners' capital, and cash flows for each of the years in the three-year period ended December 31, 2018, and the related notes (collectively, the consolidated financial statements). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Partnership as of December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2018, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Partnership's internal control over financial reporting as of December 31, 2018, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated March 1, 2019 expressed an unqualified opinion on the effectiveness of the Partnership's internal control over financial reporting.

Change in Accounting Principle

As discussed in Note 1 to the consolidated financial statements, the Partnership has changed its method of accounting for recognizing revenue in 2018 due to the adoption of Accounting Standards Codification Topic 606, *Revenue from Contracts with Customers*.

Basis for Opinion

These consolidated financial statements are the responsibility of the Partnership's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Partnership in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ KPMG LLP

We have served as the Company's auditor since 2002.

Seattle, Washington
March 5, 2019

Report of Independent Registered Public Accounting Firm

To the Unitholders of Pope Resources, A Delaware Limited Partnership and Board of Directors of Pope MGP, Inc.

Opinion on Internal Control Over Financial Reporting

We have audited Pope Resources, A Delaware Limited Partnership and subsidiaries' (the Partnership) internal control over financial reporting as of December 31, 2018, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2018, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of the Partnership as of December 31, 2018 and 2017, the related consolidated statements of comprehensive income, partners' capital, and cash flows for each of the years in the three-year period ended December 31, 2018, and the related notes (collectively, the consolidated financial statements), and our report dated March 5, 2019 expressed an unqualified opinion on those consolidated financial statements.

Basis for Opinion

The Partnership's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying *Management's Report on Internal Control Over Financial Reporting.* Our responsibility is to express an opinion on the Partnership's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Partnership in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

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

Definition and Limitations of Internal Control Over Financial Reporting

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

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

/s/ KPMG LLP

Seattle, Washington
March 5, 2019

POPE RESOURCES, A DELAWARE LIMITED PARTNERSHIP
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2018 AND 2017
(IN THOUSANDS)

ASSETS	**2018**	2017
Current assets		
Partnership cash	**$ 1,784**	$ 1,788
ORM Timber Funds cash	**3,330**	1,636
Cash	**5,114**	3,424
Restricted cash	**943**	1,860
Total cash and restricted cash	**6,057**	5,284
Accounts receivable, net	**4,670**	6,427
Contract assets	**2,872**	—
Land and timber held for sale	**5,697**	5,728
Prepaid expenses and other	**1,070**	591
Total current assets	**20,366**	18,030
Properties and equipment, at cost		
Timber and roads	**377,970**	267,662
Timberland	**74,267**	55,056
Land held for development	**20,891**	19,311
Buildings and equipment, net of accumulated depreciation	**5,500**	5,306
Total properties and equipment, at cost	**478,628**	347,335
Other assets	**9,255**	15,308
Total assets	**$ 508,249**	$ 380,673
LIABILITIES, PARTNERS' CAPITAL AND NONCONTROLLING INTERESTS		
Current liabilities		
Accounts payable	**$ 2,379**	$ 2,430
Accrued liabilities	**5,191**	4,451
Current portion of long-term debt - Partnership	**128**	123
Deferred revenue	**336**	197
Current portion of environmental remediation liability	**1,082**	2,160
Other current liabilities	**865**	401
Total current liabilities	**9,981**	9,762
Long-term debt, net of unamortized debt issuance costs and current portion - Partnership	**93,928**	70,037
Long-term debt, net of unamortized debt issuance costs - Funds	**57,313**	57,291
Environmental remediation and other long-term liabilities	**8,427**	2,957
Commitments and contingencies		
Partners' capital		
General partners' capital (units issued and outstanding 2018 - 60; 2017 - 60)	**944**	1,028
Limited partners' capital (units issued and outstanding 2018 - 4,253; 2017 - 4,251)	**56,533**	63,519
Noncontrolling interests	**281,123**	176,079
Total partners' capital and noncontrolling interests	**338,600**	240,626
Total liabilities, partners' capital, and noncontrolling interests	**$ 508,249**	$ 380,673

See accompanying notes to consolidated financial statements.

POPE RESOURCES, A DELAWARE LIMITED PARTNERSHIP
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
YEARS ENDED DECEMBER 31, 2018, 2017, AND 2016
(IN THOUSANDS, EXCEPT PER UNIT INFORMATION)

	2018	2017	2016
Revenue			
Partnership Timber	**45,422**	$ 39,672	$ 36,275
Funds Timber	**49,819**	33,842	21,029
Timberland Investment Management	**9**	9	8
Real Estate	**8,304**	26,300	23,116
Total revenue	**103,554**	99,823	80,428
Costs and expenses			
Cost of sales			
Partnership Timber	**(17,828)**	(14,874)	(15,497)
Funds Timber	**(36,732)**	(26,910)	(17,145)
Real Estate	**(3,527)**	(16,200)	(14,631)
Total cost of sales	**(58,087)**	(57,984)	(47,273)
Operating expenses			
Partnership Timber	**(6,268)**	(5,671)	(5,821)
Funds Timber	**(4,672)**	(3,893)	(2,707)
Timberland Investment Management	**(4,495)**	(3,520)	(2,831)
Real Estate	**(4,579)**	(5,508)	(4,394)
Environmental remediation (Real Estate)	**(5,600)**	—	(7,700)
General & Administrative	**(7,217)**	(5,742)	(5,076)
Total operating expenses	**(32,831)**	(24,334)	(28,529)
Gain on sale of timberland	**—**	12,547	995
Operating income (loss)			
Partnership Timber	**21,326**	19,127	15,726
Funds Timber	**8,415**	15,586	1,403
Timberland Investment Management	**(4,486)**	(3,511)	(2,823)
Real Estate	**(5,402)**	4,592	(3,609)
General & Administrative	**(7,217)**	(5,742)	(5,076)
Total operating income	**12,636**	30,052	5,621
Interest expense, net	**(4,895)**	(4,471)	(3,406)
Income before income taxes	**7,741**	25,581	2,215
Income tax expense	**(104)**	(1,176)	(252)
Net and comprehensive income	**7,637**	24,405	1,963
Net and comprehensive (income) loss attributable to noncontrolling interests-ORM Timber Funds	**(895)**	(6,516)	3,979
Net and comprehensive loss attributable to noncontrolling interests-Real Estate	**79**	2	—
Net and comprehensive income attributable to unitholders	**$ 6,821**	$ 17,891	$ 5,942
Allocable to general partners	**$ 95**	$ 250	$ 83
Allocable to limited partners	**6,726**	17,641	5,859
Net and comprehensive income attributable to unitholders	**$ 6,821**	$ 17,891	$ 5,942
Basic and diluted earnings per unit attributable to unitholders	**$ 1.54**	$ 4.10	$ 1.35
Distributions per unit	**$ 3.20**	$ 2.80	$ 2.80

See accompanying notes to consolidated financial statements.

POPE RESOURCES, A DELAWARE LIMITED PARTNERSHIP
CONSOLIDATED STATEMENTS OF PARTNERS' CAPITAL
YEARS ENDED DECEMBER 31, 2018, 2017, AND 2016
(IN THOUSANDS)

		Attributable to Pope Resources			
	Units	General Partners	Limited Partners	Noncontrolling Interests	Total
December 31, 2015	4,300	$ 1,009	$ 63,539	$ 198,518	$ 263,066
Net income (loss)	—	83	5,859	(3,979)	1,963
Cash distributions	—	(170)	(12,007)	(5,208)	(17,385)
Equity-based compensation	16	13	906	—	919
Excess tax benefit from equity-based compensation	—	1	52	—	53
Indirect repurchase of units for minimum tax withholding	(1)	(2)	(150)	—	(152)
December 31, 2016	4,315	934	58,199	189,331	248,464
Net income	—	250	17,641	6,514	24,405
Cash distributions	—	(171)	(12,044)	(30,903)	(43,118)
Capital call	—	—	—	11,137	11,137
Equity-based compensation	15	16	1,112	—	1,128
Unit issuances - distribution reinvestment plan	—	—	9	—	9
Unit repurchases	(18)	—	(1,305)	—	(1,305)
Indirect repurchase of units for minimum tax withholding	(1)	(1)	(93)	—	(94)
December 31, 2017	4,311	1,028	63,519	176,079	240,626
Net income	**—**	**95**	**6,726**	**816**	**7,637**
Cash distributions	**—**	**(194)**	**(13,749)**	**(15,507)**	**(29,450)**
Capital calls	**—**	**—**	**—**	**119,735**	**119,735**
Equity-based compensation	**17**	**16**	**1,111**	**—**	**1,127**
Unit issuances - distribution reinvestment plan	**3**	**—**	**215**	**—**	**215**
Unit repurchases	**(17)**	**—**	**(1,189)**	**—**	**(1,189)**
Indirect repurchase of units for minimum tax withholding	**(1)**	**(1)**	**(100)**	**—**	**(101)**
December 31, 2018	**4,313**	**$ 944**	**$ 56,533**	**$ 281,123**	**$ 338,600**

See accompanying notes to consolidated financial statements.

POPE RESOURCES, A DELAWARE LIMITED PARTNERSHIP
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2018, 2017, AND 2016
(IN THOUSANDS)

	2018	2017	2016
Cash flows from operating activities:			
Cash received from customers	**$ 101,621**	$ 97,665	$ 79,428
Cash paid to suppliers and employees	**(51,551)**	(45,307)	(45,116)
Environmental remediation payments	**(1,496)**	(7,791)	(11,691)
Interest received	**126**	3	11
Interest paid, net of amounts capitalized	**(4,941)**	(4,603)	(3,216)
Real Estate project expenditures	**(3,210)**	(7,588)	(13,989)
Income taxes paid	**(771)**	(399)	(281)
Net cash provided by operating activities	**39,778**	31,980	5,146
Cash flows from investing activities:			
Capital expenditures	**(4,101)**	(2,500)	(1,973)
Proceeds from sale of fixed assets	**42**	30	25
Proceeds from sale of timberland	**—**	26,590	1,603
Investment in unconsolidated Real Estate joint venture	**—**	(5,790)	—
Deposit for acquisition of timberland - Funds	**(1,005)**	(5,688)	—
Acquisition of timberland - Partnership	**(6,356)**	(5,881)	(39,796)
Acquisition of timberland - Funds	**(140,639)**	—	—
Net cash provided by (used in) investing activities	**(152,059)**	6,761	(40,141)
Cash flows from financing activities:			
Line of credit borrowings	**32,475**	28,000	23,326
Line of credit repayments	**(12,275)**	(25,800)	(15,326)
Repayment of long-term debt	**(123)**	(5,119)	(114)
Proceeds from issuance of long-term debt	**4,000**	—	38,000
Debt issuance costs	**(233)**	(104)	(176)
Proceeds from unit issuances - distribution reinvestment plan	**215**	9	—
Unit repurchases	**(1,189)**	(1,305)	—
Payroll taxes paid on unit net settlements	**(101)**	(94)	(152)
Excess tax benefit from equity-based compensation	**—**	—	53
Cash distributions to unitholders	**(13,943)**	(12,215)	(12,177)
Cash distributions - ORM Timber Funds, net of distributions to Partnership	**(15,507)**	(30,903)	(5,208)
Capital call - ORM Timber Funds, net of Partnership contribution	**119,735**	5,237	—
Capital call - Real Estate, net of Partnership contribution	**—**	5,900	—
Net cash provided by (used in) financing activities	**113,054**	(36,394)	28,226
Net increase (decrease) in cash and restricted cash	**773**	2,347	(6,769)
Cash and restricted cash:			
Beginning of year	**5,284**	2,937	9,706
End of year	**$ 6,057**	$ 5,284	$ 2,937

See accompanying notes to consolidated financial statements.

POPE RESOURCES, A DELAWARE LIMITED PARTNERSHIP
SCHEDULE TO CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2018, 2017, AND 2016
(IN THOUSANDS)

Reconciliation of net income to net cash provided by operating activities:	**2018**	2017	2016
Net income	**$ 7,637**	$ 24,405	$ 1,963
Depletion	**27,121**	19,187	12,621
Equity-based compensation	**1,127**	1,128	919
Excess tax benefit from equity-based compensation	**—**	—	(53)
Depreciation and amortization	**604**	534	755
Gain on sale of timberland	**—**	(12,547)	(995)
Gain on sale of property and equipment	**(43)**	(2)	(23)
Deferred taxes, net	**(76)**	288	67
Cost of land sold - Real Estate	**1,674**	13,862	12,439
Loss from unconsolidated real estate joint venture	**4**	5	—
Increase (decrease) in cash from changes in operating accounts:			
Accounts receivable	**1,757**	(2,046)	(1,143)
Prepaid expenses, contract assets and other assets	**(2,502)**	2,336	(5,307)
Real estate project expenditures	**(3,210)**	(7,588)	(13,989)
Accounts payable and accrued liabilities	**689**	417	1,691
Deferred revenue	**139**	(222)	141
Environmental remediation accruals	**5,600**	—	7,700
Environmental remediation payments	**(1,496)**	(7,791)	(11,691)
Other current and noncurrent liabilities	**753**	14	51
Net cash provided by operating activities	**$ 39,778**	$ 31,980	$ 5,146

See accompanying notes to consolidated financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of operations

Pope Resources, A Delaware Limited Partnership is a publicly traded limited partnership engaged primarily in managing timber resources on its own properties as well as those owned by others. Pope Resources' wholly-owned subsidiaries include the following: ORM, Inc., which is responsible for managing Pope Resources' timber properties; Olympic Resource Management LLC (ORMLLC), which provides timberland management activities and is responsible for developing the timber fund business; Olympic Property Group I LLC, which manages the Port Gamble townsite and millsite together with land that is held as development property; and OPG Properties LLC, which owns land that is held as development property and holds other real estate investments. These consolidated financial statements include ORM Timber Fund II, Inc. (Fund II), ORM Timber Fund III, Inc. (Fund III), and ORM Timber Fund IV LLC (Fund IV, and collectively with Fund II and Fund III, the Funds). ORMLLC is the manager of and owns 1% of Funds II, III and IV. Pope Resources owns 19% of Fund II, 4% of Fund III, and 14% of Fund IV. The purpose of all three Funds is to invest in timberlands. See Note 3 for additional information. These consolidated financial statements also include OPG Ferncliff Investors LLC (Ferncliff Investors). OPG Properties LLC, through wholly-owned subsidiary OPG Ferncliff Management LLC (Ferncliff Management) owns 33.33% of Ferncliff Investors, which in turn holds a 50% interest in an unconsolidated real estate joint venture entity, Bainbridge Landing LLC. Ferncliff Management is the manager of Ferncliff Investors. See Note 5 for additional information.

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

Principles of consolidation

The consolidated financial statements include the accounts of the Partnership, entities controlled by the Partnership, and variable interest entities where the Partnership or entities it controls have the authority to direct the activities that most significantly impact their economic performance. Intercompany balances and transactions, including operations related to the Funds, have been eliminated in consolidation. The wholly-owned subsidiaries, Funds, and Ferncliff Investors are consolidated into Pope Resources' financial statements (see Notes 3 and 5).

New accounting standards

Effective January 1, 2018, the Partnership adopted Topic 606, *Revenue from Contracts with Customers*. For delivered log sales from the Partnership Timber and Funds Timber segments, there were no changes to the timing or amount of revenue recognized because contracts are legally enforceable, the transaction price is fixed, and performance is completed and control transfers at a point in time, typically when risk of loss and title passes to the customer. Similarly, no changes were identified to the timing or amount of revenue recognized from certain components of other revenue in these segments, including commercial thinning, royalties from gravel mines and quarries, and land use permits. For timber deed sales, the timing of revenue recognition was accelerated under the new standard to the effective date of the contract, whereas under the previous revenue recognition guidance the revenue was generally recognized when the timber was harvested by the customer. Under Topic 606, revenue recognized from timber deed sales for the year ended December 31, 2018 was $7.4 million greater than it would have been under the previous revenue recognition accounting standards. For the Real Estate segment, this new standard may result in accelerating the recognition of revenue for performance obligations that are satisfied over time, which generally consist of construction and landscaping activity in common areas completed after transaction closing. The Partnership adopted this standard using the cumulative effect transition method applied to uncompleted contracts as of the date of adoption. The Partnership, however, had no uncompleted contracts at the date of adoption. Accordingly, the adoption of this standard did not have a cumulative effect on the Partnership's consolidated financial statements.

In February 2016, the FASB established Topic 842, Leases, which requires lessees to recognize leases on the balance sheet and disclose certain information about leasing arrangements. The new standard establishes a right-of-use (ROU) model that requires a lessee to recognize a ROU asset and lease liability on the balance sheet for all

leases with a term longer than 12 months. Leases will be classified as financing or operating, with classification affecting the pattern and classification of expense recognition in the income statement. For lessors, leases will be classified as a sales-type, direct financing, or operating lease. A lease is classified as a sales-type lease if any one of five criteria are met, each of which indicate that the lease, in effect, transfers control of the underlying asset to the lessee. If none of those five criteria are met, but two additional criteria are both met, indicating that the lessor has transferred substantially all the risks and benefits of the underlying asset to the lessee and a third party, the lease is a direct financing lease. All leases that are not sales-type or direct financing leases are operating leases.

The new standard is effective for us on January 1, 2019. We will adopt the new standard effective January 1, 2019 and use the effective date as our date of initial application. Consequently, financial information will not be updated and the disclosures required under the new standard will not be provided for dates and periods before January 1, 2019. The new standard provides a number of optional practical expedients in transition. We expect to elect all of the new standard's available transition practical expedients.

Due to the Partnership's limited leasing activity, we do not expect the effect of this standard to be material to the Partnership's consolidated financial statements. As a lessee, we currently believe that the most significant effect relates to the recognition of new ROU assets and lease liabilities on our balance sheet for our leases, which consist principally of leases of office equipment and office space. We expect to elect the practical expedient to not separate lease and non-lease components for all leases. As a lessor, we currently believe that all of our leases, which consist of leases of real estate, will continue to be classified as operating leases under the new standard.

General partner

The Partnership has two general partners: Pope MGP, Inc. and Pope EGP, Inc. In total, these two entities own 60,000 Partnership units. The allocation of distributions, income and other capital related items between the general and limited partners is pro rata among all units outstanding. The managing general partner of the Partnership is Pope MGP, Inc. The Partnership has no directors. Instead, the board of directors of Pope MGP, Inc. serves in that capacity.

Noncontrolling interests

Noncontrolling interests represents the portion of net income and losses of the Funds and Ferncliff Investors attributable to third-party owners of these entities. Noncontrolling interests represent 80% of Fund II, 95% of Fund III, 85% of Fund IV, and 66.67% of Ferncliff Investors ownership. To arrive at net and comprehensive income attributable to Partnership unitholders, the portion of the income attributable to these third-party investors is subtracted from net and comprehensive income or, in the case of a loss attributable to third-party investors, added back to net and comprehensive income.

Significant estimates and concentrations in financial statements

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

Depletion

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

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

Purchased timberland cost allocation

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

Cost of sales

Cost of sales consists of the Partnership's cost basis in timber (depletion expense), real estate, and other inventory sold, and direct costs incurred to make those assets salable. Those direct costs include the expenditures associated with the harvesting and transporting of timber and closing costs incurred in land and lot sale transactions. Cost of sales also consists of those costs directly attributable to the Partnership's rental activities.

Restricted cash

Restricted cash comprises capital contributed by third-party owners of Ferncliff Investors that must be invested in an unconsolidated real estate joint venture entity or used to pay related management fees.

Like-kind exchanges

In order to acquire and sell assets, primarily timberland and other real property, in a tax efficient manner, we sometimes utilize Internal Revenue Code (IRC) Section 1031 like-kind exchange transactions. There are two main types of like-kind exchange transactions: forward transactions, in which property is sold and the proceeds are reinvested by acquiring similar property; and reverse transactions, in which property is acquired and similar property is subsequently sold. We use qualified intermediaries to facilitate such transactions and proceeds from forward transactions are held by the intermediaries. Both types of transactions must be completed within prescribed periods under IRC Section 1031, generally 180 days. Any unused funds held by intermediaries at the expiration of these time periods revert to the Partnership. To the extent we have identified potential replacement properties to acquire, funds held by intermediaries are classified as non-current in other assets on the consolidated balance sheets. To the extent funds held by qualified intermediaries exceed the value of identified potential properties to acquire, the funds are included in prepaid expenses and other current assets. At December 31, 2018, there were no amounts held by like-kind exchange intermediaries. At December 31, 2017, other assets included $598,000 held by like-kind exchange intermediaries.

Concentration of credit risk

Financial instruments that potentially subject the Partnership to concentrations of credit risk consist principally of accounts and notes receivable. The Partnership limits its credit exposure by considering the creditworthiness of potential customers and utilizing the underlying land sold as collateral on real estate contracts. The Partnership had an allowance for doubtful accounts of $1,000 at December 31, 2017 and had no allowance for doubtful accounts at December 31, 2018.

Income taxes

The Partnership itself is not subject to income taxes, but its corporate subsidiaries, and those of the Funds, are subject to income taxes which are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. Operating loss and tax credit carryforwards, if any, are also factored into the calculation of deferred tax assets and liabilities. Deferred tax assets and liabilities are measured using enacted tax rates that are expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. The Partnership has concluded that it is more likely than not that its deferred tax assets will be realizable and thus no valuation allowance has been recorded as of December 31, 2018. This conclusion is based on anticipated future taxable income, the expected future reversals of existing taxable temporary differences, and tax planning strategies to generate taxable income, if needed. The Partnership will continue to reassess the need for a valuation allowance during each future reporting period. The Partnership is not aware of any tax exposure items as of December 31, 2018 and 2017, where the Partnership's tax position is not more likely than not to be sustained if challenged by the taxing authorities. The Partnership recognizes interest expense related to unrecognized tax benefits or underpayment of income taxes in interest expense and recognizes penalties in operating expenses. There have been no interest expense or penalties incurred for any of the periods presented.

Land and timber held for sale and Land held for development

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

Those properties that are for sale, under contract, and for which the Partnership has an expectation they will be sold within 12 months are classified on the balance sheet as a current asset under "Land and timber held for sale". The $5.7 million in land and timber held for sale at December 31, 2018, reflects our expectation of sales in 2019 of 65 single family residential lots from the Harbor Hill project in Gig Harbor, Washington. Land and timber held for sale of $5.7 million as of December 31, 2017, reflected expected sales in 2018 of a parcel comprising 19 acres from the Harbor Hill project, as well as three other parcels in Kitsap County, Washington.

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

Timberland, timber and roads

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

Buildings and equipment

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

Buildings and equipment are recorded at cost and consisted of the following as of December 31, 2018 and 2017, (in thousands):

Description	**12/31/2018**	12/31/2017
Buildings	**$ 9,716**	$ 9,437
Equipment	**3,343**	3,039
Furniture and fixtures	**664**	663
Total	**$ 13,723**	$ 13,139
Accumulated depreciation	**(8,223)**	(7,833)
Net buildings and equipment	**$ 5,500**	$ 5,306

Impairment of long-lived assets

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

Deferred revenue

Deferred revenue represents the unearned portion of cash collected. Deferred revenue of $336,000 and $197,000 at December 31, 2018, and 2017, respectively, reflects primarily the unearned portion of rental payments received on cell tower leases.

Environmental remediation liabilities

Environmental remediation liabilities have been evaluated using a combination of methods. The liability is estimated based on amounts included in construction contracts and estimates for construction contingencies, project management, and other professional fees. See Note 13 for further discussion of environmental remediation liabilities.

Equity-based compensation

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

Income per partnership unit

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

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

	Year Ended December 31,		
(in thousands, except per unit data)	**2018**	2017	2016
Net and comprehensive income attributable to unitholders	**$ 6,821**	$ 17,891	$ 5,942
Less: Net and comprehensive income attributable to unvested restricted unitholders	**(125)**	(133)	(101)
Less: Dividends paid to Funds preferred shareholders	**(31)**	(31)	(31)
Net and comprehensive income attributable to unitholders for earnings per unit calculation	**$ 6,665**	$ 17,727	$ 5,810
Basic and diluted weighted average units outstanding	**4,317**	4,323	4,313
Basic and diluted net earnings per unit	**$ 1.54**	$ 4.10	$ 1.35

Fund II and Fund III preferred shares

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

Fair value hierarchy

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

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

The fair value hierarchy consists of the following three levels:

- Level 1-Inputs are quoted prices in active markets for identical assets or liabilities.
- Level 2-Inputs are: (a) quoted prices for similar assets or liabilities in an active market, (b) quoted prices for identical or similar assets or liabilities in markets that are not active, or (c) inputs other than

quoted prices that are observable and market-corroborated inputs, which are derived principally from or corroborated by observable market data.

- Level 3-Inputs are derived from valuation techniques in which one or more significant inputs or value drivers are unobservable.

2. REVENUE

Revenue is measured based on the consideration specified in a contract with a customer. The Partnership recognizes revenue when it satisfies a performance obligation by transferring control over a product or service to a customer. Taxes assessed by a governmental authority that are both imposed on and concurrent with a specific revenue-producing transaction that are collected by the Partnership from a customer are excluded from revenue. Shipping costs associated with delivering products to customers are included in cost of sales.

Included in "Accounts receivable, net" are $3.0 million and $4.4 million of receivables from contracts with customers as of December 31, 2018, and 2017, respectively.

Significant changes in the contract asset balance during the period were as follows, and there were no contract liabilities as of December 31, 2018, and 2017:

Contract assets, January 1, 2018	$	—
Revenue recognized from the satisfaction of performance obligations		11,381
Revenue recognized from changes in estimates of variable consideration		151
Transferred to receivables from contract assets		(7,703)
Total contract assets, December 31, 2018		3,829
Less: noncurrent portion included in other assets		(957)
Current portion of contract assets, December 31, 2018	$	2,872

The contract assets in the table above represent rights to consideration for timber deeds transferred to the customer and are related to the Partnership Timber and Funds Timber segments. These contracts provide the customer the legal right to harvest timber on the Partnership's or Funds' property. The value of a timber deed contract is determined based on the estimated timber volume by species multiplied by the contracted price. The contract consideration is considered variable because the timber volume is an estimate until the harvest is completed. The contract assets are transferred to receivables when the rights to consideration become due under the contract. Customers may harvest the timber at their discretion, within a time period and operational parameters stated in the contract.

The Partnership and Funds collect performance deposits from customers at the inception of the contract. These performance deposits are refunded to the customer at the conclusion of the contract or applied against final amounts owing from the customer, and are recorded in other current liabilities or environmental remediation and other long-term liabilities based on management's estimate of the ultimate duration of each contract. Included in "Other current liabilities" and "Environmental remediation and other long-term liabilities" are $500,000 and $300,000, respectively, of such performance deposits at December 31, 2018. There were no performance deposits outstanding at December 31, 2017.

The following is a description of principal activities, separated by reportable segments, from which the Partnership generates its revenue.

Partnership Timber and Funds Timber

These two segments consist of the harvest and sale of timber from the Partnership's 120,000 acres of timberland (Partnership Timber) in Washington and the Funds' 134,000 acres of timberland (Funds Timber) in Washington, Oregon and California. Revenue in these two segments is earned primarily from the harvest and sale of logs from the Partnership's and Funds' timberland. Log sale revenue in these two segments is recognized when control is transferred, and title and risk of loss passes to the customer, which typically occurs when logs are delivered to the customer. Other revenue in these segments is generated from the sale of rights to harvest timber (timber deed sales), commercial thinning, ground leases for cellular communication towers, royalties from gravel mines and quarries, and land use permits. Timber deed sales are generally structured so that the customer pays a contracted price per volume,

measured in thousands of board feet (MBF), and revenue is recognized when control is transferred to the customer, which generally occurs on the effective date of the contract. The value of a timber deed contract is determined based on the estimated timber volume by tree species multiplied by the contracted price. Commercial thinning consists of the selective cutting of timber stands that have not yet reached optimal harvest age. However, this timber does have some commercial value and revenue is based on the volume harvested. Royalty revenue from gravel mines and quarries is recognized monthly based on the quantity of material extracted.

The following table presents revenue for the years ended December 31, as follows:

(in thousands)	2018	2017	2016
Partnership Timber			
Log sale revenue - domestic	**$ 34,789**	$ 28,126	$ 26,710
Log sale revenue - export brokers (indirect)	**8,249**	8,967	7,113
Timber deed sale revenue	**92**	422	347
Other revenue	**2,292**	2,157	2,105
Total revenue	**$ 45,422**	$ 39,672	$ 36,275
Funds Timber			
Log sale revenue - domestic	**$ 27,981**	$ 15,490	$ 16,229
Log sale revenue - export brokers (indirect)	**9,281**	15,457	2,936
Timber deed sale revenue	**11,440**	2,337	1,440
Other revenue	**1,117**	558	424
Total revenue	**$ 49,819**	$ 33,842	$ 21,029

Timberland Investment Management (TIM)

The TIM segment provides investment management, disposition, and technical forestry services in connection with the 134,000 acres owned by the Funds. Fee revenue generated by the TIM segment for managing the Funds includes fixed components related to invested capital and acres under management, and a variable component related to harvest volume from the Funds' tree farms. These fees, which represent an operating expense in the Funds Timber segment, are eliminated in consolidation. This elimination is illustrated in note 15. The TIM segment occasionally earns revenue from providing timberland management-related consulting services to third-parties and recognizes such revenue as the related services are provided.

Real Estate

The Real Estate segment's activities consist of managing a portfolio of 2,000 acres in Washington and investing in and later selling improved properties, holding properties for later development and sale, and managing commercial properties. Revenue is generated primarily from sales of land, sales of development rights known as conservation easements (CE's), sales of unimproved land from the Partnership's timberland portfolio, and residential and commercial rents. The Partnership considers the sale of land and CE's to be part of its normal operations and therefore recognizes revenue from such sales and cost of sales for the Partnership's basis in the property sold. CE sales allow us to retain harvesting and other timberland management rights, but bar any future subdivision of or real estate development on the property. Cash generated from these sales is included in cash flows from operations on the Partnership's statements of cash flows.

Revenue on real estate sales is recorded on the date the sale closes. When a real estate transaction is closed with obligations to complete infrastructure or other construction, the portion of the total contract allocated to the post-closing obligations may be recognized over time as that work is performed, provided the customer either simultaneously receives and consumes the benefits as we perform under the contract, our performance creates or enhances the asset controlled by the customer, or we do not create an asset with an alternative use to the customer and we have an enforceable right to payment for the performance completed. Otherwise, revenue is recognized once the post-closing obligations are completed. Progress towards the satisfaction of our performance obligations is generally measured based on costs incurred relative to the total cost expected to be incurred for the performance obligations.

The following table breaks down revenue for the Real Estate segment for the years ended December 31, as follows:

	2018	2017	2016
Conservation land sale	$ —	$ 5,056	$ 2,360
Conservation easements	**3,730**	—	2,080
Gig Harbor residential	**—**	14,157	15,247
Gig Harbor commercial	**—**	3,500	—
Bremerton residential	**1,375**	—	—
Other residential	**751**	2,255	—
Other commercial	**400**	—	—
Unimproved land	**205**	—	1,784
Total land sales	**6,461**	24,968	21,471
Rentals and other	**1,843**	1,332	1,645
Total revenue	**$ 8,304**	$ 26,300	$ 23,116

3. ORM TIMBER FUND II, INC. (FUND II), ORM TIMBER FUND III (REIT) INC. (FUND III), AND ORM TIMBER FUND IV LLC. (FUND IV) (COLLECTIVELY, "THE FUNDS")

The Funds were formed by ORMLLC for the purpose of attracting capital to purchase timberlands. The objective of these Funds is to generate a return on investments through the acquisition, management, value enhancement, and sale of timberland properties. Each Fund is organized to operate for a specified term from the end of its respective investment period; ten years for each of Fund II and Fund III, and fifteen years for Fund IV. Fund II is scheduled to terminate in March 2021 and Fund III is scheduled to terminate in December 2025. Fund IV will terminate on the fifteenth anniversary of the end of its drawdown period. Fund IV's drawdown period will end on the earlier of the placement of all committed capital or December 31, 2019, subject to certain extension provisions.

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

The consolidated financial statements exclude management fees paid by the Funds to ORMLLC as they are eliminated in consolidation. See note 15 for a breakdown of operating results before and after such eliminations. The portion of these fees, among other items of income and expense, attributed to third-party investors is reflected as an adjustment to income in the Partnership's Consolidated Statement of Comprehensive Income under the caption "Net (income) loss attributable to noncontrolling interests - ORM Timber Funds."

In January 2017, Fund II closed on the sale of one of its tree farms, located in northwestern Oregon, for $26.5 million. The Partnership's share of the pretax profit or loss generated by this tree farm was a gain of $12.5 million and a loss of $23,000 for the years ended December 31, 2017, and 2016, respectively.

In January 2018, Fund IV closed on the acquisition of two tree farms, one in southwestern Oregon and one in south Puget Sound, Washington, for $33.6 million and $80.4 million, respectively. The partnership's share of the combined purchase price was $17.1 million. At December 31, 2017, Fund IV had paid deposits of $5.7 million for these acquisitions, which are included in other assets. The combined purchase price was allocated $100.7 million to timber and roads, and $13.3 million to the underlying land.

In October 2018, Fund IV closed on the acquisition of a tree farm in south Puget Sound, Washington for $32.3 million, of which the Partnership's share was $4.8 million. The purchase price was allocated $27.1 million to timber and roads, and $5.2 million to the underlying land. In January 2019, Fund IV closed on the acquisition of 7,100 acres of

timberland in south central Washington for $20.3 million, of which the Partnership's share was $3.0 million. At December 31, 2018, Fund IV had paid deposits of $1.0 million, which is included in other assets.

The Partnership's consolidated balance sheets include Fund II, Fund III, and Fund IV assets and liabilities at December 31, 2018, and 2017, which were as follows:

(in thousands)	**2018**	2017
Cash	**$ 3,330**	$ 1,636
Other current assets	**4,931**	2,481
Total current assets	**8,261**	4,117
Properties and equipment, net of accumulated depreciation	**360,163**	235,046
Other long-term assets	**1,962**	5,683
Total assets	**$ 370,386**	$ 244,846
Current liabilities	**$ 3,237**	$ 2,862
Long-term debt	**57,313**	57,291
Other long-term liabilities	**300**	—
Funds' equity	**309,536**	184,693
Total liabilities and equity	**$ 370,386**	$ 244,846

The table above includes management fees and other expenses payable to the Partnership of $1.0 million and $657,000 as of December 31, 2018 and 2017, respectively. These amounts are eliminated in the Partnership's consolidated balance sheets.

4. PARTNERSHIP TIMBERLAND ACQUISITIONS

During 2018, the Partnership closed on several acquisitions in western Washingon totaling 1,342 acres for $7.2 million. The aggregate purchase price was allocated $6.3 million to timber and roads and $869,000 to the underlying land. The Partnership utilized $598,000 of funds held by like-kind exchange intermediaries to fund a portion of these acquisitions. Part of the consideration paid for one of these transactions involved the conveyance by the Partnership of 365 acres of non-strategic timberland to the seller, valued at $214,000, with the remainder paid in cash

During 2017, the Partnership closed on several acquisitions of timberland in western Washington totaling 1,810 acres for $5.9 million. The aggregate purchase price was allocated $5.1 million to timber and roads and $847,000 to the underlying land.

5. OTHER ASSETS

Other assets consisted of the following at December 31:

	2018	**2017**
Deferred tax assets, net	**$ 540**	$ 465
Cash held by like-kind exchange intermediaries	**—**	598
Contract assets, noncurrent	**957**	—
Deposits for acquisitions of timberland	**1,005**	5,688
Investment in Real Estate joint venture entity	**5,891**	5,895
Advances to Real Estate joint venture entity	**804**	—
Notes receivable	**57**	2,625
Other	**1**	37
Total	**$ 9,255**	$ 15,308

The long-term portion of contract assets represents the portion of timber deed sales expected to be received after December 31, 2019. See note 2 for further information on these timber deed sales.

In 2017, the Partnership formed Ferncliff Management and Ferncliff Investors for the purpose of raising capital from third parties to invest in an unconsolidated real estate joint venture entity, Bainbridge Landing LLC, that is developing a 5-acre parcel on Bainbridge Island, Washington into a multi-family community containing apartments and townhomes. Sales of the townhomes and leasing of apartments is expected to commence in 2019. As described in Note 1, Ferncliff Management is the manager and 33.33% owner of Ferncliff Investors, with the remaining ownership interest held by third-party investors. Ferncliff Investors holds a 50% interest in Bainbridge Landing LLC that owns and is developing the property.

Ferncliff Investors is considered a variable interest entity because its organizational and governance structure is the functional equivalent of a limited partnership. As the managing member of Ferncliff Investors, the Partnership, through Ferncliff Management, is the primary beneficiary of Ferncliff Investors as it has the authority to direct the activities that most significantly impact its economic performance, as well as the right to receive benefits and obligation to absorb losses that could potentially be significant to Ferncliff Investors. Accordingly, Ferncliff Investors is consolidated into the Partnership's financial statements. Additionally, the obligations of Ferncliff Investors do not have any recourse to the Partnership.

Bainbridge Landing LLC is considered a voting interests entity. Ferncliff Investors accounts for its interest in the joint venture entity under the equity method because neither it nor the other member can exercise control over Bainbridge Landing LLC. Under the equity method, Ferncliff Investors records its 50% share of the net income or loss of Bainbridge Landing LLC. Accordingly, the "Investment in real estate joint venture entity" item in the table above represents the combination of Ferncliff Investors' total cash investment in the joint venture entity plus its cumulative 50% share of net income or loss. To date, this activity has been a loss and is included in operating expenses in the Real Estate segment. The portion of this loss attributed to third-party investors is reflected as an adjustment to income in the Partnership's Consolidated Statement of Comprehensive Income under the caption "Net loss attributable to noncontrolling interests - Real Estate."

Advances to Real Estate joint venture entity represents advances made by Ferncliff Investors Bainbridge Landing LLC to fund a portion of the construction costs associated with the project. The advances will be repaid with proceeds from the sale of townhomes, which is expected to occur in 2020.

The notes receivable included in other assets resulted from the sale in 2017 of an 11-acre parcel from the Partnership's Harbor Hill project to the City of Gig Harbor for $3.5 million, and the sale in 2018 of an undeveloped parcel for $80,000. The City of Gig Harbor paid $875,000 at closing and issued a promissory note for the remaining $2.6 million, which it repaid early in December 2018. The buyer of the undeveloped parcel paid $20,000 at closing and issued a promissory note for the remaining $60,000. The note is collateralized by the property, bears interest at 6.00%, and is due in monthly installments with a balloon payment in December 2022.

6. LONG-TERM DEBT

(in thousands)	At December 31, 2018	2017
Partnership debt:		
$30.0 million revolving line of credit with Northwest Farm Credit Services (NWFCS), variable interest based on LIBOR plus margin of 1.60% (3.95% at December 31, 2018) with quarterly interest-only payments and collateralized by timberlands (matures October 2023)	**$ 16,400**	16,200
Mortgage payable to NWFCS, collateralized by Poulsbo headquarters:		
Interest at 3.80% with monthly principal and interest payments, (matures January 2023)	**2,337**	2,460
$71.8 million credit facility payable to NWFCS with quarterly interest-only payments, collateralized by Partnership timberlands, with the following tranches:		
Interest at 6.40% (matures September 2019)	**9,800**	9,800
Interest at LIBOR plus 1.60% (3.95% at December 31, 2018) (matures October 2024)	**6,000**	—
Interest at 6.05% (matures July 2025)	**10,000**	10,000
Interest at LIBOR plus margin of 2.20% (refinanced in October 2018)	**—**	10,000
Interest at 3.89% (matures July 2026)	**11,000**	11,000
Interest at 4.13% (matures July 2028)	**11,000**	11,000
Interest at 5.34% (matures October 2034)	**8,000**	—
Interest at 5.34% (matures October 2035)	**8,000**	—
Interest at 5.42% (matures October 2036)	**8,000**	—
$40.0 million delayed-draw facility, quarterly interest-only payments with ultimate maturity of October 2028, collateralized by Partnership timberlands, with the following tranche:		
Interest based on LIBOR plus margin of 1.60% (3.95% at December 31, 2018)	**4,000**	—
Total Partnership debt	**94,537**	70,460
Less unamortized debt issuance costs	**(481)**	(300)
Less current portion	**(128)**	(123)
Long-term debt, less unamortized debt issuance costs and current portion - Partnership	**93,928**	70,037

As described in note 7, Partnership's and Fund III's debt arrangements with NWFCS includes an annual rebate of interest expense (patronage).

In October 2018, the Partnership amended its timberland mortgage credit facilities (Credit Agreement) with NWFCS to increase its borrowing capacity. Under the $71.8 million facility, variable-rate loan segments may be converted to fixed-rate loan segments with maturities from 1 - 10, 12, 15, or 18 years, not to exceed the ultimate maturity dates above. Any such fixed-rate loan segment will bear interest, paid quarterly, at the lender's pricing index at the time of conversion plus margins of 1.60%, for maturities up to five years, and 1.65% for maturities greater than five years.

The Partnership may borrow at any time under the $40.0 million delayed-draw facility through October 2023, subject to certain conditions in the Credit Agreement. Borrowings may bear interest, paid quarterly, at variable or fixed rates at the election of the Partnership. Variable-rate segments bear interest at LIBOR plus a margin of 1.60%. Fixed-rate segments bear interest at the lenders pricing index at the time of borrowing plus a margin of 1.60%, for maturities up to five years, and 1.65% for maturities greater than five years. Variable-rate segments may be converted to fixed-rate segments at the election of the Partnership. Fixed-rate loan segments must be for a minimum of $5.0 million, and no more than five such fixed-rate loan segments may be outstanding at any time. Fixed-rate loan segment maturities may be from one through ten years at the election of the Partnership, not to exceed the ultimate maturity of October 2028.

The Credit Agreement also includes an accordion feature that the Partnership may exercise in the future, subject to lender approval, to increase borrowing capacity by up to $50.0 million under either the $40.0 million facility or the $71.8 million

facility. Any draws on the accordion feature must be in $15.0 million minimum increments with no more than three such draws.

The Partnership may use borrowing capacity under these facilities to repay the $9.8 million fixed-rate loan segment that matures in September 2019. Accordingly, this loan segment is reflected in long-term debt.

The amended credit facilities eliminated the 3:1 interest coverage ratio covenant that had previously applied to the loans. Instead, the interest coverage ratio will be calculated quarterly, and the interest margins will be adjusted if the interest coverage ratio is below 3:1. The maximum interest margin is 2.20%, for variable-rate loan segments and prospective fixed-rate loan segments with maturities up to five years, and 2.50% for prospective fixed-rate loan segments with maturities greater than five years. The lender may reset the interest margin in October 2023, for the $40.0 million delayed-draw facility, and in October 2023, 2028, and 2033, for the $71.8 million facility.

The amended credit facilities retain the requirements that the Partnership 1) not exceed a maximum debt-to-capitalization ratio of 30%, with total capitalization calculated using fair market (rather than carrying) value of all Partnership timberland, roads and timber, and 2) not exceed a maximum loan-to-appraised value of collateral of 50%. The Partnership is in compliance with these covenants as of December 31, 2018.

(in thousands)	At December 31,	
ORM Timber Funds debt:	**2018**	2017
Fund II Mortgages payable to MetLife, collateralized by Fund II timberlands with quarterly interest payments (matures September 2020), as follows:		
Interest at 4.85%	**$ 11,000**	$ 11,000
Interest at 3.84%	**14,000**	14,000
Fund III mortgages payable to NWFCS, collateralized by Fund III timberlands with quarterly interest payments, as follows:		
Interest at 5.10% (matures December 2023)	**17,980**	17,980
Interest at 4.45% (matures October 2024)	**14,400**	14,400
Total ORM Timber Funds debt	**57,380**	57,380
Less unamortized debt issuance costs	**(67)**	(89)
Less current portion	**—**	—
Long-term debt, less unamortized debt issuance costs and current portion - Funds	**$ 57,313**	$ 57,291

Fund II's debt agreement contains a requirement to maintain a loan-to-value ratio of less than 50%, with the denominator defined as fair market value of the timberland pledged as collateral. Fund II is in compliance with this covenant as of December 31, 2018.

Fund III's debt agreement contains a requirement to maintain a minimum interest coverage ratio, a minimum level of working capital, and a loan-to-value ratio of less than 50%, with the denominator defined as fair market value. Fund III is in compliance with these covenants as of December 31, 2018.

At December 31, 2018, principal payments on long-term debt for the next five years and thereafter are due as follows (in thousands):

	Partnership	**Funds**
2019	128	—
2020	133	25,000
2021	138	—
2022	143	—
2023	18,195	17,980
Thereafter	75,800	14,400
Total	$ 94,537	$ 57,380

7. INTEREST, NET

Interest expense, net comprised the following for the years ended December 31:

(in thousands)	**2018**	2017	2016
Interest income - Partnership	**$ 132**	$ 3	$ 11
Interest expense - Partnership	**(3,075)**	(2,644)	(1,895)
Interest expense - Funds	**(2,247)**	(2,321)	(2,255)
Capitalized interest - Partnership	**295**	491	733
Interest expense, net	**$ (4,895)**	$ (4,471)	$ (3,406)

Each of the Partnership's and Fund III's debt arrangements with NWFCS includes an annual rebate of interest expense (patronage). Interest expense was reduced by $1.4 million, $1.0 million and $810,000 in 2018, 2017, and 2016, respectively, which reflects estimated patronage to be refunded in the following year with the related receivable reflected in accounts receivable.

Accrued interest relating to all debt instruments was $1.8 million and $1.3 million at December 31, 2018 and 2017, respectively, and is included in accrued liabilities.

8. FAIR VALUE OF FINANCIAL INSTRUMENTS

The Partnership's consolidated financial instruments include cash and accounts receivable, for which the carrying amount of each represents fair value based on their short-term nature. Carrying amounts of notes receivable also approximate fair value given the current market interest rates. The fair value of the Partnership's and Funds' combined fixed-rate debt, having a carrying value of $125.5 million and $101.6 million as of December 31, 2018 and 2017, respectively, has been estimated based on current interest rates for similar financial instruments, Level 2 inputs in the Fair Value Hierarchy, to be approximately $126.3 million and $104.6 million, respectively.

9. INCOME TAXES

The Partnership itself is not subject to income taxes. Instead, partners are taxed on their share of the Partnership's taxable income, whether or not cash distributions are paid. The Partnership's and Funds' corporate subsidiaries, however, are subject to income taxes. The following tables provide information on the impact of income taxes in taxable subsidiaries. Consolidated income (loss) is reconciled to income (loss) before income taxes in corporate subsidiaries for the years ended December 31 as follows:

(in thousands)	**2018**	2017	2016
Income before income taxes	**$ 7,741**	$ 25,581	$ 2,215
Income in entities that pass-through pre-tax earnings to the partners	**7,273**	23,089	1,500
Income subject to income taxes	**$ 468**	$ 2,492	$ 715

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

(in thousands)	**2018**	2017	2016
Current	**$ (180)**	$ (888)	$ (185)
Deferred	**76**	(288)	(67)
Total	**$ (104)**	$ (1,176)	$ (252)

Included in the deferred income tax expense for 2018, 2017, and 2016 are $67,000, $109,000, $115,000 related to the utilization of net operating loss carryforwards. The Partnership also recorded an excess tax benefit from equity-based

compensation of $53,000 for the year ended December 31, 2016, to partners' capital. There was no excess tax benefit recorded for 2018 or 2017 as a result of the adoption of ASU 2016-09.

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

	2018	2017	2016
Statutory tax on income	**21 %**	34 %	34 %
Income from entities that pass-through pre-tax earnings to the partners	**(20)%**	(30)%	(23)%
Effect on deferred tax assets of change in income tax rate	**— %**	1 %	**— %**
Effective income tax rate	**1 %**	5 %	**11 %**

The Tax Cuts and Jobs Act passed by Congress in December 2017 reduced the corporate income tax rate to 21% from 34%. This had the impact of decreasing deferred tax assets by $264,000 and increasing the 2017 effective income tax rate by 1%.

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

(in thousands)	**2018**	2017	2016
Compensation-related accruals	**$ 454**	$ 359	$ 456
Net operating loss carryforwards	**87**	123	284
Depreciation	**(16)**	15	16
Other	**14**	(32)	(3)
Total	**$ 539**	$ 465	$ 753

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

10. UNIT INCENTIVE PLAN

One of the two components of a management incentive compensation program adopted in 2010 (2010 Incentive Compensation Program) is the Performance Restricted Unit (PRU) plan which includes both an equity and cash component. Compensation expense relating to the equity component is recognized over a 4-year future service period. On the date of grant, the restricted units are owned by the employee, officer, or director of the Partnership, subject to a trading restriction that is in effect during the vesting period. As of December 31, 2018, total compensation expense not yet recognized related to non-vested awards was $1.6 million with a weighted average 20 months remaining to vest.

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

Directors may elect to receive all or a portion of their quarterly board compensation in the form of unrestricted units rather than cash. Such units are included in equity compensation expense. During 2018, 2017 and 2016, the Partnership granted 1,637, 2,213, and 1,794 unrestricted units, respectively, to directors in payment of their board compensation.

Total equity compensation expense was $1.1 million, $1.1 million and $919,000 for 2018, 2017 and 2016, respectively. As of December 31, 2018, accrued liabilities included $1.9 million relating to the 2010 Incentive Compensation Program, with $597,000 of that total attributable to the cash component of the PRU and the balance of $1.3 million attributable to the LTIP. This compares with December 31, 2017, when accrued liabilities included $1.3

million, with $426,000 related to the cash-payout component of the PRU and the balance of $908,000 attributable to the LTIP.

The Partnership's 2005 Unit Incentive Plan (the 2005 Plan) authorized the granting of nonqualified equity compensation to employees, officers, and directors of the Partnership and provides a one-way linkage to the 2010 Incentive Compensation Program because it (2005 Plan) established the formal framework by which unit grants, options, etc., can be issued. The 2010 Incentive Compensation Program does not affect the existence or availability of the 2005 Unit Incentive Plan or change its terms. Upon the vesting of restricted units, grantees have the choice of tendering back units to pay for their minimum tax withholdings. A total of 1,105,815 units have been authorized for issuance under the 2005 Plan of which there are 858,267 units authorized but unissued as of December 31, 2018.

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

Restricted unit activity for the three years ended December 31, 2018 was as follows:

	Units	Weighted Avg Grant Date Fair Value ($)
Outstanding December 31, 2015	36,047	59.96
Grants	15,016	64.67
Vested	(12,789)	55.97
Forfeited	(436)	62.49
Tendered back to pay tax withholding	(2,345)	57.41
Outstanding December 31, 2016	35,493	59.96
Grants	20,893	66.10
Vested	(14,190)	66.48
Forfeited	(1,550)	65.02
Tendered back to pay tax withholding	(1,432)	65.65
Outstanding December 31, 2017	39,214	64.62
Grants	**16,605**	69.98
Vested	**(15,151)**	65.03
Tendered back to pay tax withholding	**(1,466)**	64.59
Outstanding December 31, 2018	**39,202**	66.72

11. UNIT REPURCHASE PLAN AND DISTRIBUTION REINVESTMENT PLAN

In May 2017, the Partnership adopted a unit repurchase plan under Rule 10b5-1 of the Securities Exchange Act of 1934 and extended and expanded the plan on December 7, 2017. The plan allowed for the repurchase of units with an aggregate value of up to $2.5 million through December 7, 2018. The Partnership repurchased 18,101 units with an aggregate value of $1.3 million during 2017 and 16,542 units with an aggregate value of $1.2 million during 2018.

In June 2017, the Partnership adopted a Distribution Reinvestment Plan (DRP) under which unitholders may elect to reinvest their cash distributions to acquire newly issued units. The Partnership has registered 225,000 units for issuance under the DRP. The Partnership issued 122 units under the DRP during 2017 and 3,069 during 2018.

12. EMPLOYEE BENEFITS

As of December 31, 2018, all employees of the Partnership and its subsidiaries are eligible to receive benefits under a defined contribution plan. During the years 2016 through 2018 the Partnership matched 50% of employees' contributions up to 8% of an individual's compensation. The Partnership's contributions to the plan amounted to $222,000, $195,000, and $182,000 for the years ended December 31, 2018, 2017, and 2016, respectively.

13. COMMITMENTS AND CONTINGENCIES

Environmental remediation

The Partnership has an accrual for estimated environmental remediation costs of $9.1 million and $5.0 million as of December 31, 2018 and 2017, respectively. The environmental remediation liability represents management's best estimate of payments to be made to remedy and monitor certain areas in and around the millsite of Port Gamble and Port Gamble Bay. The liability at December 31, 2018 is comprised of $1.1 million that the Partnership expects to expend in the next 12 months and $8.0 million thereafter.

In December of 2013, a consent decree (CD) and a Clean-up Action Plan (CAP) related to Port Gamble Bay were finalized with the Washington State Department of Ecology (DOE) and filed with Kitsap County Superior Court. Construction activity commenced in late September 2015. The required in-water construction activity was completed in January 2017. By the end of the third quarter of 2017, the sediments dredged from the Bay were moved to their permanent storage location on property owned by the Partnership a short distance from the town of Port Gamble. This effectively concluded the component of the project related to the in-water cleanup of Port Gamble Bay.

Management has adjusted the liability from time to time based on evolving circumstances, including increases to the liability of $5.6 million and $7.7 million in 2018 and 2016, respectively. Following is a summary of each of these adjustments and the next steps for the project:

2018 Adjustments and next steps

During 2018, the Partnership has been working with the Washington State Department of Ecology (DOE) to formulate the design of the millsite cleanup. It was discovered during the second quarter that a greater volume of soil will need to be removed from the millsite than had been previously anticipated. The discovery of a higher volume of material to excavate, related capping, and updated estimates of long-term monitoring costs, led to an increase in the accrual of $2.9 million in the second quarter of 2018.

During the second half of 2018, refinement of the design of the millsite cleanup continued and a draft remedial investigation and feasibility study (RI/FS) was submitted to DOE in January 2019 that contains the proposed scope of the millsite cleanup.

As disclosed previously, certain environmental laws allow state, federal, and tribal trustees (collectively, the Trustees) to bring suit against property owners to recover damages for injuries to natural resources. Like the liability that attaches to current property owners in the cleanup context, liability for natural resource damages (NRD) can attach to a property owner simply because an injury to natural resources resulted from releases of hazardous substances on that owner's property, regardless of culpability for the release. In the case of Port Gamble, the Trustees are alleging that the Partnership has NRD liability because of releases that occurred on its property. The Partnership has been in discussions with the Trustees regarding their claims and the alleged conditions in Port Gamble Bay, and has also been discussing restoration alternatives that might address the damages the Trustees allege. These discussions have progressed to the point where management believes it can now identify a short list of restoration projects that will resolve the Trustees' NRD claims.

Management has re-evaluated the liability to incorporate the information included in the RI/FS submission for the millsite and the current status of the discussions with the NRD trustees, and recorded an additional $2.7 million increase to the liability in December 2018. This, along with the second quarter adjustment described above, brings the total adjustment to the liability to $5.6 million for 2018.

The RI/FS for the millsite will be reviewed by DOE prior to being finalized. This will be followed by the development of a CAP that will outline the specific cleanup plan for the millsite and will be codified in a consent decree. For the NRD component of the project, discussions with the Trustees will continue, and management expects those discussions will ultimately result in a settlement agreement. At present, management expects the CAP and consent decree for the millsite and the NRD settlement agreement to be finalized in 2019. In both cases, it is reasonably possible that cost estimates could change as a result of changes to either the millsite cleanup or the NRD restoration components of the liability, or both. Management currently expects the millsite cleanup and NRD restoration projects to occur over the next two to three years.

Finally, there will be a monitoring period of approximately 15 years during which the Partnership will monitor conditions in the Bay, on the millsite, and at the storage location of the dredged and excavated sediments. During this monitoring phase, conditions may arise that require corrective action, and monitoring protocols may change over time. In addition, extreme weather events could cause damage to the sediment caps that would need to be repaired. These factors could result in additional costs.

2016 Adjustment

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

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

(in thousands)	Balances at the Beginning of the Period	Additions to Accrual	Expenditures for Remediation	Balance at Period-end
Year ended December 31, 2016	$ 16,761	$ 7,700	$ 11,691	$ 12,770
Year ended December 31, 2017	12,770	—	7,791	4,979
Year ended December 31, 2018	**4,979**	**5,600**	**1,496**	**9,083**

Performance bonds

In the ordinary course of business, and as part of the entitlement and development process, the Partnership is required to provide performance bonds to ensure completion of certain public facilities. The Partnership had outstanding performance bonds of $7.5 million and $14.6 million at December 31, 2018 and 2017, respectively. The bonds relate primarily to development activity in connection with pending and completed sales from our Harbor Hill project in Gig Harbor.

Supplemental Employee Retirement Plan

The Partnership has a supplemental employee retirement plan for a retired employee. The plan provides for a retirement income of 70% of his base salary at retirement after taking into account both 401(k) and Social Security benefits with a fixed payment set at $25,013 annually. The recorded balance of the projected liability was $126,000 and $136,000 as of December 31, 2018 and 2017, respectively.

Contingencies

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

14. RELATED PARTY TRANSACTIONS

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

15. SEGMENT AND MAJOR CUSTOMER INFORMATION

The Partnership's operations are classified into four segments: Partnership Timber, Funds Timber, Timberland Investment Management (TIM), and Real Estate. See Note 2 for a description of the primary activities of each of these segments.

Beginning with the first quarter of 2018, we measure segment performance based on Adjusted EBITDDA in addition to operating income. We define Adjusted EBITDDA as earnings, on an internal basis, before interest, taxes, depletion,

depreciation, amortization, gain or loss on sales of timberland, and environmental remediation expense. The following tables reconcile internally reported operating income (loss) from operations to Adjusted EBITTDA.

In addition, we changed our internal reporting and our segment reporting to segregate our former "Fee Timber" segment into two segments: "Partnership Timber" includes the operating results of the Partnership's 100%-owned timberland, while "Funds Timber" includes the operating results of its three private equity timber funds. Our chief operating decision maker reviews internal financial reporting information at the Partnership Timber and Funds Timber level to allocate resources and evaluate the results of the business. Prior period segment disclosures have been revised to reflect our current segment structure.

In 2018, we changed our method of reporting costs incurred by our Partnership Timber segment on behalf of the TIM segment. We reclassified $332,000 and $203,000 of operating expenses in 2017 and 2016, respectively, from the Partnership Timber segment to the TIM segment to conform to the current year presentation.

In the presentation of the Partnership's revenue and operating income (loss) by segment, all inter-segment revenue and expense is eliminated to determine operating income (loss) reported externally. The following tables reconcile internally reported income (loss) from operations to externally reported income (loss) from operations by business segment.

For the year ended December 31, 2018, the Partnership had one customer that represented 13% and another that represented 11% of consolidated revenue. For the year ended December 31, 2017 the Partnership had one customer that represented 12% and another that represented 11% of consolidated revenue. In 2016, the Partnership had one customers that represented 17% of consolidated revenue.

Identifiable assets are those used exclusively in the operations of each reportable segment or those allocated when used jointly. The Partnership does not allocate cash, accounts receivable, certain prepaid expenses, or the cost basis of the Partnership's administrative office for purposes of evaluating segment performance by the chief operating decision maker.

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

(in thousands)

2018	Partnership Timber	Funds Timber	TIM	Real Estate	Other	Consolidated
Revenue internal	**$45,916**	**$49,819**	**$4,576**	**$8,807**	$—	**$109,118**
Eliminations	**(494)**	**—**	**(4,567)**	**(503)**		**(5,564)**
Revenue external	**45,422**	**49,819**	**9**	**8,304**	**—**	**103,554**
Cost of sales	**(17,828)**	**(36,732)**	**—**	**(3,527)**	—	**(58,087)**
Operating, general and administrative expenses - internal	**(6,943)**	**(9,239)**	**(4,566)**	**(4,723)**	**(7,324)**	**(32,795)**
Eliminations	**675**	**4,567**	**71**	**144**	**107**	**5,564**
Operating, general and administrative expenses - external	**(6,268)**	**(4,672)**	**(4,495)**	**(4,579)**	**(7,217)**	**(27,231)**
Environmental remediation	**—**	**—**	**—**	**(5,600)**	**—**	**(5,600)**
Income (loss) from operations - internal	**21,145**	**3,848**	**10**	**(5,043)**	**(7,324)**	**12,636**
Eliminations	**181**	**4,567**	**(4,496)**	**(359)**	**107**	**—**
Income (loss) from operations - external	**$21,326**	**$8,415**	**($4,486)**	**($5,402)**	**($7,217)**	**$12,636**
Income (loss) from operations - internal	**$21,145**	**$3,848**	**$10**	**($5,043)**	**($7,324)**	**$12,636**
Depletion, depreciation, and amortization	**4,228**	**23,009**	**72**	**270**	**72**	**27,651**
Environmental remediation	**—**	**—**	**—**	**5,600**	**—**	**5,600**
Adjusted EBITDDA	**$25,373**	**$26,857**	**$82**	**$827**	**($7,252)**	**$45,887**

(in thousands)

2017	Partnership Timber	Funds Timber	TIM	Real Estate	Other	Consolidated
Revenue internal	$40,004	$33,842	$3,377	$26,737	$—	$103,960
Eliminations	(332)	—	(3,368)	(437)	—	(4,137)
Revenue external	39,672	33,842	9	26,300	—	99,823
Cost of sales	(14,874)	(26,910)	—	(16,200)	—	(57,984)
Operating, general and administrative expenses - internal	(6,177)	(7,261)	(3,593)	(5,594)	(5,846)	(28,471)
Eliminations	506	3,368	73	86	104	4,137
Operating, general and administrative expenses - external	(5,671)	(3,893)	(3,520)	(5,508)	(5,742)	(24,334)
Gain (loss) on sale of timberland	—	12,547	—	—	—	12,547
Income (loss) from operations - internal	18,953	12,218	(216)	4,943	(5,846)	30,052
Eliminations	174	3,368	(3,295)	(351)	104	—
Income (loss) from operations - external	$19,127	$15,586	($3,511)	$4,592	($5,742)	$30,052
Income (loss) from operations - internal	$18,953	$12,218	($216)	$4,943	($5,846)	$30,052
Depletion, depreciation, and amortization	4,121	15,170	32	279	55	19,657
Gain on sale of timberland	—	(12,547)	—	—	—	(12,547)
Adjusted EBITDDA	$23,074	$14,841	($184)	$5,222	($5,791)	$37,162

(in thousands)

2016	Partnership Timber	Funds Timber	TIM	Real Estate	Other	Consolidated
Revenue internal	$36,478	$21,029	$3,275	$23,419	$—	$84,201
Eliminations	(203)	—	(3,267)	(303)	—	(3,773)
Revenue external	36,275	21,029	8	23,116	—	80,428
Cost of sales	(15,497)	(17,145)	—	(14,631)	—	(47,273)
Operating, general and administrative expenses - internal	(6,152)	(5,974)	(2,888)	(4,441)	(5,147)	(24,602)
Eliminations	331	3,267	57	47	71	3,773
Operating, general and administrative expenses - external	(5,821)	(2,707)	(2,831)	(4,394)	(5,076)	(20,829)
Environmental remediation	—	—	—	(7,700)	—	(7,700)
Gain (loss) on sale of timberland	769	226	—	—	—	995
Income (loss) from operations - internal	15,598	(1,864)	387	(3,353)	(5,147)	5,621
Eliminations	128	3,267	(3,210)	(256)	71	—
Income (loss) from operations - external	$15,726	$1,403	($2,823)	($3,609)	($5,076)	$5,621
Income (loss) from operations - internal	$15,598	($1,864)	$387	($3,353)	($5,147)	$5,621
Depletion, depreciation, and amortization	3,771	9,073	32	387	65	13,328
Environmental remediation	—	—	—	7,700	—	7,700
Gain on sale of timberland	(769)	(226)	—	—	—	(995)
Adjusted EBITDDA	$18,600	$6,983	$419	$4,734	($5,082)	$25,654

(in thousands)	**2018**	2017	2016
Depletion, depreciation, and amortization			
Partnership Timber	**$ 4,228**	$ 4,121	$ 3,771
Funds Timber	**23,009**	15,170	9,073
Timberland Investment Management	**72**	32	32
Real Estate	**270**	279	387
G&A	**72**	55	65
	27,651	19,657	13,328
Amortization of debt issuance costs	**74**	64	48
Total	**$ 27,725**	**$ 19,721**	**$ 13,376**

Assets	**2018**	2017	2016
Partnership Timber	**$ 94,353**	$ 91,206	$ 87,419
Funds Timber	**370,386**	244,846	266,401
Timberland Investment Management	**211**	83	325
Real Estate	**36,382**	39,420	38,988
G&A	**6,917**	5,118	5,917
Total	**$ 508,249**	$ 380,673	$ 399,050

Capital and Land Expenditures	**2018**	2017	2016
Partnership Timber	**$ 8,186**	$ 7,168	$ 40,745
Funds Timber	**143,445**	6,808	859
Timberland Investment Management	**192**	32	13
Real Estate project expenditures	**3,210**	7,588	13,993
Real Estate-other	**213**	2	128
G&A	**65**	58	20
Total	**$ 155,311**	$ 21,656	$ 55,758

16. QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

(in thousands, except per unit amounts)	Revenue	Income (loss) from operations	Net and comprehensive income (loss) attributable to unitholders	Basic and diluted earnings (loss) per unit
2018				
First quarter	**$ 24,987**	**$ 6,957**	**$ 5,718**	**$ 1.31**
Second quarter	**27,912**	**3,809**	**199**	**0.04**
Third quarter	**28,008**	**4,172**	**2,644**	**0.60**
Fourth quarter	**22,647**	**(2,545)**	**(1,778)**	**(0.41)**
2017				
First quarter	$ 17,345	$ 12,684	$ 3,370	$ 0.77
Second quarter	15,891	993	158	0.03
Third quarter	18,803	1,805	1,658	0.38
Fourth quarter	47,784	14,570	12,705	2.92

Quarterly fluctuations in data result from the addition and/or deferral of harvest volumes as well as the timing of real estate sales and environmental remediation charges, as disclosed in our quarterly filings. Management considered the disclosure requirements of Item 302(a)(3) and does not note any extraordinary, unusual, or infrequently occurring items except for the environmental remediation charges of $7.7 million, $2.9 million, and $2.7 million in the fourth quarter of 2016, second quarter of 2018, and fourth quarter of 2018, respectively, and the sale of one of Fund II's tree farms for $26.5 million, with a resulting gain of $12.5 million, in the first quarter of 2017.

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

None

Item 9A. CONTROLS AND PROCEDURES.

Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures

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

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

Management's Report on Internal Control Over Financial Reporting

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

1) Pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Partnership;

2) Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Partnership are being made only in accordance with authorizations of management of the Partnership; and

3) Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Partnership's assets that could have a material effect on the financial statements.

Management has evaluated the effectiveness of the Partnership's internal control over financial reporting as of December 31, 2018 based on the control criteria established in a report entitled *Internal Control—Integrated Framework (2013)*, issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our assessment and those criteria, the Partnership's management has concluded that the Partnership's internal control over financial reporting was effective as of December 31, 2018.

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

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

The registered independent public accounting firm of KPMG LLP, auditors of the Partnership's consolidated financial statements, has issued an attestation report on the Partnership's internal control over financial reporting. This report appears on page 55 of this annual report on Form 10-K.

Changes in Internal Control over Financial Reporting

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

9B. OTHER INFORMATION.

None

PART III

Item 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

General Partner

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

The following table identifies the executive officers and directors of the Managing General Partner as of February 26, 2019. Officers of the Managing General Partner hold identical offices with the Partnership.

Name	Age	Position, Background, and Qualifications to Serve
Thomas M. Ringo (2)	65	President and Chief Executive Officer, and Director, from June 2014 to present. Vice President and CFO from December 2000 to April 2015. Senior Vice President Finance and Client Relations from June 1996 to December 2000. Vice President Finance from November 1991 to June 1996. Treasurer from March 1989 through October 1991 of Pope MGP, Inc. and the Partnership.
William R. Brown (1), (3), (4), (5)	67	Director since October 2015. Member, Board of Directors, Joshua Green Corporation, a privately held investment company, and Urban Renaissance Group, a full-service commercial real estate company. President, Green Diamond Resource Company from 2006 through 2013. Executive Vice President and Chief Financial Officer, Plum Creek Timber Company from 1999 through 2006. Mr. Brown's experience in the forest products and real estate industries and knowledge of timberland markets in the Pacific Northwest and elsewhere allow him to provide extensive insight into strategic and tactical business issues relevant to the Partnership. In addition, the senior financial leadership positions he has held at other companies allows him to provide valuable financial guidance as a member of the Audit Committee.
John E. Conlin (2), (3), (4)	60	Director since December 2005. Member, Board of Advisors of Fremont Group, 20018 to present. Managing Partner, Veradace Partners, an investment company, 2019 to present. Co-President, NWQ Investment Management Company LLC, 2006 to 2018. Member, Board of Advisors, Victory Park Capital, 2009 to present. Member, Corporate Advisory Board, University of Michigan, Ross School of Business, 2006 to present and currently Chairman. Member, University of Rochester Endowment Committee, 2006 to present. Director, ACME Communications, 2005 to 2008. Director, Cannell Capital Management 2002 to 2006. CEO, Robertson Stephens, Inc, from 2001 to 2003; COO, Robertson Stephens, Inc, from 1999 to 2000. Held numerous positions with Credit Suisse from 1983 to 1999, the last of which was Managing Director. Mr. Conlin's background in corporate finance, capital-raising and financial analysis bring the Partnership a perspective that is unique among our directors. Moreover, Mr. Conlin offers an ability to assess capital needs, structures and returns relating to the performance and operation of the Partnership, the Funds, and our strategic goals and objectives.
Sandy D. McDade (1), (3), (4)	67	Director since September 2016. Weyerhaeuser Company: Senior Vice President and General Counsel, 2006 through 2014; Senior Vice President, Industrial Wood Products and International Business Groups, 2005 through 2006; President, Weyerhaeuser Canada, January 2003 through 2005; Vice President of Strategic Planning, 2000 through 2003; Corporate Secretary, 1993 through 2000; Assistant General Counsel, 1980 through 2000. Mr. McDade is a board member of Aptitude Investment Management LP, registered investment advisor. Mr. McDade's deep experience in the forest products industry brings both operational and strategic expertise to the Partnership, as well as knowledge of international markets and corporate governance.

Name	Age	Position, Background, and Qualifications to Serve
Maria M. Pope (1), (4)	54	Director since December 2012. President and CEO of Portland General Electric (PGE), an electric utility, since October 2017 and January 2018, respectively. Senior Vice President of Power Supply, Operations and Resource Strategy from March 2013 to October 2017 of PGE. Senior Vice President of Finance, Chief Financial Officer and Treasurer of PGE from 2009 through February 2013; Director, PGE from 2006 through 2008. Vice President and Chief Financial Officer, Mentor Graphics Corporation, a software company, from July 2007 to December 2008. Vice President and General Manager, Wood Products Division of Pope & Talbot, Inc., a pulp and wood products company, from December 2003 to April 2007; Vice President, Chief Financial Officer and Secretary of Pope & Talbot, Inc. from 1999 to 2003. Ms. Pope previously worked for Levi Strauss & Co. and Morgan Stanley & Co., Inc. Ms. Pope has extensive board experience, having served on several U.S. and Canadian corporate boards across a number of industries, including forest products. Ms. Pope is on the board of Umpqua Holdings Corporation (NASDAQ: UMPQ), Oregon Global Warming Commission, and the Oregon Business Council. She previously served on the boards of Sterling Financial Corp. (NASDAQ: STSA), Premera Blue Cross, TimberWest Forest Corp. (TSE: TWF), Oregon Health Sciences University, and was the Chair of the Council of Forest Industries (COFI), Western Canada's industry association.
Kevin C. Bates	52	Vice President of Timberland Investments from June 2014 to present, Director of Timberland Investment Management from March 2007 to June 2014. Controller from February 2001 to March 2007, Accounting Manager from February 1998 to February 2001. Internal Audit for Fluke Corporation and Accounting Manager for WAVTrace from May 1997 to March 1998. Audit Senior and Audit Manager for Deloitte & Touche, 1991 to 1997.
Michael J. Mackelwich	48	Vice President of Timberland Operations since March 2017. Director of Timberland Operations from December 2013 through February 2017. Area Timber Operations Manager from March 2006 through November 2013. Forester and Senior Forester positions from January 1998 through February 2006. Resource Planning Forester for The Campbell Group from 1996 through 1997.
Daemon P. Repp	44	Vice President and CFO from December 2018 to present. Director of Finance from August 2017 to November 2018, Portfolio Manager from March 2016 to August 2017, Investment Analyst from August 2010 to February 2016. Financial Analyst and Senior Financial Analyst for Genesee Investments LLC from January 2000 to July 2010. Asset/Liability Management Analyst for Washington Mutual Bank from August 1999 to January 2000. Industrial Analyst at Boeing Co. from June 1997 to July 1999.
Jonathan P. Rose	56	Vice President of Real Estate and President of Olympic Property Group from June 2014 to present, Director of Real Estate and President of Olympic Property Group from March 2005 to June 2014. Vice President of Property Development from January 2000 to March 2005, Project Manager March 1996 to January 2000. Design Engineer for Apex Engineering from 1987 to 1996.

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

Board of Directors of the Managing General Partner

Board Composition. The Managing General Partner's Certificate of Incorporation provides that directors are divided into two classes, each class serving a period of two years which overlap. The Managing General Partner's shareholders elect approximately one-half of the members of the Board of Directors annually, and this election is governed by a shareholders agreement between the Managing General Partner's two stockholders. The terms of the Class A directors expire on December 31, 2020, and the terms of the Class B directors expire on December 31, 2019. The directors' election to the Board of Directors is subject to a voting agreement between the Managing General Partner's two shareholders, Ms. Maria M. Pope and Mrs. Emily T. Andrews. Sandy D. McDade serves as Mrs. Andrews' appointee to the Board of Directors. The Board of Directors met nine times in 2018, with six of the meetings in person to discuss Partnership matters. The composition of our Board of Directors is

established by the Limited Partnership Agreement and by the Managing General Partner's shareholders agreement, and accordingly, as permitted by NASDAQ Rules IM-5065-7 and 5615(a)(4), board nominations are not made or approved by a separate nominating committee or by a majority of the independent directors.

Past Directorships. During the period 2014 through 2018, Ms. Pope served on boards of other public companies as outlined in the following table.

Individual's Name	Name of Public Company	Term of Directorship
Maria M. Pope	Umpqua Holdings Corporation (NASDAQ:UMPQ) Sterling Financial Corporation (NASDAQ:STSA)	2014 - present 2013 - 2014

Board Leadership Structure. The Board does not utilize a Chairman. The CEO generally calls meetings of the Board and sets schedules and agendas for such meetings. The CEO regularly communicates with all directors on key issues and concerns outside of Board meetings and endeavors to ensure that information provided to the Board is sufficiently timely and complete to facilitate Board member fulfillment of responsibilities. As the individual with primary responsibility for managing the Partnership's day-to-day operations, the CEO is best positioned to chair regular Board meetings where key business and strategic issues are discussed. The Board utilized Mr. McDade as a "lead director" in 2018. His chief responsibility in this regard is to chair executive sessions of the non-management directors which are conducted as a part of every Board meeting.

Board's Role in the Risk Oversight Process. Given the size of the Board, management of the Partnership's material risks is administered through the whole Board in concert with executive and senior operating personnel. Risk is an integral part of Board and committee deliberations throughout the year with regular discussion of risks related to the company's business strategies at each meeting. Periodically, the Audit Committee and Board review Management's assessment of the primary operational and regulatory risks facing the Partnership, their relative magnitude, and management's plan for mitigating these risks. The Audit Committee considers risk issues associated with the Partnership's overall financial reporting and disclosure process and legal compliance. At each of its regularly scheduled meetings, the Audit Committee meets in executive session and meets with the independent auditor outside the presence of management.

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

Audit Committee. The Audit Committee of the Board of Directors is comprised of three independent directors who comply with the Exchange Act and NASDAQ's qualification and independence requirements for Audit Committee members. The Audit Committee met to discuss the Partnership four times during 2018. The Audit Committee's Chairman and designated financial expert is William R. Brown. John E. Conlin and Sandy D. McDade also serve on the Audit Committee. See report of the Audit Committee on financial statements below.

Human Resources Committee. The Human Resources Committee is responsible for (1) establishing compensation programs for executive officers and senior management of the Partnership designed to attract, motivate, and retain key executives responsible for the success of the Partnership as a whole; (2) administering and maintaining such programs in a manner that will benefit the long-term interests of the Partnership and its unitholders; and (3) determining the salary, bonus, unit option, and other compensation of the Partnership's executive officers and senior management. The Human Resources Committee met three times during 2018. Mr. Conlin served as Chairman of the Human Resources Committee in 2018. William R. Brown, Sandy D. McDade, and Maria M. Pope also serve on the Human Resources Committee. See report of the Human Resources Committee on executive compensation below.

Beneficial Ownership and Section 16(a) Reporting Compliance

The Partnership is a reporting company pursuant to Section 12 of the Exchange Act. Under Section 16(a) of the Exchange Act, and the rules promulgated hereunder, directors, officers, greater than 10% shareholders, and certain other key personnel (the "Reporting Persons") are required to file with the Securities and Exchange Commission reports of ownership and reports of changes in ownership of Partnership units. Reporting Persons are required by SEC regulations to furnish us with copies of all Section 16(a) forms they file. Based solely on our review of such reports received or written or oral

representations from the Reporting Persons, the Partnership believes that the Reporting Persons have complied with all Section 16(a) filing requirements applicable to them.

Code of Ethics

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

Item 11. EXECUTIVE COMPENSATION; COMPENSATION DISCUSSION & ANALYSIS

Overview

Objectives of our Executive Compensation Program

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

Our executive compensation plans consist of two components: salary and a long-term incentive program (the "Incentive Program"), which is intended to reward selected management employees who provide services to and make decisions on behalf of the Partnership for performance that builds long-term unitholder value. Payments are made under the Incentive Program during the first quarter of each year with respect to results of decision-making in the prior year and the relative performance of our units over the three-year period ending on December 31 of the prior year. As a result, information depicted in this report includes amounts paid in 2017, 2018, and 2019 with respect to performance from each of the following three-year periods, respectively: 2014-2016, 2015-2017, and 2016-2018.

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

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

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

The Committee has, from time-to-time, engaged compensation consultants to assist in assessing the market for top executives. Historically, these consultants have provided a limited scope of services on behalf of the Committee and their roles generally have been confined to specific peer analyses or assessments of specific compensation components within the Partnership's then-existing compensation structures. These consultants generally have performed no other services for the Partnership or its subsidiaries or management, and in each case the Committee has evaluated matters that the Committee determined to be relevant to the consultant's independence. The Committee engaged Farient Advisors, a compensation consulting advisory firm, to advise on executive compensation matters in 2016, 2017, and 2018, for which Farient was paid a total of $78,000, $86,000, and $103,000, respectively.

Elements of Compensation

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

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

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

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

Long-Term Incentive Program (LTIP). The LTIP represents the Partnership's cash bonus plan for the CEO and other senior management personnel, and focuses on relative total unitholder return measured over a rolling three-year period ending on the last day of the fiscal year for which the award is to be computed. Specifically, at the beginning and end of each period, the Partnership measures the arithmetic average trading price of the Partnership's limited partner units over the sixty-trading day period preceding the first day and the last day of the three-year measurement period. The Partnership also takes into account all distributions to unitholders during that period, and compares the resulting total returns to those provided to security holders within a group of the Partnership's peers as measured using the same methodology. The peer group definition has evolved over time and has been based upon the recommendation of the Partnership's compensation consultant to include companies within the forest products industry, as well as those in real estate or agriculture deemed to have a strong focus on land or natural resources. The following group of 14 companies was used as a benchmark for the 2016-18 performance cycle.

Forest Products	**Real Estate**	**Agriculture**
CatchMark Timber Trust (CTT)	EastGroup Properties (EGP)	Alico (ALCO)
Deltic (DEL) *	FRPH Holdings (FRPH)	
		Farmland Partners (FPI)
	Monmouth RE Investment (MNR)	Griffin Industrial Realty (GRIF)
Potlatch (PCH)		
Rayonier (RYN)	Tejon Ranch (TRC)	Limoneira (LMNR)
Weyerhaeuser (WY)	St. Joe (JOE)	

* Deltic stock performance for this three-year period was truncated as of Febuary 20, 2018, the effective date of its merger with Potlach.

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

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

Performance Restricted Unit Plan ("PRU"). The PRU is the equity-based element of the Incentive Program, although awards can be made in cash, restricted units, or a combination of each. Awards from this component of the Incentive Program are based upon a pool established at the beginning of each fiscal year and adjusted upward or downward as participants are added to or deleted from the Incentive Program. For 2018, the payout award pool consisted of 3,600 units for Mr. Ringo and 15,721 units for all other participants collectively.

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

Partnership Timber and Funds Timber. Participants from these segments are evaluated primarily on the basis of growth in our timberland holdings that, in turn, increase our sustainable harvest volume.

Timberland Investment Management. Participants from this segment are evaluated on the basis of investor capital commitments and internal rates of return for the Funds.

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

Corporate. Our corporate personnel are evaluated primarily on per unit growth in cash available for distribution.

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

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

Participants in the PRU. All full-time employees participate in the PRU, with award opportunities calibrated to individual roles and responsibilities.

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

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

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

Defined Contribution Retirement Savings Plan. As of December 31, 2018, all our employees are eligible to participate in our defined contribution plan, which is a tax qualified plan pursuant to Section 401(k) of the Code. During each of the years 2016 through 2018 the Partnership matched 50% of the employees' contributions on up to 8% of compensation. Partnership contributions to the plan amounted to $222,000, $195,000, and $182,000 for each of the years ended December 31, 2018, 2017, and 2016, respectively. Employees become fully vested in the Partnership's contribution over a six-year period. The Partnership does not discriminate between executive and non-executive employees with respect to any aspect of this plan.

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

Severance and Other Termination Benefits

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

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

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

The following table summarizes the cash payments that would have been due to Mr. Ringo if a change in control event had occurred on December 31, 2018.

Two times base salary	$800,000
Target bonus	$225,000
Total cash payments	$1,025,000

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

Policy with Respect to $1 Million Deduction Limit

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

CEO Pay Ratio

The compensation for our CEO in 2018 was approximately 13 times the median compensation among all other employees. We identified the median employee by examining the 2018 taxable compensation for all individuals, excluding our CEO, who were employed by us on December 31, 2018, the last business day of our fiscal year. We included all employees, whether employed on a full-time, part-time, or seasonal basis. We did not annualize the compensation for any employees who were not employed by us for all of 2018, nor did we include independent contractors or other persons who were not actual employees. All our employees are located in the United States. We believe the use of total taxable compensation for all employees is a consistently applied compensation measure that reflects the relative value of the compensation of our employees.

After identifying the median employee based on total taxable compensation, we calculated the annual total compensation for such employee using the same methodology that we use for our named executive officers as set forth in the Summary Compensation Table below.

Summary Compensation Table

The following table sets forth information regarding compensation earned by our named executive officers for the years 2016 through 2018:

Name and Principal Position	Year	Salary ($)	Unit Awards ($) (1)	Non-equity Incentive Program Compensation ($) (2)	All Other Compensation ($) (3)	Total ($)
Thomas M. Ringo President and CEO	2018	400,000	235,800	171,450	39,877	847,127
	2017	395,833	262,275	196,300	32,671	887,079
	2016	366,667	317,675	142,160	24,491	850,993
Kevin C. Bates Vice President of Timberland Investments	2018	261,588	79,910	60,960	23,880	426,338
	2017	255,208	94,419	60,400	20,340	430,367
	2016	240,792	176,850	88,850	17,540	524,032
Michael J. Mackelwich Vice President, Timberland Operations (4)	2018	204,167	58,950	38,100	17,250	318,467
	2017	198,333	69,940	60,400	15,054	343,727
Daemon P. Repp Vice President and CFO (5)	2018	178,333	29,475	31,442	12,287	251,537
Director of Finance	2017	145,658	27,976	28,272	10,516	212,422
Jonathon P. Rose Vice President - Real Estate and President of Olympic Property Group	2018	219,865	57,378	38,100	20,184	335,527
	2017	214,503	69,940	60,400	19,228	364,071
	2016	209,271	89,080	88,850	19,700	406,901
John D. Lamb Vice President and CFO (5)	2017	91,089	—	—	175,543	266,632
	2016	253,125	52,400	—	55,800	361,325

(1) Amounts represent the market value on the date of grant of restricted units received in January 2019, 2018, and 2017, respectively, as compensation under the PRU plan for 2018, 2017 and 2016 performance. Expense will be recognized, however, over the four-year vesting period for each of these grants with 25% vesting each year.

(2) Represents awards earned for each of the years 2016 through 2018 under the LTIP but paid out in January 2017, 2018, and 2019, respectively, as discussed in the Compensation Discussion and Analysis. For Mr. Repp, the amount represents the award under the PRU plan paid in January 2019 and 2018 for 2018 and 2017 performance, respectively, as discussed in the Compensation Discussion and Analysis.

(3) Amounts represent matching contributions to the Partnership's 401(k) plan made by the Partnership on behalf of the executive, and distributions received by the executive on unvested restricted Partnership units (the value of the restricted units is described under footnote (1) above and not repeated here). For Mr. Lamb, the amount also includes $50,000 earned in 2016 and paid in 2017 in recognition that he would not receive his first payment under the LTIP until 2018. Mr. Lamb left the Partnership on August 11, 2017. Mr. Lamb's amounts include $98,165 and $29,916 of salary continuation payments for 2017 and 2018, respectively, and the 2017 amount also includes $73,333 paid in January 2018 under the LTIP pursuant to his separation agreement.

(4) Mr. Mackelwich became a named executive officer in March 2017 upon his appointment as a Vice President of the Partnership.

(5) Mr. Repp, in his role as Director of Finance, succeeded Mr. Lamb on August 11, 2017, and became a named executive officer as the Partnership's principal financial officer. On December 4, 2018, Mr. Repp was appointed Vice President and CFO of the Partnership.

Grants of Plan Based Awards Table

The following table supplements the Summary Compensation Table and lists both annual and long-term incentive awards made during 2018 to each named executive officer.

			Estimated Future Payouts Under Non-Equity Incentive Program Awards (1)			Estimated Future Payouts Under Equity Incentive Program Awards						
Name	Type of Award	Grant Date (2)	Thresh -old ($)	Target ($)	Maximum ($)	Thresh -old ($)	Target ($)	Maximum ($)	All Other Unit Awards: Number of Shares of Unit or Units (#) (3)	All Other Options Awards: Number of Securities Underlying Options (#)	Closing Price on Grant Date ($/Sh)	Grant Date Fair Value of Stock and Option Awards ($)
Thomas M Ringo President and CEO	LTIP 2018-2020	None	—	300,000	600,000							
	RU	1/12/18							3,750		69.94	262,275
Kevin C. Bates Vice President	LTIP 2018-2020	None	—	80,000	160,000							
	RU	1/12/18							1,350		69.94	94,419
Michael J. Mackelwich Vice President	LTIP 2018-2020	None	—	50,000	100,000							
	RU	1/12/18							1,000		69.94	69,940
Daemon P. Repp Vice President and CFO	LTIP 2018-2020	None	—	50,000	100,000							
	RU	1/12/18							400		69.94	27,976
Jonathon P. Rose Vice President	LTIP 2018-2020	None	—	50,000	100,000							
	RU	1/12/18							1,000		69.94	69,940

(1) Reflects potential awards under the LTIP. The LTIP was implemented in 2010 with an initial "cycle" corresponding to the performance period 2008-10, a second cycle for the performance period 2009-11, and so on up through the eleventh cycle for the performance period 2018-20 which is the only cycle shown in the table above since its performance period initiated in calendar year 2018. Payouts for the 2014-16, 2015-17, and 2016-18 cycles are reflected in the Summary Compensation Table (see footnote (2) from that table). A description of how the LTIP functions is described above under Long-Term Incentive Program (LTIP).

(2) No grant date attaches to LTIP cycles.

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

Unit Incentive Program

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

Units Available for Issuance

There are 1,105,815 units authorized under the Plan. As of December 31, 2018, there were 858,267 authorized but unissued units in the Plan.

Unit Options

There are currently no unexpired and unexercised options.

Vesting Schedule

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

Unit Appreciation Rights

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

Adjustments, Changes in Our Capital Structure

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

Administration

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

Amendment and Termination

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

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

The following table summarizes the outstanding equity award holdings of our named executive officers as of December 31, 2018:

	Option Awards					Unit Awards			
Name	Number of Securities Underlying Unexercised Options Exercisable (#)	Number of Securities Underlying Unexercised Options Unexercisable (#)	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Unearned Options (#)	Option Exercise Price ($)	Option Expiration Date	Number of Units That Have Not Vested (#)	Market Value of Units That Have Not Vested ($)	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested (#)	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested ($)
Thomas M. Ringo President and CEO	—	—	—			9,024	591,072	—	—
Kevin C. Bates Vice President	—	—	—			4,025	263,638	—	—
Michael J. Mackelwich Vice President	—	—	—			2,500	163,750		
Daemon P. Repp Vice President and CFO	—	—	—			949	62,160	—	—
Jonathon P. Rose Vice President	—	—	—			2,870	187,985	—	—

The following table summarizes the number of units acquired and amounts realized by our named executive officers during the year ended December 31, 2018 on the vesting of restricted units.

Name	Option Awards		Unit Awards	
	Number of Units Acquired on Exercise	Value Realized on Exercise	Number of Units Acquired on Vesting	Value Realized on Vesting
	(#)	($)	(#) (1)	($)
Thomas M. Ringo President and CEO	—	—	2,537	177,590
Kevin C. Bates V.P. Timberland Investments	—	—	1,375	96,250
Michael J. Mackelwich V.P. Timberland Operations	—	—	662	46,340
Daemon P. Repp Vice President and CFO	—	—	362	25,340
Jonathon P. Rose V.P. Real Estate	—	—	1,140	79,800

(1) Of the 662 units acquired upon vesting in 2018 by Mr. Mackelwich, he tendered back 214 units with an aggregate value of $14,973 to the Partnership in lieu of paying cash for payroll taxes due on vesting. As such, Mr. Mackelwich retained a net position of 448 of these units. Of the 1,140 units acquired upon vesting in 2018 by Mr. Rose, he tendered back 352 units with an aggregate value of $24,644 to the Partnership in lieu of paying cash for payroll taxes due on the vesting. As such, Mr. Rose retained a net position of 788 of these units.

Officer Unit Ownership Guidelines

The Partnership has adopted unit ownership guidelines under which the President/CEO should hold units, including unvested restricted units, with a value of five times annual base salary. In addition, ORM Timber Fund IV LLC requires certain other officers should hold units, including unvested restricted units, with a value of two to four times annual base salary, depending on their position. The President/CEO has five years to satisfy the guideline. The other officers do not have a specific time period within which to satisfy the guideline, but may not sell units until their particular ownership target is reached. As of February 15, 2019, Messrs. Ringo, Bates, Mackelwich, Repp, and Rose owned units of Pope Resources that had the following values expressed as multiples of their December 31, 2018 base salary. In addition, the table below outlines, in a relative sense, how the respective ownership positions of each named executive officer were obtained.

		Thomas M. Ringo	Kevin C. Bates	Michael J. Mackelwich	Daemon P. Repp	Jonathan P. Rose
A	Total # of units owned - excluding unvested restricted units	29,868	23,382	3,162	4,726	5,852
B	Value of units owned - excluding unvested restricted units	$ 2,091,656	$ 1,637,441	$ 221,435	$ 330,962	$ 409,816
C	Base salary	$ 400,000	$ 262,656	$ 205,000	$ 180,000	$ 220,762
	Value divided by salary - B/C	5.2	6.2	1.1	1.8	1.9
% of A acquired via:						
	Open market purchase	7%	10%	—%	50%	—%
	Exercise of options	30%	16%	—%	—%	—%
	Vesting of restricted units	63%	74%	100%	50%	100%
D	Total # of unvested restricted units	9,486	3,782	2,550	1,024	2,606
E	Value of unvested restricted units	$ 664,305	$ 264,853	$ 178,577	$ 71,711	$ 182,498
	Value divided by salary - E/C	1.7	1.0	0.9	0.4	0.8
F	Combined value of all owned units - B + E	$ 2,755,961	$ 1,902,294	$ 400,012	$ 402,673	$ 592,314
	Value divided by salary - F/C	6.9	7.2	2.0	2.2	2.7
	Ownership guideline	5.0	4.0	2.0	2.0	

Director Compensation

Compensation of the outside directors of Pope MGP, Inc. consists of a quarterly retainer of $7,500. The Lead Director receives an additional quarterly retainer of $2,000. Members of the Audit Committee and Human Resources Committee receive additional quarterly retainers of $1,875 and $1,250, respectively. The Chairman of the Audit Committee and the Human Resources Committee receive an additional quarterly retainer of $3,125 and $2,000, respectively. Directors may elect to receive all or a portion of their director fees in units rather than cash. The number of units issued as payment for the quarterly retainers is determined by dividing the retainer amount by the closing price on the last trading day of each fiscal quarter, rounded down to the nearest whole unit. The remaining retainer amount is paid in cash.

The following table sets forth a summary of the compensation we paid to our non-employee directors for their services as such in 2018:

Name	Fees Earned or Paid in Cash ($)	Unit Awards ($) (1)	Option Awards ($) (2)	Non-Equity Incentive Program Compensation ($)	Change in Pension Value and Non-qualified Deferred Compensation Earnings	All Other Compensation ($) (3)	Total ($)
William R. Brown	55,000	50,007	—	—	—	6,826	111,833
John E. Conlin	—	100,507	—	—	—	6,563	107,070
Sandy D. McDade	50,500	50,007	—	—	—	15,428	115,935
Maria M. Pope	—	85,007	—	—	—	6,563	91,570

(1) Amounts include the market value on the date of grant (January 12, 2018) of restricted units received during the year. These units are subject to a trading restriction until the units vest. These unit grants vest ratably over four years, with 25% vesting on each anniversary of the grant. In addition, amounts include units with a value of $50,393 for Mr. Conlin and $34,914 for Ms. Pope, who elected to receive all or a portion of their quarterly retainers in the form of units. For each of Mr. Conlin and Ms. Pope, a total of 750 restricted units granted during fiscal year 2014 vested and became eligible for trading on January 5, 2018. For each of Mr. Conlin and Ms. Pope, 375 units granted during fiscal year 2015 vested and became eligible for trading on January 12, 2018. For each of Mr. Brown, Mr. Conlin, and Ms. Pope, 194 units granted during fiscal year 2016 vested and became eligible for trading on January 12, 2018. For each of Mr. Brown, Mr. Conlin, Mr. McDade, and Ms. Pope, 191 units granted during fiscal year 2017 vested and became eligible for trading on January 12, 2018. For Mr. Brown, 375 units granted during fiscal year 2015 vested and became eligible for trading on March 23, 2018. For Mr. McDade, 184 units granted during fiscal year 2016 vested and became eligible for trading on May 4, 2018.

(2) No options were awarded in 2018.

(3) Amounts represent distributions received on unvested restricted Partnership units. For Mr. McDade, amounts also include $10,000 for consultation services.

Director Unit Ownership Guidelines

The Partnership has adopted unit ownership guidelines under which the directors should hold units, including unvested restricted units, with a value of $250,000. Directors should generally achieve the target ownership level within five years of becoming a director. Mr. Brown, Mr. Conlin, and Ms. Pope have reached the ownership guideline, and it is anticipated that Mr. McDade will reach the ownership guideline within five years of his appointment as director.

Report of the Human Resources Committee on Executive Compensation

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

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

Composition of the Committee

The Committee is comprised of William R. Brown, John E. Conlin, Sandy D. McDade, and Maria M. Pope. Mr. Conlin served as Committee Chair during 2018. None of the members are or were officers or employees of the Partnership or the General Partner.

Conclusion

The Human Resources Committee believes that for 2018 the compensation terms for Messrs. Ringo, Bates, Mackelwich, Repp, and Rose, as well as for our other management personnel, were clearly related to the realization of the goals and strategies established by the Partnership. The discussion set forth in this section entitled "Compensation Discussion and Analysis" is hereby adopted as the Report of the Human Resources Committee for the year ended December 31, 2018.

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

Audit Committee Report on Financial Statements

The Audit Committee of the General Partner's Board of Directors has furnished the report set forth in the following section entitled "Responsibilities and Composition of the Audit Committee" on the Partnership's year-end financial statements and audit for fiscal year 2018. The Audit Committee's report is intended to identify the members of the Audit Committee and describe in general terms the responsibilities the Audit Committee assumes, the process it undertakes, and the matters it considers in reviewing the Partnership's financial statements and monitoring the work of the Partnership's external auditors.

Responsibilities and Composition of the Audit Committee

The Audit Committee is responsible for (1) hiring the Partnership's independent registered public accounting firm and overseeing their performance of the audit functions assigned to them, (2) approving all audit and any non-audit services to be provided by the external auditors, and (3) approving all fees paid to the independent registered public accounting firm. Additionally, the Audit Committee reviews the Partnership's quarterly and year-end financial statements with management and the independent registered public accounting firm. The Board of Directors has adopted an Audit Committee Charter filed as Exhibit 3.9 to this Annual Report on form 10-K.

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

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

Conclusion

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

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

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

Principal Unitholders

As of February 15, 2019, the following persons were known or believed by the Partnership (based solely on statements made in filings with the SEC or other information we believe to be reliable) to be the beneficial owners of more than 5% of the outstanding Partnership units:

Name and Address of Beneficial Owner	Number Of Units [(1)]	Percent of Class
James H. Dahl 501 Riverside, Suite 902 Jacksonville, FL 32202	514,202 (2)	11.8
Emily T. Andrews 601 Montgomery Street Suite 2000 San Francisco, CA 94111	498,203 (3)	11.4
Maria M. Pope 133 SW 2nd Ave., Ste. 301 Portland, OR 97204	351,891 (4)	8.0
Pictet Asset Management SA 60 Route des Acacias 1211 Geneva 73 Switzerland	320,271 (2)	7.3

(1) Each beneficial owner has sole voting and investment power unless otherwise indicated. Includes restricted units that are unvested since beneficial owner receives distributions on all such restricted units.

(2) This information is based upon information disclosed publicly by the filing person and without separate confirmation.

(3) Includes a total of 60,000 units held by Pope MGP, Inc., and Pope EGP, Inc., the Partnership's general partners, attributable to Mrs. Andrews by virtue of the Shareholders Agreement entered into by and among Pope MGP, Inc., Pope EGP, Inc., Peter T. Pope, Emily T. Andrews, Pope & Talbot, Inc., present and future directors of Pope MGP, Inc. and the partnership, dated as of November 7, 1985. Mrs. Andrews is deemed to exercise shared voting and dispositive power over units held by the general partners because of her relationship to the Emily T. Andrews 1987 Revocable Trust, over which she holds or shares control. Mrs. Andrews disclaims beneficial ownership of units held by the general partners except to the extent of her pecuniary interest therein.

(4) Includes (a) 239,317 units held by a limited liability company controlled by Ms. Pope; (b) 1,832 unvested restricted units; (c) 49,307 units held in trust for Ms. Pope's children for which she disclaims beneficial ownership; and (d) 60,000 units held by Pope MGP, Inc. and Pope EGP, Inc., as to which she shares investment and voting power pursuant to the shareholders agreement referenced in Footnote (3). Ms. Pope is deemed to exercise shared voting and dispositive power over units held by the general partners because of her position as trustee of the PMG Trust UTA dated June 28, 2016. Ms. Pope disclaims beneficial ownership of units held by the general partners except to the extent of her pecuniary interest therein.

Management

As of February 15, 2019, the beneficial ownership of the Partnership units of (1) the named executives (2) the directors of the Partnership's general partners, (3) the general partners of the Partnership, and (4) the Partnership's officers, directors and general partners as a group, was as follows. **

Name	Position and Offices	Number of Units [1]	Percent of Class
Thomas M. Ringo	Director, President and CEO, Pope MGP, Inc. and the Partnership	39,354 [2]	*
William R. Brown	Director, Pope MGP, Inc.	3,725 [3]	*
John E. Conlin	Director, Pope MGP, Inc.	29,829 [4]	*
Sandy D. McDade	Director, Pope MGP, Inc.	3,531 [5]	*
Maria M. Pope	Director, Pope MGP, Inc.	351,891 [6]	8.0
Kevin C. Bates	Vice President of Timberland Investments	27,164 [7]	*
Daemon P. Repp	Vice President and CFO	5,750 [8]	*
Michael J. Mackelwich	Vice President, Timberland Operations	5,712 [9]	*
Jonathan P. Rose	Vice President – Real Estate and President of Olympic Property Group	8,458 [10]	*
Pope MGP, Inc.	Managing General Partner of the Partnership	6,000	*
Pope EGP, Inc.	Equity General Partner of the Partnership	54,000	1.2
All General partners, directors and officers of general partners, and officers of the Partnership as a group (9 individuals and 2 entities)		475,414 [11]	10.9

* Less than 1%
** The address of each of these parties is c/o Pope Resources, 19950 Seventh Avenue NE, Suite 200, Poulsbo, WA 98370.

(1) Each beneficial owner has sole voting and investment power unless otherwise indicated. Includes restricted units that are unvested since beneficial owner receives distributions on all such restricted units.
(2) Includes 9,486 unvested restricted units.
(3) Includes 2,207 unvested restricted units.
(4) Includes 1,832 unvested restricted units.
(5) Includes 2,006 unvested restricted units
(6) Includes 239,317 units held by a limited liability company controlled by Ms. Pope and 1,832 unvested restricted units. Also includes 49,307 units held in trust for Ms. Pope's children for which she disclaims beneficial ownership and 60,000 units held by Pope MGP, Inc. and Pope EGP, Inc., as to which she shares investment and voting power.
(7) Includes 3,782 unvested restricted units.
(8) Includes 1,024 unvested restricted units.
(9) Includes 2,550 unvested restricted units.
(10) Includes 2,606 unvested restricted units.
(11) For this computation, the 60,000 units held by Pope MGP, Inc. and Pope EGP, Inc. are excluded from units beneficially owned by Ms. Pope. Includes 27,325 unvested restricted units.

Equity Compensation Plan Information

The following table presents certain information with respect to the Partnership's equity compensation plans and awards thereunder on December 31, 2018.

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders	-	N/A	858,267
Equity compensation plans not approved by security holders	-	-	-
Total	-	N/A	858,267

Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

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

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

Director Independence

With the exception of Mr. Ringo, our Chief Executive Officer, and Ms. Pope, who is an affiliate of the General Partner by virtue of her beneficial ownership of 50% of the common stock of the General Partner, and subject to the above discussions regarding the relationships between the Partnership and the Managing General Partner, all of the directors of the Managing General Partner are independent under applicable laws and regulations and the listing standards of NASDAQ.

Item 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The following table summarizes fees related to the Partnership's principal accountants, KPMG LLP, for 2018 and 2017.

Description of services	**2018**	**%**	2017	%
Audit (1)	**$ 612,006**	**99%**	$ 575,823	99%
Audit related (2)	**—**	**—**	—	—
Tax (2)	**—**	—	—	—
All other fees (3)	**3,280**	**1%**	5,280	1%
Total	**$ 615,286**	**100%**	$ 581,103	100%

(1) Fees represent the arranged fees for the years presented, including the quarterly reviews, annual audit of internal control over financial reporting as mandated under Sarbanes-Oxley section 404, and audits over the ORM Timber Operating Company II, LLC, ORM Timber Fund III (REIT) Inc., and ORM Timber Fund IV (REIT), Inc. subsidiaries, and out-of-pocket expenses reimbursed during the years presented.
(2) There were no fees paid for audit related or tax services.
(3) Subscription to KPMG LLP's Accounting Research Online tool and required financial security for Port Gamble environmental long-term monitoring activities for 2018 and 2017, and also includes procedures performed related to the allocation of distributions for ORM Timber Fund II for 2017.

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

PART IV

Item 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULE

Exhibits.

No.	Document
3.1	Certificate of Limited Partnership. (1)
3.2	Second Amended and Restated Limited Partnership Agreement of Pope Resources, A Delaware Limited Partnership dated February 20, 2019. (12)
3.3	Certificate of Incorporation of Pope MGP, Inc. (1)
3.4	Amendment to Certificate of Incorporation of Pope MGP, Inc. (2)
3.5	Bylaws of Pope MGP, Inc. (1)
3.6	Certificate of Incorporation of Pope EGP, Inc. (1)
3.7	Amendment to Certificate of Incorporation of Pope EGP, Inc. (2)
3.8	Bylaws of Pope EGP, Inc. (1)
3.9	Audit Committee Charter. (3)
4.1	Specimen Depositary Receipt of Registrant. (1)
4.2	Second Amended and Restated Limited Partnership Agreement of Pope Resources, A Delaware Limited Partnership dated February 20, 2019 (see Exhibit 3.2).
4.3	Pope Resources 2005 Unit Incentive Plan. (4)
9.1	Shareholders Agreement entered into by and among Pope MGP, Inc., Pope EGP, Inc., Peter T. Pope, Emily T. Andrews, P&T, present and future directors of Pope MGP, Inc. and the Partnership, dated as of November 7, 1985 included as Appendix C to the P&T Notice and Proxy Statement filed with the Securities and Exchange Commission on November 12, 1985, a copy of which was filed as Exhibit 28.1 to the Partnership's registration on Form 10 identified in footnote (1) below. (1)
10.1	Form of Change of control agreement. (3)
10.2	Mortgage, Financing statement and Fixture Filing executed by Pope Resources in favor of Northwest Farm Credit Services, FLCA dated June 10, 2010. (5)
10.3	Mortgage, Financing statement and Fixture Filing executed by Pope Resources in favor of Northwest Farm Credit Services, PCA dated June 10, 2010. (5)
10.4	First Amended and Restated Term Note from Pope Resources to Northwest Farm Credit Services, FLCA dated June 10, 2010. (5)
10.5	Term Note from Pope Resources to Northwest Farm Credit Services, FLCA dated June 10, 2010. (5)
10.6	Revolving Operating Note from Pope Resources to Northwest Farm Credit Services, PCA dated April 1, 2015. (8)
10.7	Amended and Restated Note (Revolving Line of Credit) from Pope Resources to Northwest Farm Credit Services, PCA dated October 11, 2018. (12)
10.8	Second Amended and Restated Master Loan Agreement between Pope Resources and Northwest Farm Credit Services, FLCA dated July 20, 2016. (9)
10.9	Second Amended and Restated Master Loan Agreement between Pope Resources and Northwest Farm Credit Services, PCA dated July 20, 2016. (9)
10.10	Amendment No. 3 To Second Amended and Restated Master Loan Agreement between Pope Resources and Northwest Farm Credit Services, FLCA dated October 11, 2018. (12)
10.11	Amendment No. 3 To Second Amended and Restated Master Loan Agreement between Pope Resources and Northwest Farm Credit Services, PCA dated October 11, 2018. (12)
10.12	Note and Loan Agreement between Pope Resources and Northwest Farm Credit Services, FLCA dated July 20, 2016. (9)

10.13	Amended and Restated Note and Loan Agreement between Seventh Avenue Poulsbo, LLC and Northwest Farm Credit Services, FLCA dated September 30, 2016. (10)
10.14	Amended and Restated Note between Pope Resources and Northwest Farm Credit Services, FLCA dated June 27, 2017. (11)
10.15	Amended and Restated Note (Long Term Financing Facility) between Pope Resources and Northwest Farm Credit Services, FLCA dated October 11, 2018. (12)
10.16	Note (Acquisition Facility) between Pope Resources and Northwest Farm Credit Services, FLCA dated October 11, 2018. (12)
10.17	Loan Agreement between ORM Timber Operating Company II, LLC and Metropolitan Life Insurance Company dated September 1, 2010. (5)
10.18	First Amendment to Loan Agreement between ORM Timber Operating Company II, LLC and Metropolitan Life Insurance Company dated February 7, 2011. (5)
10.19	Promissory Note from ORM Timber Operating Company II, LLC to Metropolitan Life Insurance Company dated September 1, 2010. (5)
10.20	Guaranty by ORM Timber Fund II, Inc. in favor of Metropolitan Life Insurance Company dated September 1, 2010. (5)
10.21	Deed of Trust, Security Agreement, Assignment of Leases and Rents and Fixture Filing between ORM Timber Operating Company II, LLC and Metropolitan Life Insurance Company dated September 1, 2010. (5)
10.22	Trust Deed, Security Agreement, Assignment of Leases and Rents and Fixture Filing between ORM Timber Operating Company II, LLC and Metropolitan Life Insurance Company dated September 1, 2010. (5)
10.23	Second Amendment to Loan Agreement between ORM Timber Operating Company II, LLC and Metropolitan Life Insurance Company dated August 15, 2013. (6)
10.24	Promissory Note from ORM Timber Operating Company II, LLC to Metropolitan Life Insurance Company dated August 15, 2013. (6)
10.25	Amendment and Reaffirmation of Guaranty by ORM Timber Fund II, Inc. in favor of Metropolitan Life Insurance Company dated August 15, 2013. (6)
10.26	First Amendment to Deed of Trust, Security Agreement, Assignment of Leases and Rents and Fixture Filing between ORM Timber Operating Company II, LLC and Metropolitan Life Insurance Company dated August 15, 2013. (6)
10.27	First Amendment to Trust Deed, Security Agreement, Assignment of Leases and Rents and Fixture Filing between ORM Timber Operating Company II, LLC and Metropolitan Life Insurance Company dated August 15, 2013. (6)
10.28	Master Loan Agreement among ORM Timber Fund III (REIT) Inc. and Northwest Farm Credit Services, FLCA and Northwest Farm Credit Services, PCA dated December 2, 2013. (6)
10.29	Promissory Note from ORM Timber Fund III (REIT) Inc. to Northwest Farm Credit Services, FLCA dated December 2, 2013. (6)
10.30	Mortgage, Assignment of Rents, Security Agreement, Financing Statement and Fixture Filing between ORM Timber Fund III (REIT) Inc. and Northwest Farm Credit Services, FLCA dated December 2, 2013 (Grays Harbor County). (6)
10.31	Mortgage, Assignment of Rents, Security Agreement, Financing Statement and Fixture Filing between ORM Timber Fund III (REIT) Inc. and Northwest Farm Credit Services, FLCA dated December 2, 2013 (Pacific County). (6)
10.32	Mortgage, Assignment of Rents, Security Agreement, Financing Statement and Fixture Filing between ORM Timber Fund III (REIT) Inc. and Northwest Farm Credit Services, FLCA dated December 2, 2013 (Siskiyou County). (6)
10.33	Guaranty Agreement by ORM Timber Fund III LLC and ORM Timber Fund III (Foreign) LLC in favor of Northwest Farm Credit Services, FLCA dated December 2, 2013. (6)

10.34	Amendment No. 3 to Master Loan Agreement among ORM Timber Fund III (REIT) Inc. and Northwest Farm Credit Services, FLCA and Northwest Farm Credit Services, PCA dated October 14, 2014. (7)
10.35	Amendment No. 5 to Master Loan Agreement among ORM Timber Fund III (REIT) Inc. and Northwest Farm Credit Services, FLCA and Northwest Farm Credit Services, PCA dated November 11, 2016. (10)
10.36	Promissory Note from ORM Timber Fund III (REIT) Inc. to Northwest Farm Credit Services, FLCA dated October 14, 2014. (7)
10.37	Mortgage, Financing Statement and Fixture Filing between ORM Timber Fund III (REIT) Inc. and Northwest Farm Credit Services, PCA dated October 14, 2014. (7)
10.38	Mortgage, Financing Statement and Fixture Filing between ORM Timber Fund III (REIT) Inc. and Northwest Farm Credit Services, FLCA dated October 14, 2014. (7)
21.1	Significant Subsidiaries. (12)
23.1	Consent of Independent Registered Public Accounting Firm. (12)
31.1	Certificate of Chief Executive Officer. (12)
31.2	Certificate of Chief Financial Officer. (12)
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. (12)
32.2	Certification of Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. (12)
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

(1) Incorporated by reference from the Partnership's registration on Form 10 filed under File No. 1-9035 and declared effective on December 5, 1985.
(2) Incorporated by reference from the Partnership's annual report on Form 10-K for the fiscal year ended December 31, 1988.
(3) Incorporated by reference to the Partnership's annual report on Form 10-K for the fiscal year ended December 31, 2005.
(4) Filed with Form S-8 on September 9, 2005.
(5) Incorporated by reference to the Partnership's annual report on Form 10-K for the fiscal year ended December 31, 2010.
(6) Incorporated by reference to the Partnership's annual report on Form 10-K for the fiscal year ended December 31, 2013.
(7) Incorporated by reference to the Partnership's annual report on form 10-K for the fiscal year ended December 31, 2014.
(8) Incorporated by reference to the Partnership's quarterly report on Form 10-Q for the fiscal quarter ended March 31, 2015.
(9) Incorporated by reference to the Partnership's quarterly report on Form 10-Q for the fiscal quarter ended September 30, 2016.
(10) Incorporated by reference to the Partnership's annual report on Form 10-K for the fiscal year ended December 31, 2016.
(11) Incorporated by reference to the Partnership's quarterly report on Form 10-Q for the fiscal quarter ended June 30, 2017.
(12) Filed with this annual report on Form 10-K for the fiscal year ended December 31, 2018.

SIGNATURES

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

POPE RESOURCES, A Delaware
Limited Partnership

By POPE MGP, INC.
Managing General Partner

Date: March 5, 2019

By /s/ Thomas M. Ringo
President and Chief Executive Officer

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

Date: March 5, 2019

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

Date: March 5, 2019

By /s/ Daemon P. Repp
Daemon P. Repp
Vice President and Chief Financial Officer (principal financial officer), Partnership and Pope MGP, Inc.

Date: March 5, 2019

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

Date: March 5, 2019

By /s/ William R. Brown
William R. Brown
Director, Pope MGP, Inc.

Date: March 5, 2019

By /s/ John E. Conlin
John E. Conlin
Director, Pope MGP, Inc.

Date: March 5, 2019

By /s/ Sandy D. McDade
Sandy D. McDade
Director, Pope MGP, Inc.

Date: March 5, 2019

By /s/ Maria M. Pope
Maria M. Pope
Director, Pope MGP, Inc.

SECOND AMENDED AND RESTATED

LIMITED PARTNERSHIP AGREEMENT

OF

POPE RESOURCES,
A Delaware Limited Partnership

Dated
As of November 7, 1985

Including Amendments Approved:

December 16, 1986
February 13, 1997
October 30, 2007
April 12, 2011
February 20, 2019

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SECOND AMENDED AND RESTATED
LIMITED PARTNERSHIP AGREEMENT OF POPE RESOURCES,
A Delaware Limited Partnership

This Limited Partnership Agreement (the "Agreement"), dated as of November 7, 1985, is made and entered into by and between Pope MGP, Inc., a Delaware corporation, as Managing General Partner and as Original Limited Partner, and Pope EGP, Inc., a Delaware corporation, as Equity General Partner, and all other parties who shall become Partners of this Limited. Partnership as hereinafter provided.

In consideration of the mutual covenants and promises herein, the parties hereby form a Limited Partnership under The Delaware Revised Uniform Limited Partnership Act upon the following terms and conditions:

ARTICLE 1

DEFINITIONS

When used in this Agreement the following terms shall have the meanings set forth below except as otherwise specifically modified:

1.1 "Additional Limited Partner" means a Person admitted to the Partnership as an additional Limited Partner pursuant to Article 15 hereof.

1.2 "Affiliate" means any Person that directly or indirectly controls, is controlled by, or is under common control with the Person in question.

1.3 "Agreement" means this limited partnership agreement as the same may be amended from time to time.

1.4 "Allocable Share" of a Partner or Assignee, at any particular time, means the percentage which the number of Units owned by such Partner or Assignee is of the total Units of all Partners and Assignees at such time.

1.5 "Assignee" means a Person to whom one or more Limited Partners' Units have been transferred as provided in Article 7.1 hereof, or to whom one or more Units have been transferred by a Substituted or Additional Limited Partner and who has applied to become a Substituted Limited Partner as set forth in Articles 14 and 15 or to whom a Depositary Receipt has been transferred on the books of the Depositary as provided in Section 14.3 hereof, and who has not become a Substituted Limited Partner.

1.6 "Capital Contribution" or "Partnership Capital" means the total amount contributed to the capital of the Partnership by the General Partners, the Original Limited Partner, Substituted Limited Partners or Assignees or by Additional Limited Partners.

1.7 "Certificate" means a non-transferable certificate, substantially in the form of Exhibit A attached hereto, evidencing ownership of one or more Units.

1.8 “Certificate of Limited Partnership” means the certificate of limited partnership filed pursuant to the Delaware Act or any successor statute, as the same may be amended from time to time.

1.9 “Code” means the Internal Revenue Code of 1986, as amended from time to time.

1.10 “Company” means Pope & Talbot, Inc., a Delaware corporation.

1.11 “Delaware Act” means The Delaware Revised Uniform Limited Partnership Act, as amended and in effect from time to time.

1.12 “Depositary” means Newhall Depositary Company in its capacity as depositary or any other Person appointed to serve as depositary, or any successor as Depositary under the Depositary Agreement.

1.13 “Depositary Account” means the account established by the Depositary to hold the Depositary Units.

1.14 “Depositary Agreement” means the agreement so designated, which may be entered into between the Partnership and the Depositary, as it may be amended or supplemented from time to time. If there is no Depositary Agreement, the provisions governing deposit, transfer and withdrawal of Units, Depositary Receipts and any other matters as to which this Agreement refers to the Depositary Agreement shall be as determined by the Managing General Partner.

1.15 “Depositary Receipt” means a depositary receipt issued by the Depositary evidencing ownership of one or more Depositary Units.

1.16 “Depositary Unit” means a unit of ownership representing a Limited Partners’ Unit evidenced by a Certificate on deposit with the Depositary.

1.17 “Designated Individual” is defined in Section 3.12(A) hereof.

1.18 “Effective Date” means the effective date of the Plan (as defined in the Plan).

1.19 “EGP” means Pope EGP, Inc., a Delaware corporation.

1.20 “Equity General Partner” means the Person so designated pursuant to Section 3.2.

1.21 “General Partners” means the Persons named above as general partners in their capacity as general partners of the Partnership, and any successor or additional general partners. “General Partner” means one of the General Partners.

1.22 “IPMB Cumulative Commitment” means the cumulative sum of

(1) Portfolio Management Costs expended; and

(2) Portfolio Financial Commitments made

1.23 "IPMB Net Income" means by the Partnership directly or through the Portfolio Business Affiliate, in the conduct, management and administration of the Investor Portfolio Management Business, net of cumulative IPMB Net Income not allocated to MGP. "IPMB Net Income" means net income of the Portfolio Business Affiliate conducting the Investor Portfolio Management Business derived from the conduct of such business, as determined annually by deducting Portfolio Management Costs from Portfolio Management Revenue.

1.24 "Investment Entities" means new general or limited partnership, joint ventures, limited liability companies, or other new entities to be formed with Investors to acquire, hold, and manage land, land-holding entities, and related resources.

1.25 "Investor Portfolio Management Business" means the business of the Partnership, its Affiliates, and/or related businesses, involving the location, acquisition, management and/or development of land and related resources directly or through acquisition of land-holding entities, including, but not limited to, timberlands and lands with development potential for residential or commercial use, within and without the United States, primarily or exclusively for the account of Investors.

1.26 "Investors" means one or more individuals and/or entities who are not otherwise Affiliates of the Partnership who shall provide funds for the location, acquisition, management and/or development of land and related resources directly or through acquisition of land-holding entities, including, but not limited to, timberlands and lands with development potential for residential or commercial use, within and without the United States.

1.27 "Limited Partners" means the Original Limited Partner, the Substituted Limited Partners and the Additional Limited Partners for so long as they are limited partners hereunder. "Limited Partner" means one of the Limited Partners. No Assignee who has not been admitted as a Substituted Limited Partner shall be considered a Limited Partner for the purposes of this Agreement.

1.28 "Limited Partners' Units" means Units held or owned by any Person, whether as a Limited Partner or Assignee, other than the General Partners as general partners of the Partnership.

1.29 "Majority Interest" means the Partners of record holding more than fifty percent (50%) of the Units held by all Partners of record.

1.30 "Managing General Partner" means the Person so designated pursuant to Section 3.2.

1.31 "Maximum Commitment Level" means Five Million Dollars ($5,000,000).

1.32 "MGP" means Pope MGP, Inc., a Delaware corporation.

1.33 “Net Income” means the net income of the Partnership as determined on the accrual method in accordance with generally accepted accounting principles.

1.34 “Net Loss” means the net loss of the Partnership as determined on the accrual method in accordance with generally accepted accounting principles.

1.35 “Original Limited Partner” means Pope MGP, Inc., a Delaware corporation.

1.36 “Original Property” means the assets and liabilities of the Company transferred to the Partnership pursuant to the Plan.

1.37 “Partner” means a General Partner or a Limited Partner; and “Partners” means the General Partners and all Limited Partners.

1.38 “Partnership” means the limited partnership created by this Agreement and any successor partnership thereto continuing the business of the Partnership which is a reformation or reconstitution of a partnership governed by this Agreement.

1.39 “Partnership Property” means the Original Property and any and all property, real or personal, now or hereafter owned by the Partnership or in or to which the Partnership has any interest, right or claim.

1.40 “Partnership Representative” means (i) for taxable years beginning on or prior to December 31, 2017, the meaning of a “Tax Matters Partner” set forth in Code Section 6231 and any comparable provisions of state, local and non-U.S. income tax laws, and (ii) for taxable years beginning after December 31, 2017, and to which the Revised Partnership Audit Procedures apply, the meaning of a “partnership representative” set forth in Code Section 6223(a) and any comparable provisions of state, local and non-U.S. income tax laws.

1.41 “Person” means an individual, partnership, joint venture, estate, association, corporation, trust company, trust or other legal entity.

1.42 “Plan” means the Plan of Distribution of Pope & Talbot, Inc., a Delaware corporation, as described in the proxy statement sent to holders of the Common Stock of the Company for the meeting of Stockholders held for their approval of said Plan, as it may be amended or supplemented from time to time.

1.43 “Plan Distribution Record Date” means the Record Date established pursuant to the Plan for determining the identity of Stockholders entitled to receive a portion of the distribution under the Plan.

1.44 “Portfolio Business Affiliate” means one or more entities wholly-owned and controlled, directly or indirectly, by the Partnership or by the Partnership and the Managing General Partner.

1.45 “Portfolio Financial Commitments” means capital contributions, loans, guarantees, negative pledges, and other financial commitments made or incurred by the

Partnership directly or through the Portfolio Business Affiliate in the conduct, management, and administration of the Investor Portfolio Management Business.

1.46 "Portfolio Management Costs" means all of the costs and expenses incurred in the conduct, management, and administration of the Investor Portfolio Management Business, including the portions of shared or prorated expenses allocated thereto, all of which shall include but not be limited to salaries, benefits and other compensation costs; professional fees (including accounting, legal, and consulting fees); and travel, public relations, marketing, facilities, and equipment expenses incurred by the Partnership or the Portfolio Business Affiliate in the conduct, management, and administration of the Investor Portfolio Management Business.

1.47 "Portfolio Management Revenue" means the fees payable by the Investment Entities and Investors to the Portfolio Business Affiliate.

1.48 "Proxy Statement" means the proxy statement sent to the holders of Common Stock of the Company for the meeting of Stockholders held for their approval of the Plan.

1.49 "Record Date" means the date established by the Partnership for determining (i) the identity of Persons entitled to notice of or to vote at any meeting of Partners or entitled to vote by ballot or entitled to exercise rights in respect of any other lawful action, or (ii) the identity of Partners and Assignees entitled to receive any report or distribution.

1.50 "Related Person" means the Company; a General Partner; any general partner, officer, director or Affiliate of any of the foregoing or the Partnership; any stockholder of a General Partner; or any Person in which any of the foregoing has a material financial interest.

1.51 "Request and Power" means a request for admission as a Substituted or Additional Limited Partner, an agreement to be bound by the terms of this Agreement, a power of attorney (whether appearing on a stockholder proxy card of the Company, the reverse side of a Depositary Receipt, or in a separate instrument) and the provision of such other information as t h e Partnership shall request in such forms as are approved by the Partnership.

1.52 "Revised Partnership Audit Procedures" means the provisions of Subchapter C of Subtitle F, Chapter 63 of the Code, as amended by P.L. 114-74, the Bipartisan Budget Act of 2015 (together with any subsequent amendments thereto including amendments made by P.L. 114-113, the Consolidated Appropriations Act of 2015), Treasury Regulations promulgated thereunder, and published administrative interpretations thereof, and any similar procedures established by a state, local or non-U.S. taxing authority.

1.53 Shareholders Agreement" is defined in Section 6.8(A) (8) hereof.

1.54 "Stockholders" is defined in Section 7.1 hereof.

1.55 "Substituted Limited Partner" means a Person admitted to the Partnership as a substituted limited partner pursuant to Article 15 hereof.

1.56 “Tax Credits” means all credits allowed under the Code, including, without limitation, investment tax credits, and credits allowable to Partners or Assignees under state or other taxing statutes.

1.57 “Unit” and Partnership Unit” means a unit of interest in the Partnership acquired or issue pursuant to this Agreement. “Units” and “Partnership Units” means all of such units of interest.

ARTICLE 2

THE LIMITED PARTNERSHIP

2.1 Formation of the Partnership. The General Partners and the Original Limited Partner hereby agree to form and by execution of this Agreement do hereby enter into a limited partnership under the Delaware Act, which Act, as amended, and any successor statutes thereto, shall govern the rights and liabilities of the parties hereto.

2.2 Partnership Name. The name of the Partnership is “Pope Resources, A Delaware Limited Partnership” and the Partnership shall conduct business under such name, “Pope Resources”, or such other names as the Managing General Partner may from time to time deem necessary, appropriate or advisable. The Managing General Partner in its sole discretion may change the name of the Partnership at any time and from time to time. The General Partners and the Limited Partners hereto shall promptly execute, and the Managing General Partner shall file and record with proper offices in each jurisdiction in which the Partnership does, or elects to do, business, and publish such certificates or other statements or other statements or instruments as are required by the limited partnership act, fictitious name act, assumed name act or any other similar statute in effect in such jurisdiction in order to conduct validly the Partnership business therein as a limited partnership.

2.3 Purpose of the Partnership. The Partnership will engage generally in any and all phases of the businesses of conducting traditional forestry operations and selling timber or logs under cutting contracts or other arrangements, selling undeveloped acreage, developing acreage for sale as improved property, selling developed and undeveloped lots at the Port Ludlow Community, and maintaining and operating reforestation and transplant nurseries, participating in the Investor Portfolio Management Business through the Portfolio Business Affiliate (but only to the extent that the Partnership’s IPMB Cumulative Commitment does not exceed the Maximum Commitment Level unless the Partnership shall have approved the continuation of the Investment Portfolio Management Business, and the commitment of the funds in excess of the Maximum Commitment Level, in the manner provided in Section 6.8(A)), and in any other business with the exception of the business of granting policies of insurance, or assuming insurance risks or banking as defined in Section 126, Title 8 of the Delaware Code. Without limiting the generality of the foregoing, the Partnership may perform such other acts incidental and supplementary to the foregoing as the Managing General Partner determines to be necessary or appropriate.

2.4 Principal Place of Business. The principal place of business of the Partnership shall be 19950 7th Avenue NE, Suite 200, Poulsbo, Washington, 98370, but the Managing General Partner may substitute or establish such other place or places of business for the Partnership (within or without the State of Washington) as it may, from time to time, deem necessary or appropriate; provided, however, that the Managing General Partner shall give the Limited Partners and Assignees notice in writing of any change of address of the principal place of business of the Partnership and, in connection therewith, shall amend the Certificate of Limited Partnership in accordance with applicable requirements of law. The Managing General Partner may select one or more Persons to act as agent for service of process on the Partnership, including, without limitation, a General Partner or a Related Person, if the Managing General Partner so elects, in accordance with applicable requirements of law.

2.5 Term of the Partnership. The Partnership shall commence on the date that the Certificate of Limited Partnership is recorded or filed and shall continue until December 31, 2060, unless extended by amendment of this Agreement or unless the Partnership is dissolved prior to that date pursuant to Section 17.1.

2.6 Execution of Documents. The General Partners shall execute, acknowledge and file or deliver all certificates of limited partnership, amended certificates, instruments or other documents and counterparts thereof and make all filings and recordings and perform all other acts as shall be necessary to comply with the laws of the State of Delaware for the formation of the Partnership, thereafter for the continued good standing of the Partnership, and, when appropriate, for the termination of the Partnership. The General Partners shall also execute such certificates, amended certificates and other documents conforming hereto and do such filing, recording, publishing and other acts as may be appropriate to comply with the requirements of law for the formation, reformation, qualification and/or operation of a limited partnership in all jurisdictions where the Partnership may wish to do business, which shall be accomplished prior to doing business in any such jurisdiction if deemed necessary by the Managing General Partner. Such certificates, instruments, documents and counterparts may be signed by the Managing General Partner on behalf of any or all of the Limited Partners acting pursuant to powers of attorney from the Limited Partners.

ARTICLE 3

THE GENERAL PARTNERS

3.1 General. The General Partners shall devote such time and attention to the business of the Partnership as may be reasonably necessary to carry out its duties hereunder in the conduct of such business, but, subject to any policies adopted by the Partnership or the Managing General Partner, neither this Agreement nor the relationship of the parties as partners shall remove or impair the right of the officers, directors and stockholders of the General Partners to be otherwise employed by an entity or entities other than the Partnership on a part-time or full- time basis. The General Partners shall have the power and authority to appoint Partnership officers and employees as the General Partners deem necessary or appropriate. Nothing herein shall prevent any officer, director, stockholder or employee of a General Partner or of the Partnership from becoming an Assignee or a Limited Partner, whereupon that Person

shall be entitled to all rights and shall be subject to all obligations relating to such Units and shall as to such Units be deemed as Assignee or a Limited Partner, as applicable.

3.2 Management Power. The Managing General Partner shall have exclusive discretion in the management and control of the business of the Partnership, shall make all decisions affecting the business of the Partnership, shall act as tax matters partners for the Partnership and may take such actions as it deems necessary or appropriate to accomplish the purposes of the Partnership as set forth herein. The Managing General Partner shall be Pope MGP, Inc. ("MGP"), a Delaware corporation and any successor to MGP which becomes Managing General Partner of the Partnership pursuant to this Agreement. If there is no successor to MGP which becomes Managing General Partner pursuant to this Agreement, then the Equity General Partner shall be Managing General Partner until a meeting of the Partners can be convened to elect a Person to serve as Managing General Partner hereunder. When such election takes effect, the Equity General Partner shall cease to serve as Managing General Partner. The Equity General Partner shall be Pope EGP, Inc. ("EGP"), a Delaware corporation, and any successor to EGP which becomes Equity General Partner pursuant to this Agreement. The purposes of the Equity General Partner as a General Partner hereunder shall be solely to continue the business of the Partnership and to serve as Managing General Partner until an election is held in the event there is no successor Managing General Partner pursuant to this Agreement and, together with the Managing General Partner, to initially have and to maintain sufficient assets in order to ensure, to the extent possible, that the Partnership will be treated as a partnership, rather than an association taxable as a corporation for federal income tax purposes.

3.3 Powers of the Managing General Partner. Subject to Sections 6.8 and 6.9, in connection with such management and control, the Managing General Partner shall have the power and authority to do or cause to be done any and all acts deemed by the Managing General Partner to be necessary or appropriate to carry out the purposes of the Partnership including, but not limited to, causing the Partnership to contribute some or all of the properties of the Partnership to an operating partnership in order to minimize state recording problems. The power and authority of the Managing General Partner shall be liberally construed to encompass all acts and activities in which a partnership may engage. Any Person dealing with the Managing General Partner shall not be required to determine or inquire into the authority and power of the Managing General Partner to bind the Partnership and to execute, acknowledge and deliver any and all documents. The expression of any power or right of the Managing General Partner in this Agreement shall not limit or exclude any other power or right which is not specifically or expressly set forth in this Agreement.

3.4 Liability of General Partners. The General Partners shall be liable to the Partnership for gross negligence or willful misconduct but neither the General Partners nor their directors, officers, or stockholders nor the officers of the Partnership shall be liable to the Partnership or to Persons who have acquired interest in the Units, whether as Assignees or otherwise, for errors in judgment or omissions that do not constitute gross negligence or willful misconduct. In all transactions for or with the Partnership the General Partners shall act in good faith and in a manner which the General Partners believes to be in, or not opposed to, the best interests of the Partnership.

3.5 Similar Activities of General Partners. Subject to any policies adopted by the Partnership or the General Partners, the directors, officers and stockholders of the General Partners and the Partnership officers may, directly or indirectly (including, without limitation, through a Related Person or other entity in which any such Person holds an ownership interest), engage in any and all aspects of any business in which the Partnership is engaged or plans to engage, or any other businesses and activities, whether competitive with the Partnership or otherwise, for their own account and for the account of others, without having or incurring any obligation to offer any interest in such properties, businesses or activities to the Partnership or any Partner or Assignee, and nothing herein contained shall be deemed to prevent any such Person from conducting such other businesses and activities. Neither the Partnership nor any of the Partners or Assignees shall have any rights by virtue of this Agreement in any independent business ventures of such Person. However, all records kept and maintained by the Managing General Partner for the Partnership pursuant to this Agreement shall be maintained separately from those for other operations of such Persons.

3.6 Indemnification.

(A) Subject to the limitations set forth in paragraph (B) of this Section 3.6, the General Partners (including in their capacity as the Partnership Representative), the stockholders, directors and officers of the General Partners (including in their capacity as the Designated Individual) and the Partnership officers (individually, an "Indemnitee"), shall each, to the maximum extent permitted by law, be indemnified and held harmless by the Partnership from and against any and all losses, claims, damages, liabilities, joint and several, expenses (including legal fees and expenses), judgments, fines, settlements, and other amounts arising from any and all claims, costs, demands, actions, suits or proceedings, civil, criminal, administrative or investigative, (1) in which the Indemnitee may be involved, or threatened to be involved, as a party or otherwise (a) by reason of its present or former status as a General Partner or a stockholder, director, officer or employee of a General Partner, the Partnership or the Company, (b) by reason of its present or former status in serving, at the request of the Partnership, a General Partner or the Company, as a partner, director, officer, stockholder, employee or agent of another corporation, partnership, joint venture, trust or other enterprise or as a member of a committee or similar body, or (c) by reason of its management of the affairs of a General Partner, the Partnership or the Company, or (2) which relate to the property, business or affairs of a General Partner or the Partnership, whether or not the Indemnitee continues to be a General Partner or a stockholder, director or officer of a General Partner, the Partnership or the Company at the time any such liability or expense is paid or incurred, and whether or not the liability or expense accrued or relates to, in whole or in part, any time on, before or after the date of this Agreement. The Managing General Partner shall have the right and power, but not the obligation unless otherwise agreed, to indemnify and hold harmless present or former employees, agents, advisers, consultants and counsel of or to the General Partners, the Partnership or the Company (including any custodian, investment adviser, accountant, attorney, corporate fiduciary, trustee, bank, other financial institution, or other agent or Person who serves or served in such capacity for the Partnership, a General Partner or a Related Person) against liabilities incurred by them in acting in any such capacity.

(B) An Indemnitee shall not be entitled to indemnification under this Section 3.6 with respect to any Claim, Issue or Matter in which it has been adjudged to have engaged in (1) a breach of the Indemnitee's duty of loyalty to the Partnership or its General Partners; (2) an act or omission not in good faith or which involved intentional misconduct or a known violation of law; (3) an act pertaining to a distribution of Partnership Assets in violation of the terms of the Partnership Agreement or applicable law; or (4) a transaction from which the Indemnitee derived an improper personal benefit; unless and only to the extent that the court in which such action was brought, or another court of competent jurisdiction, should determine upon application that, despite the adjudication of liability, but in view of all circumstances of the case, the Indemnitee is fairly and reasonably entitled to indemnification for liabilities and expenses as the court shall deem proper. The termination of a proceeding by judgment, order, settlement, conviction or upon a plea of nolo contendere, or its equivalent, shall not, of itself, create a presumption that the Indemnitee did not act in good faith or a presumption that the Indemnitee had reasonable cause to believe or did believe that its conduct was unlawful.

(C) An Indemnitee's expenses (including legal fees and expenses) incurred in defending any Proceeding shall be paid by the Partnership in advance of the final disposition of the Proceeding upon receipt of an undertaking by or on behalf of the Indemnitee to repay such amount if it shall ultimately be determined by a court of competent jurisdiction that the Indemnitee is not entitled to be indemnified by the Partnership as authorized hereunder.

(D) The indemnification provided by this Section 3.6 shall be in addition to any other rights to which the Indemnitee may be entitled under any agreement, by-law provision, vote of the Partners, as a matter of law or otherwise, both as to action in the Indemnitee's capacity as a General Partner or as a present or former stockholder, director or officer of a General Partner, the Partnership or the Company and to action in any other capacity, and shall continue as to an Indemnitee who has ceased to serve in such capacity and shall inure to the benefit of the heirs, successors, assigns and administrators of the Indemnitee. The parties intend for this Section 3.6 to be liberally construed.

(E) The Managing General Partner and the Partnership may, but shall not be required to, purchase and maintain insurance on behalf of Indemnitees and such other Persons as the Managing General Partner shall determine against any liability which may be asserted against or expense which may be incurred by such Person in connection with the activities of a General Partner, the Partnership or the Company whether or not the Managing General Partner or the Partnership would have the power to indemnify such Person against such liability under the provisions of this Agreement.

(F) For purposes of this Section 3.6, the Partnership, the Company and the General Partners shall be deemed to have requested an Indemnitee to serve as fiduciary of an employee benefit plan whenever the performance by the Indemnitee of its duties to the Partnership, a General Partner or the Company also imposed duties on, or otherwise involved services by, the Indemnitee to the plan or participants or beneficiaries of the plan; excise taxes assessed on an Indemnitee with respect to an employee benefit plan pursuant to applicable law shall be deemed "fines" within the meaning of Section 3.6(A); and action taken or omitted by it with respect to an

employee benefit plan in the performance of its duties for a purpose reasonably believed by it to be in the interest of the participants and beneficiaries of the plan shall be deemed to be for a purpose which is in, or not opposed to, the best interests of the Partnership, the General Partners or the Company, as the case may be.

(G) An Indemnitee shall not be denied indemnification in whole or in part under this Section 3.6 because the Indemnitee had an interest in the transaction with respect to which the indemnification applies if the transaction was approved pursuant to Section 3.8 or meets the standards of Section 3.8.

3.7 Other Matters Concerning General Partners.

(A) Each of the General Partners may rely and shall be protected in acting or refraining from acting upon any resolution, certificate, statement, instrument, opinion, report, notice, request, consent, order, bond, debenture, or other paper or document believed by it to be genuine and to have been signed or presented by the proper party or parties.

(B) Each of the General Partners may execute any of the powers hereunder or perform any duties hereunder either directly or by or through agents, including, without limitation, any Related Person. Each of the General Partners (including in their capacity as the Partnership Representative) may consult with counsel, accountants, appraisers, management consultants, investment bankers, and other consultants and advisers selected by it (who may serve as such for the Partnership or any Related Person) and any opinion of such Person as to matters which the General Partner believes to be within its professional or expert competence shall be full and complete authorization and protection in respect to any action taken or suffered or omitted by the General Partner hereunder in good faith and in accordance with such opinion. Neither of the General Partners shall be responsible for the misconduct, negligence, acts or omissions of any such Person or of any agent or employee of the Partnership, a General Partner or a Related Person, and shall assume no obligations in connection therewith other than the obligation to use due care in the selection of such Persons.

(C) Any and all fees, commissions, compensation and other consideration received by a General Partner or a director, officer or stockholder of the General Partner or of the Partnership permitted hereunder shall be the exclusive property of the recipient, in which the Partnership shall have no right or claim, and the participation by any such Person in any agreement permitted hereunder shall not constitute a breach by such Person of any duty that it may owe the Partnership or the Limited Partners or Assignees under this Agreement or by operation of law.

3.8 Agreements with a General Partner or a Related Person.

(A) Subject to the provisions of this Section 3.8, the General Partners and any Related Person may, directly or indirectly, deal with the Partnership in connection with carrying out the business of the Partnership or otherwise, as an independent contractor or as an agent for others, and may receive from such others or the Partnership profits, compensation, commissions or other amounts which the Managing General Partner in good faith believes to be reasonable without having to account to the Partnership therefore.

(B) The satisfaction of anyone of the following conditions shall be a complete defense to any claim of invalidity or for damages or other relief with respect to any agreement or transaction between the Partnership and any General Partner(s) or a Related Person based upon the fact that the General Partner(s) or Related Person is a party thereto:

(1) The material facts as to the agreement or transaction and as to the relationship or interest of the General Partner(s) or Related Person are fully disclosed or known to members of the board of directors of the Managing General Partner who are not interested in the agreement or transaction, and a majority of such disinterested members of the board of directors of the Managing General Partner affirmatively vote in good faith to authorize, approve or ratify the agreement or transaction, or, in the event that the Managing General Partner is a partnership, after disclosure of the material facts as to the relationship or interest of the General Partner(s) or Related Person, the agreement or transaction is approved, authorized or ratified by the general partner(s) or partners of the Managing General Partner not interested in the transaction by a majority vote; or

(2) The material facts as to the agreement or transaction and as to the relationship or interest of the General Partner(s) or Related Person are fully disclosed or known to the Partners and the agreement or transaction is specifically authorized, approved or ratified in good faith by a Majority Interest; or

(3) The agreement or transaction is fair as to the Partnership at the time it is authorized, approved or ratified by the Managing General Partner.

(C) Each of the Persons who is or becomes a Partner or Assignee hereby approves, ratifies and confirms any agreements, acts, transactions or matters described in the Proxy Statement and authorizes, ratifies and confirms the execution of such agreements by the Managing General Partner or the taking of such action on behalf of the Partnership without any further act, approval or vote of the Partners or the Partnership.

3.9 Conveyances. The Managing General Partner has the express authority to convey title to any Partnership Property by a conveyance executed by the Managing General Partner alone on behalf of the Partnership.

3.10 Borrowings. The Managing General Partner is hereby expressly authorized to cause the Partnership to borrow money and to execute all agreements, documents, certificates or instruments in connection with or related to the borrowing for the purposes of obtaining a commitment or incurring indebtedness in the name of the Partnership. As between the Partnership and any lender it shall be conclusively presumed that the proceeds of such loans are to be and will be used for the purposes authorized herein and that the Managing General Partner has the full power and authority to borrow such money and to obtain such credit on behalf of the Partnership.

3.11 Shareholders Agreement. MGP and EGP hereby agree with the Partnership to execute and be bound by the Shareholders Agreement referred to in Section 6.8(A)(8) below,

which contains, among other things, certain provisions relating to the corporate governance of MGP and EGP.

3.12 Tax Controversies.

(A) The Managing General Partner shall be the "Partnership Representative" of the Partnership (as such term is defined in Code Section 6223(a)). If the Managing General Partner is not an individual, the Managing General Partner shall designate an eligible individual through whom the Partnership Representative shall act (the "Designated Individual"). The Designated Individual may be removed by the Managing General Partner at any time permitted by the Revised Partnership Audit Procedures, and shall resign if directed to do so by the Managing General Partner. In the event the Designated Individual resigns or is removed, a replacement Designated Individual shall be designated by the Managing General Partner if so required.

(B) For all Partnership taxable years beginning on or prior to December 31, 2017, the Partnership Representative shall have the duties of a "tax matters partner" (as in effect prior to the effective date of the Revised Partnership Audit Procedures) as required by the Code.

ARTICLE 4

COMPENSATION OF THE GENERAL PARTNERS

4.1 Reimbursement and Compensation of General Partners

(A) The Partnership shall pay all of the costs and expenses incurred or accrued by the General Partners (including in their capacity as the Partnership Representative) in connection with the business and affairs of the Partnership, including, without limitation, all overhead and operating expenses, employee compensation, benefits and other expenses (including, without limitation, fees and other compensation and expenses of officers, directors, agents and employees of the General Partners), indemnification expenses and amounts paid to any Person to acquire or dispose of interests in any property, to settle claims or to perform services for the Partnership, in each case as the Managing General Partner in its sole discretion shall authorize or approve. The General Partners shall be promptly reimbursed by the Partnership for any such items paid by the General Partners and the Partnership shall from time to time advance amounts to the General Partners for the payment of such items.

(B) Compensation of the officers and employees of the General Partners and the Partnership shall be as determined by, or pursuant to the direction of, the board of directors of the Managing General Partner or a committee of that board.

(C) The Partnership shall pay an annual fee to the General Partners of $150,000 to be allocated between the General Partners as the General Partners shall agree.

(D) Members of the Board of Directors of the Managing General Partner shall initially receive an annual fee of $9,000 and a fee for each board or committee meeting attended. The Managing General Partner, in its sole discretion, may increase the annual fee and/or authorize

payment of director's fees to the directors of the Equity General Partner; provided however, that such director's fees shall, in the opinion of the Managing General Partner, be reasonably competitive with the director's fees of comparable entities. Members of the Board of Directors of the Managing General Partner will also receive reimbursement for travel and other expenses related to attendance at meetings of the board of directors and of committees.

4.2 Change in Compensation. From time to time, the Managing General Partner may propose and effect any additional or substitute compensation plans or arrangements without the need for any vote or approval of Partners, except that the approval of a Majority Interest shall be required to increase the fee of the General Partners set forth in Section 4.1(C).

ARTICLE 5

THE LIMITED PARTNERS AND ASSIGNEES

5.1 Limited Liability. No Limited Partner or Assignee (except for a General Partner in its capacity as a General Partner as provided in this Agreement) shall be personally liable for any of the debts or liabilities of the Partnership or for any Net Losses beyond the amount of the Allocable Share of the Capital Contribution made or agreed to be made to the Partnership by the Limited Partner or Assignee and any undistributed Net Income allocated to the Limited Partner or Assignee. However, to the extent required by law, each Limited Partner or Assignee receiving actual or constructive distributions will be liable to return distributions, with interest. The General Partners may not seek to recover any such distribution unless the Managing General Partner has applied all other Partnership assets to the payment of liabilities of the Partnership and the liabilities of the Partnership, other than to Partners and Assignees as such, have not been fully paid, satisfied, assumed or discharged. Any Limited Partner returning all or any part of a distribution actually received by an Assignee or successor of the Limited Partner shall be subrogated to the Partnership's right to seek a return of that distribution. In no event shall any Limited Partner or Assignee be obligated under any circumstances to make any additional Capital Contribution to the Partnership for any purpose whatsoever.

The obligation of a Partner to make a contribution or return money or property to the Partnership may be compromised either by the written consent or agreement of the Managing General Partner or with the approval of a Majority Interest.

5.2 Restrictions on Limited Partners.

(A) No Limited Partner or Assignee shall participate as such in the management and control of the business of the Partnership, transact any business for the Partnership, or attempt to do so, unless such Limited Partner or Assignee is also the General Partner or other Person employed or engaged to transact any such business by or on behalf of the General Partner or the Partnership. The transaction of any such business by a Limited Partner or Assignee employed or engaged to do so by or on behalf of the General Partner or the Partnership shall not affect, impair or eliminate the limitations on the liability of the Limited Partner or Assignee under this Agreement.

(B) No Limited Partner or Assignee shall have the power to represent, sign for or bind a General Partner or the Partnership, unless the Limited Partner or Assignee is also the General Partner or other Person given such power by a General Partner or the Partnership, including, without limitation, a Limited Partner or Assignee given power to act as the Depositary, transfer agent or registrar for the Partnership.

5.3 Outside Activities. Limited Partners and Assignees shall be entitled to and may have business interests and engage in business activities in addition to those relating to the Partnership, including business interests and activities in direct competition with the Partnership. Neither the Partnership nor any of the Partners shall have any rights by virtue of this Agreement in any independent business ventures of any other Limited Partner or Assignee.

5.4 No Withdrawal or Dissolution. No Limited Partner shall at any time withdraw from the Partnership. No Limited Partner shall have the right to have the Partnership dissolved or the right to a return of its capital contribution from or payment of its capital account by the Partnership, except as expressly provided in this Agreement. The legal incompetency, bankruptcy, termination, dissolution, withdrawal, or death of a Limited Partner shall not cause dissolution of the Partnership.

5.5 Pope as Partnership Name. The use of "Pope" in the name of the Partnership refers to the corporate names of the General Partners, Pope MGP, Inc. and Pope EGP, Inc. The fact that the name Pope may also be the name of a Limited Partner or Assignee or a director, officer or stockholder of a General Partner is not intended to suggest the appearance of the participating of any such person in the management and control of the business of the Partnership, and the use of the name Pope in the name of this Partnership is not intended to refer to any Limited Partner or Assignee. The Managing General Partner shall cause the name of the Partnership to be changed to delete the use of "Pope" in the event that the Pope MGP, Inc. and Pope EGP, Inc. cease to serve as General Partners of the Partnership and no successor General Partner uses the name "Pope".

5.6 Assignees. An assignment of Limited Partners' Units does not dissolve the Partnership or entitle the transferee to become or to exercise any rights of a Limited Partner except as provided in Articles 14 and 15 hereof. An assignment entitles the transferee merely to become an Assignee or Substituted Limited Partner as provided in Articles 14 and 15 upon application therefore. A Limited Partner remains a Limited Partner upon transfer of all or part of the Limited Partners' Units, subject to the Assignee becoming a Substituted Limited Partner pursuant to Article 15 of this Agreement. An Assignee who does not become a Substituted Limited Partner has no right to require any information or account of Partnership transactions, to inspect the Partnership books, or to vote and is otherwise subject to the limitations under the Delaware Act on the rights of an Assignee who has not become a Substituted Limited Partner. In the absence of written application to the Partnership in accordance with Article 14, any payment in respect thereto by the Partnership to the assigning Limited Partner or Assignee or the personal representative of the assigning Limited Partner or Assignee shall acquit the Partnership of liability to the extent of such payment to any Person who may have an interest in such payment

by reason of an assignment by the Limited Partner or Assignee or the successors or Assignees of the Partner or Assignee, or by reason of the death of such Partner or Assignee or otherwise.

ARTICLE 6

MEETINGS AND VOTING: AMENDMENTS

6.1 Meetings. Meetings of the Partners may be called by the Managing General Partner or by Limited Partners owning at least ten percent (10%) of the Units as to a matter on which Partners have the right to vote. Any Partner calling a meeting shall specify the number of Units as to which the Partner is exercising the right to call a meeting, and only those specified Units shall be counted for the purpose of determining whether the required ten percent (10%) standard of the preceding sentence has been met. Partners shall call a meeting by delivering the Managing General Partner one or more calls in writing stating that the signing Persons wish to call a meeting and indicating the general or specific purposes for which the meeting is to be called. Within twenty (20) days after receipt of such a call from Partners or within such a greater time as may be reasonably necessary for the Partnership to comply with any statutes, rules, regulations, listing agreements or similar requirements governing the holding of a meeting or the solicitation of proxies by the General Partners for use at such a meeting, the Managing General Partner shall send a notice of the meeting to the Partners, either directly or indirectly through the Depositary. A meeting shall be held at a time and place determined by the Managing General Partner on a date not less than ten (10) nor more than sixty (60) days after the mailing of notice of the meeting. Partners may vote either in person or by proxy at any meeting. Either of the General Partners may solicit proxies with respect to any matter proposed to be considered at a meeting of Partners. No matter shall be voted upon by Partners at any meeting of the Partners unless the requirements of Section 6.9 shall be satisfied as to such matter. Any Partner approval at a meeting, other than unanimous approval by those entitled to vote shall be valid only if the general nature of the proposal was stated in the notice of meeting or in any written waiver of notice.

6.2 Notice of a Meeting, Reports. Notice of a meeting called pursuant to Section 6.1 and any report shall be given either personally or by mail or other means of written communication, addressed to the Partner at the address of the Partner appearing on the books of the Partnership or, if no address appears or is given at the place where the principal executive office of the Partnership is located or by publication at least once in a newspaper of general circulation in the county in which the principal executive office is located. The notice or report shall be deemed to have been given at the time when delivered personally or deposited in the mail or sent by other means of written communication. An affidavit or certificate of mailing of any notice or report in accordance with the provisions of this Article 6, executed by the Managing General Partner, Depositary, transfer agent, registrar of Units or mailing organization shall be prima facie evidence of the giving of the notice or report. If any notice or report addressed to the Partner at the address of the Partner appearing on the books of the Partnership is returned to the Partnership by the United States Postal Service marked to indicate that the United States Postal Service is unable to deliver it, said notice or report and any subsequent notices or reports shall be deemed to have been duly given without further mailing if they are available for

the Partner at the principal executive office of the Partnership for a period of one year from the date of the giving of the notice or report to all other Partners.

6.3 Record Date. For purposes of determining the Partners entitled to notice of or to vote at a meeting of the Partners, the Managing General Partner may set a Record Date which shall be not less than ten (10) days nor more than sixty (60) days before the date of the meeting. If no Record Date is fixed:

(A) The Record Date for determining Partners entitled to notice of or to vote at a meeting of Partners shall be at the close of business on the business day next preceding the day on which notice is given or, if notice is waived, at the close of business on the business day next preceding the day on which the meeting is held.

(B) The Record Date for determining Partners for any other purpose shall be at the close of business on the day on which the Managing General Partner adopts it, or the sixtieth (60th) day prior to the date of the other action, whichever is later.

6.4 Adjournment. When a meeting is adjourned to another time or place, notice need not be given of the adjourned meeting, and a new Record Date need not be fixed, if the time and place thereof are announced at the meeting at which the adjournment is taken unless such adjournment shall be for more than forty-five (45) days. At the adjourned meeting the Partnership may transact any business which might have been transacted at the original meeting. If the adjournment is for more than forty-five (45) days or if a new Record Date is fixed for the adjourned meeting, a notice of the adjourned meeting shall be given in accordance with this Article 6.

6.5 Waiver of Notice. Consent to Meeting: Approval of Minutes. The transactions of any meeting of Partners, however called and noticed, and whenever held, are as valid as though had at a meeting duly held after regular call and notice, if a quorum is present either in person or by proxy, and if, either before or after the meeting, each of the Persons entitled to vote, not present in person or by proxy, signs a written waiver of notice or a consent to the holding of the meeting or an approval of the minutes thereof. All waivers, consents, and approvals shall be filed with the Partnership records or made a part of the minutes of the meeting. Attendance of a Person at a meeting shall constitute a waiver of notice of the meeting, except when the Person objects, at the beginning of the meeting, to the transaction of any business because the meeting is not lawfully called or convened; and except that attendance at a meeting is not a waiver of any right to object to the consideration of matters required to be included in the notice of the meeting but not so included, if the objection is expressly made at the meeting.

6.6 Quorum. A Majority Interest represented in person or by proxy shall constitute a quorum at a meeting of Partners. The Partners present at a duly called or held meeting at which a quorum is present may continue to transact business until adjournment notwithstanding the withdrawal of enough Partners to leave less than a quorum, if any action taken (other than adjournment) is approved by the requisite percentage of interests of Partners specified in this Agreement. In the absence of a quorum, any meeting of Partners may be adjourned from time to

time by the vote of a majority of the Units represented either in person or by proxy, but no other business may be transacted, except as provided in Section 6.1.

6.7 Conduct of Meeting. The Managing General Partner shall have full power and authority concerning the manner of conducting any meeting of Partners, including, without limitation, the determination of Person entitled to vote at the meeting, the existence of a quorum, the satisfaction of the requirements of Section 6.9, the conduct of voting, the validity and effect of any proxies, and the determination of any controversies, votes, or challenges arising in connection with or during the meeting. The Managing General Partner shall designate a Person to serve as chairman of the meeting and shall further designate a Person to take the minutes of the meeting, and in either case such Person may be, without limitation, a partner, director or officer of the Managing General Partner. All minutes shall be kept with the records of the Partnership maintained by the Managing General Partner.

6.8 Voting Rights.

(A) Subject to Section 6.9, the Partners shall have the right to vote on all matters specified below and the actions specified therein may be taken by the Managing General Partner only with the affirmative vote of a Majority Interest and with the separate concurrence of the Managing General Partner:

(1) Amendment of this Agreement, including without limitation an amendment changing the term of the Partnership, except as permitted pursuant to Section 6.10 or as provided in Section 6.11;

(2) Dissolution of the Partnership, other than pursuant to Section 17.1(A}, (B), (C) or (E);

(3) Approval or disapproval of any merger, consolidation or combination of the business or assets of the Partnership with any other Person, or a reformation or reorganization of the Partnership under the law of another state; provided, however, that no vote or approval shall be required with respect to any such transaction which, in the sole discretion of the Managing General Partner, (a) is primarily for the purpose of acquiring properties or assets, or (b) combines the ongoing business operations of the entities with the Partnership as the surviving entity.

(4) Approval or disapproval of a sale of all or substantially all of the assets of the Partnership if the aggregate fair market value of the assets of the Partnership prior to the sale exceeds Ten Million Dollars ($10,000,000);

(5) When the Partnership would otherwise dissolve and its business would not otherwise be continued pursuant to the terms of this Agreement and except as provided in Section 6.8(D) below, election to continue the business of the Partnership or election of a new General Partner or Managing General Partner to continue the business of the Partnership (except that if there is no Managing General Partner at the time, the separate concurrence of the Managing General Partner will not be required);

(6) Approval or disapproval of any matter actually submitted for a vote pursuant to Section 3.8 (except that the separate concurrence of the Managing General Partner will not be required);

(7) Approval or disapproval of an increase in the annual fee of the General Partners set forth in Section 4.1(C);

(8) Pursuant to that certain shareholders agreement entered into by and among MGP, EGP, Peter T. Pope, Emily T. Andrews, the directors of MGP, Pope & Talbot, Inc. and the Partnership, dated as of November 7, 1985 (the "Shareholders Agreement"), approval or disapproval of the following matters:

(i) waiver of mandatory retirement at age 75 for any director of MGP;

(ii) amendment of certain provisions or termination of the Shareholders Agreement; and

(iii) amendment of any provision of MGP's bylaws relating to the size of, and qualifications for, the Board of Directors of MGP.

(9) Approval or disapproval of the continuation of the Investor Portfolio Management Business and the commitment of additional funds to enable the Portfolio Business Affiliate to continue to conduct the Investment Portfolio Management Business after the IPMB Cumulative Commitment shall have reached the Maximum Commitment Level.

(B) Except as provided in (C) below and subject to the requirements of Section 16.2(D) regarding successor Managing General Partners, the Partners shall have the right to vote on removal of and remove a General Partner and elect a successor General Partner by the affirmative vote of Partners of record holding at least sixty-six and two-thirds percent (66 2/3%) of the outstanding Qualifying Units or by the affirmative vote of Partners of record holding at least ninety percent (90%) of the Units held of record by all Partners (not including votes with respect to any Units held by the General Partner to be removed as such and not considering any such Units as outstanding for purposes of determining the applicable percentage of outstanding Units). The Partners shall call a meeting as provided in Section 6.1 for the purpose of considering removal of a General Partner. Such removal shall be effective in the manner provided in Section 16.1.

"Qualifying Units" means (i) Units issued upon initial formation of the Partnership which have been continuously held by a Unitholder or by a member of the Unitholder's Family at least until the record date for the removal vote and (ii) Units which have been held by a Unitholder or by a member of the Unitholder's Family for a period of not less than five (5) years as of the record date for the removal vote.

"Unitholder's Family" means the lineal descendants and present and former spouses of the Unitholder, any present or former spouse of such persons, any lineal descendants

of such spouses or former spouses, any estate of any of the foregoing persons, any trust in which any of the foregoing persons has not less than a fifty percent (50%) beneficial interest as an income beneficiary or remainder man, and any corporation, partnership or other entity in which anyone or more of such persons or entities owns not less than a fifty percent (50%) interest.

Units held by the Unitholder's Family shall include any Units held for the benefit of the Unitholder's Family by a broker, nominee, pledgee, custodian, receiver, or the like. In no event shall any Units be counted more than once if more than one member of the Unitholder's Family has the requisite interest in such Units.

(C) In the event that there is a change in the beneficial ownership of MGP such that all of the directors of MGP become shareholders of MGP pursuant to the Shareholders Agreement, then commencing one year from the date of such event, and at any time thereafter, the Partners shall have the right to vote on removal of and remove a General Partner and elect a successor General Partner by the affirmative vote of a Majority Interest (not including the votes with respect to any Units held by the General Partner to be removed as such and not considering any such Units as outstanding for purposes of determining a Majority Interest). The Partners shall call a meeting as provided in Section 6.1 for the purpose of considering removal of a General Partner. Such removal shall be effective in the manner provided in Section 16.1.

(D) The Partners shall have the right only by the written consent of all Partners to elect a General Partner or to elect to continue the business of the Partnership after a General Partner ceases to be a General Partner where there is no remaining or surviving General Partner.

(E) Except as expressly provided in this Agreement, Partners shall have no voting rights.

6.9 Voting Rights Conditional. The voting rights set forth in Section 6.8 shall not be exercised unless the Partnership shall have received a favorable written opinion of counsel for the Partnership to the effect that the exercise of such right and the action proposed to be taken with respect to any particular matter (l) shall not cause the Limited Partners to be deemed to be taking part in the management and control of the business and affairs of the Partnership so as to subject the Limited Partners to unlimited liability therefore, (2) will not jeopardize the status of the Partnership as a partnership under applicable tax laws and regulations, and (3) is otherwise permissible under the state statutes then governing the rights, duties and liabilities of the Partnership and the Partners. If counsel for the Partnership has indicated that it is unable or unwilling to deliver such an opinion, the Managing General Partner may take any action described in Section 6.8(A), other than the actions set forth in Sections 6.8(A)(7) and 6.8(A)(8), without the need for a vote of Partners.

6.10 Amendments by the Managing General Partner; Procedure on Amendment. Subject to Section 6.11, the Managing General Partner may without prior notice or consent of any Partner amend any provision of this Agreement (1) to elect to be bound by any successor Delaware statute governing limited partnerships, (2) if in its opinion such amendment does not have a materially adverse effect upon the Limited Partners or the Partnership, as the case may be, other than Limited Partners who consent to amendment, (3) the amendment is necessary, in the

opinion of counsel to the Partnership, to prevent the Partnership, the officers of the Partnership, or the general Partners or the directors, officers or shareholders of a General Partner from being in any manner subject to the provisions of the Investment Company Act of 1940, as amended, the Investment Advisers Act of 1940, as amended, or "plan asset" regulations adopted under the Employee Retirement Income Security Act of 1974, as amended, whether or not substantially similar to plan asset regulations currently applied or proposed by the Department of Labor, (4) to reflect the exercise of any power granted to the Managing General Partner under this Agreement, (5) to make any change which, in the sole discretion of the Managing General Partner, is advisable to qualify or to continue the qualification of the Partnership, as a limited partnership or a partnership in which the Limited Partners have limited liability under the laws of any state or that is necessary or advisable in the sole discretion of the Managing General Partner to ensure that the Partnership will not be treated as an association taxable as a corporation for federal income tax purposes, (6) to make any change is necessary or advisable, in the sole discretion of the Managing General Partner, to satisfy any requirements, conditions or guidelines contained in any opinion, directive, order, ruling or regulation of any federal or state agency or contained in any federal or state statute or that is necessary or desirable in order to implement the provisions of Section 9.1(D), or that is necessary or desirable to facilitate the trading of the Depositary Receipts or comply with any rule, regulation, guidelines or requirement of any securities exchange or market system on which the Depositary Receipts are or will be listed for trading, compliance with any of which the Managing General Partner deems to be in the best interests of the Partnership and the Limited Partners, and (7) any other amendment similar to the foregoing. Such amendment shall thereafter be disclosed to the Limited Partners within a reasonable time. The Managing General Partner shall promptly furnish to Limited Partners a copy of any amendment to this Agreement executed by a General Partner pursuant to a power of attorney from the Limited Partners. If an amendment shall have been approved pursuant to this Article 6, the Managing General Partner shall execute such amendment, certificate and other documents as may be reasonably required for the purpose of effectuating the amendment; provided, however, that nothing in this Article 6 shall affect the authority of the Managing General Partner to admit Additional Limited Partners or Substituted Limited Partners.

6.11 Prohibited Amendments.

(A) Except with the affirmative vote of the Managing General Partner and Partners of record holding at least ninety-five percent (95%) of the Units held of record by all Partners, no amendment shall (i) modify the provision regarding the liabilities of the Partners; (ii) reduce the percentage of votes required herein of the Partners; (iii) result in the loss of limited liability of any Limited Partner or Assignee who does not consent thereto or result in the Partnership being treated as an association taxable as a corporation for federal income tax purposes (unless the Partnership is already treated as an association taxable as a corporation due to changes in federal income tax laws); or (iv) change the form of the Partnership to a general partnership.

(B) Notwithstanding the provisions of Section 6.10, the consent of the Equity General Partner shall be required for any amendment, if such amendment would increase the Equity General Partner's duties or liabilities or if the Partnership has received an opinion of counsel that such amendment would have materially adverse consequences to the Equity General Partner.

ARTICLE 7

CAPITAL CONTRIBUTIONS

7.1 Transfer of Original Property to the Partnership. Pursuant to the Plan, the Company shall transfer to the Partnership its interest in the Original Property. MGP, as Original Limited Partner, shall, upon receipt of the Original Property, issue on a pro rata basis a number of Units equal to one-fifth (1/5) the number of shares of the Company's Common Stock outstanding on the Plan Distribution Record Date to the holders of the Common Stock on the Plan Distribution Record Date (the "Stockholders") in accordance with the procedure described in Section 12.2. Partners shall be deemed to have made capital contributions of the Original Property to the Partnership.

7.2 General Partners. Units shall be assigned or contributed to the Managing General Partner and the Equity General Partner by their respective stockholders so that upon the assignment of Units pursuant to Section 12.2 the General Partners shall own not less than one percent (1%) of the total number of outstanding Units. The General Partners shall make additional Capital Contributions after the transfer of the Original Property as provided in Article 8.

7.3 Amount of Capital Contributions. The amount of the Capital Contribution by the Partners pursuant to Section 7.1 and Section 7.2 shall be determined by the Managing General Partner by reference to the market value of the Units or another reasonable basis, in the Managing General Partner's discretion.

7.4 Units Not Assessable. Units shall not be assessable, and no Limited Partner agrees to make any additional Capital Contribution. Capital Contributions made after the Closing shall be made as provided in Article 8.

7.5 No Interest on Capital Contribution. Partners and Assignees shall not receive interest on or with respect to all or any part of the Capital Contribution.

7.6 Creditor's Interest in the Partnership. No creditor who makes a loan to the Partnership shall have or acquire at any time as a result of making the loan, any direct or indirect interest in the profits, capital or property of the Partnership other than as a creditor.

7.7 Nature of Interests. All property owned by the Partnership, whether real or personal, tangible or intangible, shall be deemed to be owned by the Partnership as an entity, and none of the Partners shall have any direct ownership of such property.

ARTICLE 8

ISSUANCE OF ADDITIONAL SECURITIES: PLANS

8.1 Sale of Additional Securities. In order to raise additional capital or for any other proper Partnership purpose, the Managing General Partner is authorized to cause additional Units to be issued from time to time to the General Partners, Limited Partners or to other Persons and

to admit such Persons, other than General Partners, as Additional Limited Partners in the Partnership. In addition, the Managing General Partner is authorized to cause to be issued, purchased, redeemed, exchanged, traded or granted calls, options, appreciation rights, shares, bonds, debentures and other securities from time to time. The Managing General Partner shall have sole and complete discretion in determining the consideration and terms and conditions with respect thereto and without the need for any vote or approval of Partners and Assignees. The Managing General Partner shall do all things necessary to comply with the Delaware Act or other applicable law and is authorized and directed to do all things it deems necessary or advisable in connection with any such future issuance. The General Partners shall together own a t least one percent (1%) of the outstanding Units and other equity securities at all times, and may acquire Units in connection with any such issuance to maintain at least the one percent (1%) required to be owned.

8.2 Changes in Outstanding Units. The Managing General Partner is authorized to effect any recapitalization, reclassification, Unit split, reverse Unit split or other adjustment in outstanding Units, including, without limitation, any such transaction to eliminate the holding of small numbers of Units or to reduce the number of holders of Units, without the need for any vote or approval of partners. The Managing General Partner may determine the terms of any such transaction including, without limitation, the method of treating or eliminating fractional Units.

8.3 Plans. The Managing General Partner may, without the need for any vote or approval of Partners and the Partnership adopt for itself, the Partnership, or the directors, officers, stockholders or employees of any of them, any Unit Option, bonus, purchase, appreciation right or other compensation plan. The terms of any such plan may be modified, the plan may be abandoned or additional plans may be adopted at any time as determined by the Managing General Partner.

ARTICLE 9

ALLOCATION OF NET INCOME, NET LOSS AND TAX CREDITS

9.1 General Allocation.

(A) Net Income and Net Loss for each month shall be determined by the Partnership and shall be allocated among the Partners and Assignees in accordance with their Allocable Shares.

(B) For federal, state or other tax purposes, all items of income, gain, loss or deduction and all Tax Credits shall be allocated to the Partners and Assignees in accordance with their Allocable Shares provided that:

(1) In the case of the transfer of Units during any year in which an election under Section 754 of the Code is in effect, items of income, gain, loss or deduction allocable to the holder of the Unit so transferred shall be adjusted in accordance with Section 754, related sections of the Code and applicable Treasury Regulations promulgated thereunder;

(2) With respect to property contributed to the Partnership by a Partner or Assignee (including any deemed contribution by virtue of a deemed termination and later reformation of the Partnership pursuant to Section 708 of the Code), depreciation, depletion, gain or loss shall be allocated among the Partners and Assignees so as to take account of the variation between the basis of property contributed (or deemed contributed) to the Partnership by each contributing Partner or Assignee at the time of such contribution (or deemed contribution) and the fair market value of such property at the time of such contribution (or deemed contribution) pursuant to Section 704(c) of the Code;

(3) In the case of cash contributions to the Partnership, subsequent allocations of depreciation, depletion, gain or loss shall, in the Managing General Partner's discretion, be adjusted in accordance with the principles of Section 704(c) to take into account the difference between the basis and the fair market value of the Partnership assets at the time of the contribution; and

(4) Notwithstanding anything to the contrary herein, if any Partner or Assignee makes, and provides substantiation of a claim for an initial value for his Units which is less than the value otherwise established by the Partnership, that Partner's or Assignee's share of items of income, gain, loss and deduction and Tax Credits shall be adjusted appropriately to take into account the Partner's or Assignee's resulting reduced proportionate share of the aggregate tax basis of Partnership assets. Any subsequent liability to the Internal Revenue Service or other taxing authority resulting from such claim or lesser value by the Partner or Assignee shall be borne by the Partners or Assignees making the claim.

(C) At the request of the Managing General Partner, the Partners and Assignees agree to furnish such information as may be reasonably necessary in the opinion of the Managing General Partner to effect the aforementioned Section 754 and Section 704(c) adjustments.

(D) The Managing General Partner shall have the authority and discretion, without the consent of the Limited Partners, to adopt such conventions as it deems appropriate in making the allocations pursuant to Section 9.1(B).

(E) Notwithstanding anything to the contrary that may be expressed or implied in this Agreement, the interest of the General Partners, taken together, in each item of Partnership income, gain, loss, deduction or credit will be equal to at least one percent (1%) of each of those items at all times during the existence of the Partnership. In determining the interest of the General Partners in those items, any interest owned by the General Partners as Limited Partners or Assignees shall not be taken into account.

9.2 Allocation on Transfer.

(A) If a Unit is transferred during a month, all items referred to in Section 9.1 with respect to the Unit so transferred shall be allocated to the holder of record of such Unit at the close of business on the last day of the month or in any other manner deemed reasonable by the Managing General Partner or required by the Code and regulations or rulings promulgated thereunder. The Partnership and the General Partners shall be entitled to rely exclusively on the

records of the Partnership and on information submitted by an Assignee or in the application of a transferee to become a Limited Partner, and may adopt such conventions as the Managing General Partner deems reasonable for determining the date of change in ownership and for making such allocation if the necessary information is not provided in the application.

(B) If the Allocable Share of a General Partner is changed during a month for any reason, the General Partner's share of the items referred to in Section 9.1 shall be its Allocable Share determined in a manner consistent with the method provided or adopted under Section 9.2(A).

ARTICLE 10

CASH DISTRIBUTIONS

10.1 Time and Amount of Cash Distributions

(A) Distributions shall be made at such times and in such amounts as the Managing General Partner shall determine in its sole discretion to the Partners and Assignees or record on the Record Date set for the distribution, and each Partner and Assignee shall receive his Allocable Share thereof.

(B) Nothing in this Partnership Agreement or this Section shall serve as a limitation on the Managing General Partner's right to retain or use the Partnership's assets or its revenues as, in the opinion of the Managing General Partner, may be required to satisfy the anticipated present and future cash needs of the Partnership, whether for operations, liabilities, expansion, improvements, acquisition or otherwise.

10.2 Distribution of Partnership Property. In its sole discretion, the Managing General Partner may distribute to Partners and Assignees Partnership Property other than cash. In its sole discretion, the Managing General Partner may distribute to Partners and Assignees additional Units or securities of the Partnership which have been authorized and issued pursuant to the terms of this Agreement.

ARTICLE 11

ACCOUNTING AND REPORTS

11.1 Fiscal Year and Method of Accounting. The fiscal year of the Partnership shall be the calendar year or such other fiscal year as the Managing General Partner selects. Each fiscal month of the Partnership shall end on the last day of the calendar month or such other day as the Managing General Partner selects. All amounts computed of the purposes of this Agreement other than for tax purposes and all applicable questions concerning the rights of Partners and Assignees shall be determined using the accrual method of accounting and generally accepted accounting principles as in effect from time to time.

11.2 Reports.

(A) The Managing General Partner shall use its best efforts to prepare and furnish within seventy-five (75) days after the close of the calendar year to each Person to whom any allocation will be made pursuant to Article 9 for all or part of that year (and to any Person described in Section 12.5) the information necessary for the preparation of that Person's United States federal and state income tax returns or the tax returns of any other jurisdiction required of such Person as a result of the operations of the Partnership. The Partners and Assignees agree to furnish the Managing General Partner with such information as may be necessary or helpful in preparing tax returns or other filings of the Partnership.

(B) As soon as practicable, but in no event later than one hundred twenty (120) days after the close of each fiscal year, the Managing General Partner shall mail or deliver to each Limited Partner and each Assignee of record reports containing financial statements of the Partnership for the fiscal year, including a balance sheet, statements of operations, changes in Partners' equity and changes in financial position. Such statements are to be prepared in accordance with generally accepted accounting principles and audited and certified by a nationally recognized firm of independent public accountants selected by the Managing General Partner. There shall also be a supplementary summary (which need not be audited), by classification of the total fees and compensation, including any overhead reimbursement and indemnification, paid by the Partnership, directly or indirectly, to the General Partners.

(C) As soon as practicable, but in no event later than sixty (60) days, after the close of each fiscal quarter, except the last fiscal quarter of each fiscal year, the Managing General Partner shall mail or otherwise furnish to each Limited Partner and each Assignee of record a quarterly report for the fiscal quarter containing such financial and other information as the Managing General Partner deems appropriate.

11.3 Tax Elections. The Managing General Partner shall, in its sole discretion, and as it deems in the best interests of the Partnership or the Partners, determine whether to make any available election and how to make any necessary allocation for federal, state, local, foreign or other tax purposes.

11.4 Books and Records. The Managing General Partner shall maintain all records necessary for documenting and reporting the business and affairs of the Partnership. Except as restricted by law, books and records of the Partnership may be maintained by the Managing General Partner at any location selected by it. Any records maintained by the Partnership in the regular course of its business, including the record of the holders and Assignees of Units, books of account, and records of Partnership proceedings may be kept on, or be in the form of punch cards, magnetic tape, photographs, micrographics, or any other information storage device, provided that the records so kept can be converted into clearly legible written form within a reasonable period of time. The Managing General Partner may keep any information confidential as it deems appropriate in its sole discretion and, except for such information, all books, records, reports and accounts shall be open to inspection by any Partner or duly authorized representatives of the Partner on reasonable notice at any reasonable time during business hours, for any purpose reasonably related to the Partner's interest as a Partner, and the Partner or the representatives at the expense of the Partner shall have the further right to make

copies or excerpts therefrom. The Partner and the Partner's representatives shall not divulge to any other Person any confidential or proprietary data, information or property or any trade secrets of the Partnership. A copy of the list of the names and addresses of all Partners shall be furnished to any Partner or the representatives upon request in Person or by mail to the Managing General Partner.

11.5 Bank Accounts; Investment of Funds. The Partnership shall establish and maintain accounts in financial institutions (including, without limitation, national or state banks, trust companies, or savings and loan institutions) or elsewhere in such amounts as the Managing General Partner may deem necessary or appropriate from time to time. Checks shall be drawn on and withdrawals of funds shall be made from any such accounts for Partnership purposes and shall be signed by the Person or Persons designated by the Managing General Partner. Temporary surplus funds of the Partnership may be invested as shall be determined by the Managing General Partner in its sole discretion. However, the Managing General Partner shall not invest Partnership funds in such a manner that the Partnership will be considered to be holding itself out as being engaged primarily in the business of investing, reinvesting or trading in securities or will otherwise be deemed to be an investment company under the Investment Company Act of 1940, as amended.

ARTICLE 12

ISSUANCE, DEPOSIT AND WITHDRAWAL OF UNITS

12.1 Issuance of Original Certificate. On the Effective Date, MGP, as Original Limited Partner, will cause to be issued, in consideration of the transfer of the Original Property by the Company, a number of Units equal to one-fifth the number of shares of Common Stock of the Company held of record by the Stockholders on the Plan Distribution Record Date. The Managing General Partner will cause to be issued one or more Certificates evidencing ownership of the Units.

12.2 Deposit of Original Certificate.

(A) In accordance with the Plan, the Original Limited Partner will assign to the Stockholders the Units represented by the original Certificate or Certificates issued pursuant to Section 12.1 and will deposit that Certificate or those Certificates (other than with respect to Units assigned or contributed to a General Partner) with the Depositary, to be held in accordance with the Depositary Agreement, together with a list containing the name, address and, if available, tax identification number of each Stockholder as recorded on the books of the Company, and the number of Units represented by Depositary Units being assigned to such Stockholder, which shall equal one-fifth the number of shares of Common Stock of the Company held of record by such Stockholder on the Plan Distribution Record Date and shall represent such Stockholders' respective indirect interests in the Original Property (as reflected by their capital accounts on the Partnership's books). The Depositary shall then issue to each Stockholder (other than the General Partners) in accordance with the Plan one or more Depositary Receipts evidencing ownership of Depositary Units in accordance with Section 13.1.

(B) Notwithstanding Section 12.2(A), the Depositary shall not issue any Depositary Receipt with respect to Units assigned or contributed to a General Partner. Units assigned or contributed to a General Partner shall be represented by one or more Certificates issued in the name of the General Partner which owns or holds the Units.

12.3 Issuance and Deposit of Additional Certificates. Upon the issuance of any additional Limited Partners' Units, the Partnership shall either (i) deposit a Certificate representing the additional Limited Partners' units with the Depositary, to be held in accordance with the Depositary Agreement, or (ii) present to the Depositary written notice stating the total number of additional Units to be issued, in either case together with a list or other form of information containing the name, address and, if available, the Tax identification number of each Person to whom the Depositary Receipts are to be issued or registered in accordance with Section 13.2. The list shall also contain the number of Depositary Units to be evidenced by the Depositary Receipt to be issued to each Person listed or registered on the books and records of the Depositary.

12.4 Units Owned by a General Partner. Notwithstanding any other provision in this Agreement, Units held or owned by a General Partner and any Certificates evidencing those Units may not be deposited with the Depositary except as provided in this Section 12.4. The Depositary shall not accept for deposit any Depositary Units or issue any Depositary Receipts with respect to any Units or Certificates held or owned by a General Partner. If a General Partner acquires or holds any Depositary Receipt, the General Partner shall immediately surrender the Depositary Receipt to the Depositary. The Partnership will then direct the Depositary to record the withdrawal from deposit of the number of Depositary Units evidenced by the Depositary Receipt and will cause to be issued to the General Partner one or more Certificates in the name of the General Partner evidencing the same number of Units. Except as to the General Partners, nothing in this Section 12.4 shall restrict or prohibit any Person, including, without limitation, any stockholder, officer or director of a General Partner acting other than on behalf of the General Partner, from acquiring, owning or holding any Depositary Receipt or Depositary Unit. Units held or owned by a General Partner and any Certificates evidencing those Units may be deposited with the Depositary in connection with the transfer of such Units to a Person who is not a General Partner, and Depositary Receipts may be issued for the Units transferred to such Person; provided that, immediately after such transfer, the number of Units held or owned by the General Partners shall be at least equal to one percent (1%) of the number of Units outstanding. The Person to whom the Units are transferred shall become a Limited Partner in accordance with Article 14.

12.5 Maintenance of Transfer Records. In accordance with the Depositary Agreement, the Depositary and the Partnership's registrar and transfer agent (all of whom may be the same Person) will maintain records reflecting the Depositary Receipts registered in the name of each Assignee and Limited Partner and any subsequent transfers of Depositary Units to Assignees and Substituted Limited Partners pursuant to Articles 14 and 15 and withdrawals of Depositary Units by Limited Partners pursuant to Section 12.6 and records reflecting the admission of Substituted and Additional Limited Partners.

12.6 Withdrawal of Certificates by Limited Partners. Upon the written request of any Limited Partner, accompanied by a surrendered Depositary Receipt if such Receipt was previously validly issued and remains outstanding, the Partnership will direct the Depositary to record the withdrawal from deposit of the number of Depositary Units evidenced by the Depositary Receipt and will either (i) cause to be issued to such Limited Partner a Certificate or Certificates in the name of the Limited Partner evidencing the same number of Units or (ii) register on its books and records such Limited Partner's ownership of such Units, whichever the Limited Partner shall request. A Limited Partner may redeposit any such Certificate and the Units evidenced thereby with the Depositary upon sixty (60) days' prior written notice to the Depositary, whereupon the Depositary will either (i) issue to such Limited Partner a Depositary Receipt or Receipts evidencing the same number of Depositary Units and Units so deposited or (ii) register on its books and records such Limited Partner's ownership of such Units, adjusting, in the case of such registration the number of Depositary Units correspondingly.

12.7 Limited Partner of Record. The Limited Partner of record or any Assignee shall not be obligated to exercise any rights it may have as the Limited Partner of record with respect to Units held by Assignees who have not become Substituted Limited Partners. Notwithstanding anything else in this Agreement to the contrary, the Managing General Partner or any Person selected by the Managing General Partner may serve as the Limited Partner of record for any or all Units held by Assignees.

ARTICLE 13

ISSUANCE OF DEPOSITARY RECEIPTS

13.1 Original Issuance. Except as provided in Section 12.2(B), upon the assignment of Units to the Stockholders and the deposit of the Certificate evidencing the Units in accordance with Section 12.2 hereof, the Depositary shall, in accordance with the Plan and the Depositary Agreement, issue to each Assignee one or more Depositary Receipts evidencing the ownership of a number of Depositary Units equal to the number of Units assigned to such Assignee and shall mail or deliver such Depositary Receipt or Receipts to such Stockholder at his address as shown on the above list. Any such Assignee may become a Substituted Limited Partner in the manner provided in Section 15.1.

13.2 Issuance upon the Deposit of Additional Units. Upon the Partnership's issuance of additional Units and deposit of the Certificate or presentation of written notice evidencing the same in accordance with Section 12.3 hereof, the Depositary shall, in accordance with this Agreement and the Depositary Agreement, either (i) issue to each Person entitled thereto one or more Depositary Receipts evidencing the ownership of the number of Depositary Units issuable to such Person and shall mail or deliver such Depositary Receipt or Receipts to such Person or (ii) register on its books and records such Person's ownership of the number of such Depositary Units, which shall serve to increase the number of Depositary Receipts outstanding.

13.3 Legends. The Partnership may cause to be imposed, imprinted or stamped on any Depositary Receipt one or more legends or restrictions on transfer which the Managing General Partner in its sole discretion believes may be necessary or advisable to comply with federal or

state securities laws or other applicable laws, rules, regulations or agreements restricting the transferability of the Depositary Receipts.

ARTICLE 14

TRANSFERS OF INTERESTS

14.1 Transfer.

(A) The term "transfer" when used in this Article with respect to a Partnership Unit includes a sale, assignment, gift, exchange, or any other disposition.

(B) Units owned by a General Partner are non-transferable except as provided in Sections 12.4 and 16.4. All Limited Partners hereby consent to any such transfer of the Units owned by a General Partner. No Units owned by any Limited Partner or Assignee shall be transferred, in whole or in part, except in accordance with the terms and conditions set forth in this Article and Article 12 hereof. Any transfer or purported transfer of any Unit not made in accordance with this Article or Article 12 hereof may not be recognized by the Partnership.

14.2 Non-transferability of Limited Partners' Units. If a Limited Partner has withdrawn a Certificate representing Units from deposit and has not redeposited such Certificate as provided in the Depositary Agreement and Section 12.6 of this Agreement, no transfer of Limited Partners' Units by such partner shall be recognized by the Partnership except a transfer by reason of death, bequest or inheritance, or operation of law.

14.3 Transfer of Depositary Units.

(A) Except for the assignment of Units by the Original Limited Partner described in Section 7.1 and as provided in Section 14.2, the Partnership shall not recognize transfers of Limited Partners' Units or interests therein except by a transfer of Depositary Receipts representing Depositary Units. Depositary Units may be transferred on the books of the Depositary only by assignment, satisfactory in form and substance to the Depositary ("Assignment"), of the Depositary Receipt or Receipts evidencing such Depositary Units and by the transferee's completing and delivering a Request and Power. No transfer of Depositary Receipts evidencing such Depositary Units will be recognized by the Partnership, and no new Depositary Receipt will be issued to the proposed transferee unless the transferee has signed and delivered a Request and Power. Until admitted as a substituted Limited Partner in respect of such Depositary Units pursuant to Article 15, the transferee shall be an Assignee in respect of the Units represented by such Depositary Units.

(B) Each distribution of cash or other Partnership Property or securities of the Partnership in respect of Units evidenced by Depositary Receipts (or Certificates withdrawn from the Depositary) shall be paid by the Partnership, directly or through the Depositary or through any other Person or agent, only to the holders of record of such Depositary Receipts or Certificates for Units not deposited with the Depositary as of the Record Date set for the distribution. Such payment shall constitute full payment and satisfaction of the Partnership's

liability in respect of such payment, regardless of any claims of any Person who may have an interest in such payment by reason of an assignment or otherwise.

(C) A transferee who has completed and delivered a Request and Power shall be deemed (1) to have agreed to comply with be bound by this Agreement and to execute any document that the Managing General Partner may reasonably require to be executed in connection with the Assignment and admission as a Substituted Limited Partner pursuant to Article 15 and (2) to have appointed the Managing General Partner attorney-in-fact on the terms and conditions set forth in Article 18.

(D) Upon receipt of notice from the Depositary of delivery to it of an Assignment and Request and Power with respect to a transfer by a Limited Partner or Assignee of a Depositary Unit or Units in accordance with this Section 14.3 and the Depositary Agreement, the Managing General Partner shall take all appropriate steps to reflect the termination of the transferor's interest in the Partnership as a Limited Partner or Assignee, and, if applicable, the admission of the transferee as a Substituted Limited Partner, with respect to the Units represented by the transferred Depositary Units.

14.4 New Certificates and Depositary Receipts. The Partnership may issue or cause to be issued a new Certificate or Depositary Receipt or a new certificate for any other security in the place of any such Certificate or Depositary Receipt if the Certificate or Depositary Receipt is alleged to have been lost, stolen or destroyed. The Partnership may require the owner or holder of the lost, stolen or destroyed Certificate or Depositary Receipt, or the owner's or holder's legal representative, to give the Partnership a bond or other adequate security sufficient to indemnify it and its successors against any claim that may be made against it or its successors, including any expense or liability, on account of the alleged loss, theft or destruction or the issuance of a new Certificate, Depositary Receipt or other security.

ARTICLE 15

ADMISSION OF SUBSTITUTED AND ADDITIONAL LIMITED PARTNERS

15.1 Admission of Substituted Limited Partners.

(A) A Stockholder (other than a General Partner) who becomes an Assignee of a Unit in accordance with Section 12.2 hereof may apply to become a Substituted Limited Partner by executing and delivering to the Depositary a Request and Power. Each other Assignee shall apply to become a Substituted Limited Partner as provided in Section 14.3. Such other transferee shall be an Assignee with respect to Units transferred to the transferee at and from the close of business on the later of the business day on which a Request and Power is received by the transfer agent or the transfer takes place, and until the Assignee is admitted as a Substituted Limited Partner as to those Units. It is expressly intended that once a Person delivers a proper Request and Power, the Request and Power shall be effective as to all Units owned or acquired by the Person, and the Managing General Partner may elect not to require the delivery of a further Request and Power if the Person acquires additional Units.

(B) Under the terms of the Depositary Agreement, the Depositary may be obligated to prepare as of the close of business on the last business day of each month a list or other appropriate evidence of transfers of Depositary Receipts registered by the Depositary and transfers of Units from a General Partner to a Person who is not a General Partner as described in Section 12.4 since the last business day of the preceding month (hereinafter called "Transfer Record") and, as promptly as possible after the last business day of each month, to submit the Transfer Record to the Partnership.

(C) The admission of an Assignee as a Substituted Limited Partner shall occur at such time as the Managing General Partner shall determine. The admission of an Assignee as a Substituted Limited Partner may be effected without the consent of any of the Limited Partners.

15.2 Admission of Additional Limited Partners. A Person other than a General Partner, the Original Limited Partner or a Substituted Limited Partner who makes a contribution to the capital of the Partnership may be admitted to the Partnership as an Additional Limited Partner upon furnishing to the Managing General Partner (a) an acceptance in form satisfactory to the Managing General Partner of all the terms and conditions of this Agreement, including, without limitation, the power of attorney granted in Article 18 and (b) such other documents or instruments as may be required in order to effect his admission as a Limited Partner.

15.3 Effecting Admission of Limited Partners. The Managing General Partner shall take all steps necessary and appropriate for the admission to the Partnership of a Substituted Limited Partner or an Additional Limited Partner.

ARTICLE 16

REMOVAL, RESIGNATION OR WITHDRAWAL OF GENERAL PARTNER: SUCCESSOR GENERAL PARTNERS

16.1 Removal of General Partner. A General Partner may be removed from office only as provided in Sections 6.8(B) and (C). Any such removal shall be upon the following terms and conditions:

Such removal shall take effect sixty (60) days from the date of the vote of the Partners entitled to vote, or at such time as a successor General Partner is selected, whichever is later. At such time, the assets, books and records of the Partnership shall be surrendered to the successor General Partner, provided that the successor General Partner shall have first (1) agreed to accept the responsibilities of a General Partner and be bound by this Agreement, (2) acquired sufficient Units so that it and any General Partner who will continue to serve as a General Partner hold or own, in the aggregate, at least one percent (1%) of the number of Units outstanding, (3) made arrangements satisfactory to the removed General Partner to remove such General Partner from Personal liability pursuant to Section 16.3 and (4) if such successor General Partner is a Successor Managing General Partner as defined in Section 16.2(D), agreed to be bound by the provisions of Section 16.2(D). On the effective date of removal, the removed General Partner may deposit any Units or Certificates held or owned by it with the Depositary and receive Depositary Receipts therefor pursuant to Article 12 and 14. If such removal dissolves the

Partnership, then the Partnership shall be reconstituted and its business shall be continued with any remaining and successor General Partners as the General Partners thereof, and they shall have the exclusive right to possess Partnership Property to continue the business of the Partnership. Removal of a General Partner shall not prejudice the rights of the removed General Partner or its directors, officers, agents or employees to compensation pursuant to Article 4 accrued as of the date the removal takes effect.

16.2 General Partner Ceasing to be a General Partner; Withdrawal.

(A) A General Partner shall cease to be a General Partner of the Partnership only upon the occurrence of anyone or more of the following events;

(1) The General Partner's withdrawal, resignation or retirement from the Partnership;

(2) The General Partner's removal as a General Partner;

(3) The General Partner's assignment of all of its Partnership interest;

(4) Effective as provided in (B) below, an order for relief against the General Partner is entered under Chapter 7 of the federal bankruptcy law, or the General Partner: (a) makes a general assignment for the benefit of creditors, (b) files a voluntary petition under the federal bankruptcy law, (c) files a petition or answer seeking for that General Partner any bankruptcy, reorganization, arrangement, composition, readjustment, liquidation, dissolution or similar relief under any statute, law, or regulation, (d) files an answer or other pleading admitting or failing to contest the material allegations of a petition filed against that General Partner in any proceeding of this nature, or (e) seeks, consents to, or acquiesces in the appointment of a trustee, receiver, or liquidator of the General Partner or of all or any substantial part of that General Partner's properties;

(5) The death of an individual General Partner;

(6) The entry by a court of competent jurisdiction of an order adjudicating an individual General Partner incompetent to manage the General Partner's person or estate;

(7) In the case of a General Partner who is acting as a general partner by virtue of being a trustee of a trust, the termination of the trust (but not merely the substitution of a new trustee);

(8) In the case of a General Partner that is a separate partnership, the dissolution and commencement of winding up of the separate partnership;

(9) In the case of a General Partner that is a corporation, the filing of a certificate of dissolution, or its equivalent, for the corporation; or

(10) In the case of a General Partner that is an estate, the distribution by the fiduciary of the estate's entire interest in the Partnership.

(B) Any event described in Section 16.2(A) (3) shall cause a General Partner to cease to be a General Partner only as provided in this Section 16.2(B). Immediately upon the, later of (a) the entering of the order for relief under Chapter 7 of the federal bankruptcy law or (b) the final disposition of any appeal by the General Partner from the entering of such an order, and immediately upon the occurrence of any of the other events described in Section 16.2(A)(3), the General Partner shall give notice of the event to the Partners and Assignees. The General Partner shall cease to be a General Partner ninety (90) days after such notice is given.

(C) The Managing General Partner may withdraw, resign or retire on ninety (90) days' written notice to the Partners if a Majority Interest consent to the withdrawal and have elected a successor to serve as Managing General Partner effective on or before such withdrawal, resignation or retirement. Except as provided in Section 16.2(D), the Equity General Partner may withdraw, resign or retire as Equity General Partner upon ninety (90) days' written notice to the Partners if (i) a Majority Interest consent to the withdrawal, and have elected a successor to serve as Equity General Partner effective on or before such withdrawal, resignation or retirement and (ii) The Partners have elected a successor to MGP as Managing General Partner pursuant to this Agreement.

(D) In the event that MGP is removed as Managing General Partner pursuant to Section 6.8(B), then upon the election of any Person as Managing General Partner to succeed MGP, or any successor of MGP, ("Successor Managing General Partner"), such Successor General Partner shall covenant that it shall initially have and will maintain sufficient assets to ensure, to the extent possible, that the Partnership will be treated as a partnership rather than as an association taxable as a corporation for federal income tax purposes. In addition, notwithstanding any provision in this Agreement to the contrary, upon the election of a Successor Managing General Partner and thereafter. EGP shall have the right to withdraw, resign or retire as Equity General Partner upon 10 days' written notice to the Partners and to require the Successor Managing General Partner to assume the obligation to initially have and to maintain sufficient assets, together with a successor Equity General Partner, if any, to ensure, to the extent possible, that the Partnership will be treated as a partnership, rather than as an association taxable as a corporation for federal income tax purposes.

(E) A General Partner which has ceased to be a General Partner shall have the same rights to inspect and make copies or excerpts of the books and records of the Partnership as is provided to Limited Partners pursuant to Section 11.4 until all amounts due the General Partner as of the date the General Partner ceased to be a General Partner pursuant to Section 3.6 and Article 4 have been paid. The General Partner shall be a creditor of the Partnership as to all such amounts owed to it by the Partnership, and shall not have any portion of its interest as General Partner become an interest as a Limited Partner or Assignee except with respect to Units held or received by the General Partner or to which it is entitled. As to any Units so held or received, the General Partner shall be entitled to exercise all of the voting rights provided under this Agreement as a Partner.

16.3 Liability on Removal or Withdrawal. A General Partner shall be discharged from, and the Partnership or any Person or Persons continuing the business of the Partnership in the

event it has dissolved, shall assume and pay, as they mature, all Partnership obligations and liabilities that exist on the date of the General Partner's removal or withdrawal from the Partnership and shall hold the General Partner harmless from any action or claim arising or alleged to arise from those obligations and liabilities accruing after such date. The Partnership or any such Person or Persons continuing the business of the Partnership shall promptly pay all creditors of the Partnership as of such date or notify such creditors (1) of the removal of such General Partner and the resulting dissolution of the Partnership or of the withdrawal of such General Partner, as the case may be, (2) of the discharge of such General Partner from all of the Partnership's obligations and liabilities, and (3) of the assumption thereof by the Partnership or such Person or Persons continuing the business of the Partnership. The Partnership or such Person or Persons continuing the business of the Partnership if the Partnership has dissolved shall use its or their best efforts to procure and execute an agreement from creditors of the Partnership discharging the removed or withdrawing General Partner from liability to such creditors as of the date of such removal or withdrawal of such General Partner.

16.4 Successor and Predecessor General Partners. Unless the General Partner has been dissolved because of its bankruptcy, insolvency, liquidation or incompetency or unless the General Partner has been removed as a General Partner, upon dissolution of a General Partner, any Persons continuing the business of the General Partner so affected shall immediately become a General Partner of this Partnership (and shall become Managing General Partner if the General Partner so affected was the Managing General Partner), and any successor or reconstituted partnership and shall have the exclusive right to possess Partnership Property to continue the Partnership and shall continue the business of the Partnership pursuant to the terms and provisions of this Agreement without any action or vote of any Person. If any dissolution of a General Partner causes a dissolution of this Partnership, then this Partnership shall be reformed and reconstituted and its business continued as provided in this Section, Section 13.5 and Article 17. If it is necessary or advisable to reform and reconstitute this Partnership and to continue its business, the remaining and successor General Partners shall elect to reform and reconstitute the Partnership and to continue its business. When any Person ceases to be a General Partner under this Agreement or a partner, director, officer or stockholder of a General Partner, the Partnership or the Company, that Person shall continue to have the benefit of any provisions of this Agreement providing for indemnity, exculpation or insurance which protected such Person as a General Partner or a partner, director, officer or stockholder of a General Partner, the Partnership or the Company, or which limited or defined the liability of such Person.

16.5 Continuation of Partnership. If a General Partner ceases to be a General Partner, the Partnership shall not be dissolved and its business shall be continued by the remaining General Partner or Partners, if any. The remaining General Partner or Partners agree to take any and all reasonable steps to continue the business of the Partnership.

ARTICLE 17

DISSOLUTION WINDING UP AND LIQUIDATION

17.1 Dissolution. The Partnership shall be dissolved at the expiration of the term of the Partnership set forth in Section 2.5, as it may be amended; provided, however, that the

Partnership shall be dissolved prior thereto without breach of this Agreement upon the occurrence of one of the following:

(A) A General Partner ceases to be a General Partner unless (1) at the time there is at least one other General Partner or (2) all Partners agree in writing to continue the business of the Partnership and to admit one or more General Partners;

(B) The Partnership becomes insolvent or bankrupt;

(C) The sale or other disposition of substantially all assets of the Partnership, including the cessation of active business, the distribution of all cash and the termination of reserves for liabilities;

(D) The passage of ninety (90) days after the affirmative vote pursuant to Section 6.8 of a Majority Interest, with the separate concurrence of the Managing General Partner, to dissolve the Partnership;

(E) The occurrence of any event which makes it unlawful for the business of the Partnership to be continued.

17.2 Authority to Wind Up. If dissolution occurs for any reason other than the removal, resignation, retirement, withdrawal, bankruptcy, insolvency, dissolution, liquidation, death, disability, incapacity, or incompetency of the Managing General Partner, the Managing General Partner shall have the authority to wind up the business and affairs of the Partnership. If dissolution occurs by reason of the resignation, retirement, withdrawal, bankruptcy, insolvency, dissolution, liquidation, death disability, incapacity or incompetency of the Managing General Partner, and if the business of the Partnership is not continued pursuant to Section 16.4 or 16.5, the legal representative of the Managing General Partner shall have the authority to wind up the business and affairs of the Partnership. The Managing General Partner shall name upon its retirement, withdrawal, dissolution, liquidation, disability, or resignation a legal representative who will have such authority upon such event. If the Partnership is dissolved by an event set forth in Section 17.1(E) or by the removal, bankruptcy or insolvency of the Managing General Partner, any Person designated by a decree of court or designated by vote of a Majority Interest shall wind up the affairs of the Partnership and shall be entitled to compensation therefor as approved by the court or by vote of a Majority Interest.

17.3 Accounting. Upon dissolution (if the business of the Partnership is not continued), and again upon the termination of the Partnership after the winding up of the affairs of the Partnership is complete, an accounting of the Partnership shall be made and it shall be audited or reviewed by the independent public accountants of the Partnership, and a report thereof as audited or reviewed shall be furnished to the General Partners or legal representatives thereof and to all Limited Partners and Assignees.

17.4 Winding Up and Liquidation. Upon dissolution of the Partnership, it shall be wound up and liquidated as rapidly as business circumstances permit. The liabilities of the Partnership shall be entitled to payment in the following order:

(A) Those to creditors, in the order of priority as provided by law, except those to secured creditors the obligations owed to whom will be assumed or otherwise transferred on liquidation of Partnership assets;

(B) Those amounts deemed necessary by the Managing General Partner or the Persons winding up the affairs of the Partnership for any contingent liabilities or obligations of the Partnership shall be set aside as a reserve for contingent liabilities to be distributed at such time and in such manner hereunder as the Persons winding up the affairs of the Partnership shall determine in their sole discretion;

(C) Those to the General Partners with respect to payments due to them pursuant to Section 3.6 and Article 4; and

(D) To each Partner and Assignee, the Allocable Share of such Partner or Assignee of the assets remaining after payment of the amounts described in (A), (B) and (C) above.

17.5 No Recourse against General Partner. The Limited Partners and Assignees shall look solely to the assets of the Partnership for the payment of any income allocated to the Limited Partners or Assignees and the return of the Capital Contribution, and if the assets of the Partnership remaining after payment or discharge of the debts and liabilities of the Partnership are insufficient to pay all or any part of such amounts, they shall have no recourse against any General Partner, any director, officer, stockholder, employee or agent of a General Partner, the Partnership or the Company or any Limited Partner or Assignee for such purpose.

17.6 Claim of Limited Partners and Assignees. No Limited Partner or Assignee shall have the right or power to demand or receive property other than cash, whether as a distribution, a payment on liquidation or otherwise.

17.7 Restoration of Negative Capital Account Balance. Upon the dissolution and termination of the Partnership, the General Partners will contribute to the Partnership any deficit balance in their capital accounts.

ARTICLE 18

POWERS OF ATTORNEY

EGP and any General Partner which is not the Managing General Partner by executing or becoming bound by this Agreement and each Person who executes a Request and Power shall by such signature or execution irrevocably constitute and appoint the Managing General Partner of the Partnership, and its successors as Managing General Partner, the true and lawful attorneys for such Person and in such Person's name, place, and stead for such Person's use and benefit to:

(A) Sign, certify and acknowledge, swear to, and, to the extent necessary, to file and record (1) this Agreement, the Certificate of Limited Partnership of the Partnership and all amendments thereof, including, without limitation, all amendments to substitute or add Limited Partners; (2) any other instrument which may be required to be filed by the Partnership under the

laws of any state or by any government agency which the Managing General Partner deems advisable to file, including, but not limited to, certificates of fictitious name statements, certificates or applications with respect to leases from the federal government or a state government, and amendments to or cancellation of the Certificate of Limited Partnership; (3) all certificates and other instruments (including, at the option of the Managing General Partner, this Agreement) and all amendments thereof which the Managing General Partner deems appropriate or necessary to qualify, or continue the qualification of, the Partnership as a limited partnership (or a partnership in which the Limited Partners have limited liability) in all jurisdictions in which the Partnership may conduct business or own any property; and (4) instruments relating to the admission of Additional or Substituted Limited Partners.

(B) Deposit all Certificate of such Person in a Depositary Account established pursuant to the Depositary Agreement.

Each such Person by such signature shall also authorize said Managing General Partner to take any further action which it shall consider necessary or appropriate in connection with any of the foregoing, thereby giving said Managing General Partner full power and authority to do and perform each and every act and thing whatsoever requisite, necessary or appropriate to be done in connection with the foregoing as fully as such Person might or could do if personally present, and thereby ratifying and confirming all that said Managing General Partner shall lawfully do or cause to be done by virtue thereof.

The foregoing grant of authority:

(a) shall be a Power of Attorney coupled with an interest, is irrevocable, and shall survive the signing Person's death or incapacity; and

(b) shall survive the delivery of an assignment by the signing Person of the whole or a portion of his interest in the Partnership.

Each Person who has given the Managing General Partner a power of attorney pursuant to this Article 18 hereby agrees to execute and deliver to the Managing General Partner within five (5) days after receipt of the Managing General Partner's written request therefor, such other and further statements of interest and holdings, designations, powers of attorney and other instruments that the Managing General Partner deems necessary to comply with any laws, rules or regulations relating to the business or proposed business of the Partnership.

Such power of attorney shall not supersede any other part of this Agreement, nor shall it be used to deprive such Person of any of such Person's rights under this Agreement or to deprive a Limited Partner of his rights as a Limited Partner. It is intended only to provide a simplified system for execution of documents and the conduct of the business of the Partnership.

ARTICLE 19

MISCELLANEOUS PROVISIONS

19.1 Notices. All notices or other communications required or permitted to be given pursuant to this Agreement shall, in the case of notices or communications required or permitted to be given to Limited Partners or Assignees, be in writing and shall be considered as properly given or made if personally delivered or if mailed by United States first class mail, postage prepaid, or if sent by prepaid telegram, and addressed to such Limited Partner's or Assignee's address for notices as it appears on the records of the Partnership, and, in the case of notices or communications required or permitted to be given to the General Partners, shall be in writing and shall be considered as properly given or made if personally delivered, or if sent by prepaid telegram, or if mailed by United States certified or registered mail return receipt requested, postage prepaid, and addressed to the Managing General Partner, Pope MGP, Inc. at 19950 7th Avenue NE, Suite 200, Poulsbo, Washington, 98370. Any Limited Partner or Assignee may change the address for notices, by giving notice of such change to the Partnership, and a General Partner may change its address for notices by giving notice of such change to all Limited Partners and all Assignees. Commencing on the tenth (10th) day after the giving of such notice, such newly designated address shall be such Partner's or Assignee's address for the purpose of all notices or other communications required or permitted to be given pursuant to this Agreement. Any notice or other communication shall be deemed to have been given as of the date on which it is personally delivered or, if mailed or telegraphed, the date on which it is deposited in the United States mails or transmitted, in each case in compliance with the terms of this Section 19.1, except that any notice or other communication mailed or telegraphed to the General Partner which is not received by a General Partner within ten (10) days after the date of its mailing or transmission shall be deemed to have been given as of the date actually received by the General Partner.

19.2 Choice of Law. This Agreement and all rights and liabilities of the parties hereto with reference to the Partnership shall be subject to and governed by the laws of the State of Delaware as applied to agreements solely among Delaware residents to be entered into and performed entirely within Delaware.

19.3 Article and Section Headings. The headings of this Agreement are inserted for convenience and identification only and are in no way intended to describe, interpret, define or limit the scope, extent or intent of this Agreement or any provision hereof.

19.4 Sole Agreement. This Agreement and the exhibits hereto constitute the entire understanding of the parties hereto with respect to the subject matter hereof and supersede all prior agreements and understandings pertaining thereto.

19.5 Execution in Counterparts. This Agreement may be executed in any number of counterparts with the same effect as if all parties had all signed the same document. All counterparts shall be construed together and shall constitute one agreement. Each party shall become bound by the Agreement immediately upon affixing his or her signature hereto, independently of the signature of any other party.

19.6 Remedies Cumulative. The remedies of the parties under this Agreement are cumulative and shall not exclude any other remedies to which any Person may be lawfully entitled.

19.7 Waiver. No failure by any party to insist upon the strict performance of any covenant, duty, agreement, or condition of this Agreement or to exercise any right or remedy consequent upon a breach thereof shall constitute a waiver of any such breach or any other covenant, duty, agreement, or condition.

19.8 Waiver of Action for Partition. Each of the parties hereto irrevocably waives during the term of the Partnership any right that he may have to maintain any action for partition with respect to the Partnership Property.

19.9 Assignability. Subject to the restrictions on transferability contained herein, each and all of the covenants, terms, provisions and agreements herein contained shall be binding upon and inure to the benefit of the successors and assigns of the respective parties hereto.

19.10 Gender and Number. Whenever the context requires, the gender of all words used hereby shall include the masculine, feminine and neuter, the singular of all words shall include the singular and plural, and the plural of all words shall include the singular and plural. Unless the context requires otherwise, any reference to a General Partner shall include all General Partners, and any reference to the General Partners shall mean any General Partner.

19.11 Severability. If any provision of this Agreement or the application thereof, shall, for any reason and to any extent, be invalid or unenforceable, the remainder of this Agreement and the application of such provision to other Persons or circumstances shall not be affected thereby, but rather shall be enforced to the maximum extent permissible under applicable law.

This Second Amended and Restated Limited Partnership Agreement is effective as of February 20, 2019, the date on which the Board of Directors of Pope MGP, Inc. approved the amendment and restatement pursuant to Section 6.10. This version of the Agreement incorporates into a single, unified document all of the amendments that have previously been adopted. It is executed by the Partnership and its General Partners on behalf of all of the Partners.

MANAGING GENERAL PARTNER: POPE MGP, INC.

By:__
Thomas M. Ringo
President/CEO

EQUITY GENERAL PARTNER: POPE EGP, INC.

By:__
Thomas M. Ringo
President/CEO

POPE RESOURCES, A DELAWARE LIMITED PARTNERSHIP (on behalf of the Partnership and all of the Limited Partners)

By:__
Thomas M. Ringo
President/CEO

AMENDED AND RESTATED NOTE

(Revolving Line of Credit)

Date: October 11, 2018

For Value Received, on October 1, 2023 (the "Loan Maturity Date"), Borrower, as defined below, as principal, jointly and severally, promises to pay NORTHWEST FARM CREDIT SERVICES, PCA ("Lender") or order, at its office in Spokane, Washington, or such other place as the holder of this Amended and Restated Note (Revolving Line of Credit) (this "Note") may designate in writing, the principal balance of **Thirty Million and no/100's Dollars ($30,000,000.00)** (the "Total Commitment Amount"), or so much thereof as may be outstanding, plus interest thereon from and after any Disbursement Date, at interest rates as provided for hereafter. For all intents and purposes, all Loan Segments are treated as one obligation under this Note and the other Loan Documents.

1. Definitions. For purposes of this Note, the following definitions apply. Capitalized terms not otherwise defined herein shall have the meanings given in the Loan Agreement.

"Applicable Margin" means the per annum percentage set forth below that corresponds to the Borrower's "Pricing Level" (as set forth in the table below) as of the most recent Calculation Date (as defined in the Loan Agreement):

Pricing Level	Adjusted Consolidated Interest Coverage Ratio	Applicable Margin		Unused Commitment Fee
		for Base Rate	for LIBOR Point to Point Fixed Rate Options	
I	≥ 3.00 : 1.00	1.60%	1.60%	0.20%
II	< 3.00 : 1.00 and ≥ 2.00 : 1.00	1.70%	1.70%	0.25%
III	< 2.00 : 1.00 and ≥ 1.25 : 1.00	1.90%	1.90%	0.30%
IV	≤ 1.25 : 1.00	2.20%	2.20%	0.35%

The Pricing Level shall be determined and adjusted on the date ten (10) Business Days after the date Borrower provides Lender the Compliance Certificate as required under the Loan Agreement for Borrower's most recently ended first through third Fiscal Quarter-Ends and Fiscal Year-End (the "Adjustment Date"); provided however, that (i) the initial Applicable Margin shall be based on Pricing Level I and shall remain at Pricing Level I until the first Adjustment Date occurring after the first Calculation Date following the date hereof and, on such Adjustment Date and thereafter, the Pricing Level shall be determined by the Adjusted Consolidated Interest Coverage Ratio as of the most recent Calculation Date, and (ii) if Borrower fails to timely provide Lender the Compliance Certificate (excluding any grace and/or cure period) for such most recent Calculation Date, the Applicable Margin commencing the day after the due date thereof shall be based on the highest Pricing Level which shall remain in effect until subsequently adjusted ten (10) Business Days after the delivery of the required Compliance Certificate. Any adjustment in the Applicable Margin shall be applicable to all existing Loan Segments. Provided, however, in the Event of Default, Lender shall have the right at any time to change the Applicable Margin to the highest Pricing Level.

"Base Rate" shall have the meaning given in Paragraph 3.01 hereof.

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

"Borrower" means Pope Resources, A Delaware Limited Partnership.

"Commitment Period" means the period from the date of this Note through the Loan Maturity Date.

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

"Index Source" means the Index Source identified for a given pricing option described herein.

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

"LIBOR Point to Point Fixed Rate Option" means any of the LIBOR Point to Point Fixed Rate Options defined in Paragraph 3.02 hereof.

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

"Loan Agreement" means the Second Amended and Restated Master Loan Agreement between Borrower and Lender dated July 20, 2016, as the same may be amended, modified, extended, restated or replaced from time to time.

"Loan Purpose" means (a) for agricultural and/or business purposes (including distributions to Borrower's unitholders in the ordinary course of business and re-purchases of partnership units as may be approved by Borrower's board of directors), and (b) to pay Loan fees and all Lender's reasonable transaction costs.

"Loan Segment" means the Base Rate Loan Segment or a LIBOR Point to Point Loan Segment.

"Notice" shall have the meaning given in Paragraph 2.04 hereof.

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

"Quarter" means the three-month periods beginning on July 1, October 1, January 1 and April 1 of each year.

"Rate Option" means the Base Rate or one of the LIBOR Point to Point Fixed Rate Options.

2. Advances, Fees and Notice.

2.01 Advances. So long as no Default or Event of Default has occurred and is continuing, Lender will advance Loan proceeds to or on account of Borrower during the Commitment Period on a Disbursement Date for a Loan Purpose, provided that, after giving effect to any requested advance, the aggregate principal amount of such advances made hereunder will not exceed the Total Commitment Amount. The advances constitute a revolving line of credit. During the Commitment Period, Borrower may borrow, repay and reborrow principal on the terms and conditions contained herein.

2.02 Drafts. Lender has made Credit Line Drafts ("Drafts") available to Borrower as one means of advancing proceeds for this Note. Borrower may only write Drafts prior to the Loan Maturity Date within the Total Commitment Amount for a Loan Purpose and so long as there is no Default under the Loan Documents. Any Draft written prior to

the Loan Maturity Date, including but not limited to those Drafts tendered for payment after the Loan Maturity Date will be considered to be an advance under this Note and the other Loan Documents and will be fully due and payable under the terms and conditions of this Note and the other Loan Documents. Borrower shall be responsible for payment of all fees associated with the use of Drafts. Lender will honor Drafts signed by those authorized herein under the terms and conditions described herein, unless Lender is notified otherwise as to signatory authority in writing as indicated herein. Provided however, Lender may refuse payment on all Drafts that do not meet Lender's terms and conditions concerning Drafts. Provided further, Borrower bears full responsibility for the authenticity of each draft, unless Lender is notified otherwise by 9:00 a.m. Spokane time on the Business Day Borrower receives the Daily Draft Report from Lender. Provided further, notwithstanding anything to the contrary herein or in the other Loan Documents, in the Event of Default, Lender may upon prior written notice to Borrower, terminate any right of Borrower to use Drafts and refuse payment of all Drafts. Lender also retains the right to make changes to the procedures governing the use of Drafts at any time.

2.03 Loan Fees. Borrower shall pay Lender an unused commitment fee during the Commitment Period, calculated based on the unused commitment fee that corresponds to Borrower's Pricing Level as of the most recent Calculation Date, multiplied by the difference between the daily Loan balance and the Total Commitment Amount calculated quarterly in arrears on the basis of the actual number of days elapsed for the actual number of days in the year until the Loan Maturity Date. The unused commitment fee shall be due on the first day of the next quarter and on the first day of each quarter thereafter. Borrower shall also pay Loan fees as set forth in a separate loan fee letter.

2.04 Notice of Prepayment and Pricing.

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

b. Pricing. Borrower shall provide Lender irrevocable Notice of pricing of a LIBOR Point to Point Loan Segment by 10:00 a.m. Spokane time three Business Days prior to the Pricing Date.

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

3. Interest Rate and Pricing Elections.

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

3.02 1-, 3-, or 6- Month LIBOR Point to Point Fixed Rate Options. A LIBOR Point to Point Loan Segment may be priced at a fixed rate equal to the 1-, 3-, or 6- Month LIBOR as made available by the LIBOR Index Source, plus the Applicable Margin. With the LIBOR Point to Point Fixed Rate Option: (i) rates may be fixed for an "Interest Period" as defined herein of 1-, 3-, or 6-months; and (ii) rates take effect on the Pricing Date. For purposes hereof, the "Interest Period" shall mean a period commencing on the Pricing Date and ending on the LIBOR Point to Point Maturity Date for such LIBOR Point to Point Fixed Rate Option. The "LIBOR Point to Point Maturity Date" means, for a given 1-, 3- or 6-Month LIBOR Point to Point Fixed Rate Option, the numerically corresponding day of the month that is 1, 3 or 6 months, as applicable, after the Pricing Date, provided however, that if there is no such numerically

corresponding day in such first, third or sixth succeeding month, such LIBOR Point to Point Maturity Date shall end on the last day of such first, third or sixth succeeding month. If a LIBOR Point to Point Maturity Date is not a Business Day, then the LIBOR Point to Point Maturity Date shall be deemed to be the preceding Business Day, unless such Business Day falls in another calendar month, in which case the LIBOR Point to Point Maturity Date shall be deemed to be the succeeding Business Day.

3.03 Pricing Elections. Upon irrevocable Notice to Lender in accordance with Paragraph 2.04 above, as to principal (i) in the amount of an advance, (ii) in the Base Rate Loan Segment, or (iii) in a LIBOR Point to Point Loan Segment on a LIBOR Point to Point Maturity Date, Borrower may elect to designate all or any part of an advance or the unpaid principal balance of such Loan Segment on such Pricing Date to bear interest at any Rate Option described herein; provided however, that (1) there is no Event of Default, (2) Borrower shall price Loan principal in Loan Segments in initial minimum principal amounts of $1,000,000.00, (3) no LIBOR Point to Point Fixed Rate Option may be selected which would have for its LIBOR Point to Point Maturity Date a date later than the Loan Maturity Date, and (4) there are no more than five (5) LIBOR Point to Point Loan Segments at any one time. If Borrower does not provide Lender irrevocable Notice of election of a Rate Option on a LIBOR Point to Point Maturity Date for a LIBOR Point to Point Loan Segment, the unpaid principal balance of such Loan Segment will be priced at the Base Rate effective on such Pricing Date.

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

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

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

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

4. Payment.

4.01 Interest Payments. Borrower shall make quarterly interest only payments on the first day of each Quarter beginning January 1, 2019, or the first day of the next Quarter as Lender shall determine, which payments shall consist of interest that accrued during such prior period on the unpaid principal balance of each Loan Segment.

4.02 Payment in Full on Loan Maturity Date. The unpaid principal balance, unpaid interest thereon, and other amounts due under this Note and the other Loan Documents shall be paid in full on the Loan Maturity Date.

4.03 Application of Payments. Lender may apply any payment received from or on behalf of Borrower to principal, interest, or any part of the indebtedness, including any fees and expenses due under this Note or any other Loan Document, as Lender, in its sole discretion, may choose. Subject to the preceding sentence, Borrower may at any time pay any amount of principal in advance of its maturity subject to the Prepayment Fee described herein.

5. Prepayment and Breakage Fees.

5.01 Prepayment Fee.

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

b. Prepayment Fee. As used herein, the "Prepayment Fee" is an amount intended to reasonably compensate Lender for the loss of the intended benefit of Lender's bargain in the case of a Prepayment. Borrower and Lender intend that the principal balance of the Loan will yield to Lender an annual return after the date the Loan is prepaid of not less than the annual return for the period when the interest rate is fixed. In the event of a Prepayment, Lender will lose the intended benefit of its bargain. Accordingly, the Prepayment Fee is intended to reasonably compensate Lender for such loss and costs. The Prepayment Fee shall be payable on demand, and shall be an amount calculated on a make-whole basis, as determined under Lender's then current methodology. The Prepayment Fee, if any, payable under this Paragraph 5.01, shall be added to the balance of the Loan as of the date of acceleration and may be included in any credit bid by Lender at a foreclosure sale. The Lender shall not be obligated to accept any Prepayment, unless it is accompanied by the Prepayment Fee due in connection therewith.

c. Exceptions to Prepayment Fee. If interest upon all or a portion of the Loan is determined at the Base Rate, that portion of the Loan may be prepaid, in part or in whole, at any time, and from time to time, without the payment of a Prepayment Fee. Furthermore, if a Prepayment is received on a LIBOR Point to Point Maturity Date, the applicable portion of the Loan may be prepaid without the payment of a Prepayment Fee. All other Prepayments shall be subject to a Prepayment Fee.

d. **ACKNOWLEDGMENT OF PREPAYMENT FEE OBLIGATION. BORROWER ACKNOWLEDGES THAT IT UNDERSTANDS THAT A PREPAYMENT MAY RESULT IN A SUBSTANTIAL PREPAYMENT FEE. BORROWER CERTIFIES THAT IT HAS HAD THE OPPORTUNITY TO CONSULT WITH ITS LEGAL, FINANCIAL AND OTHER COUNSEL, AND HAS MADE THE DECISION TO ENTER INTO THIS LOAN SUBJECT TO THE PREPAYMENT FEE IN RELIANCE ONLY UPON ITS LEGAL, FINANCIAL AND OTHER COUNSEL AND NOT UPON LENDER, ITS EMPLOYEES, AGENTS OR AFFILIATES.**

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

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

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

5.03 Participation. Participant(s), if any, may calculate a Prepayment Fee or Breakage Fee on a make-whole basis using a different methodology than Lender.

6. Default.

6.01 Events of Default. Time is of the essence in the performance of this Note. The occurrence of any one or more of the Events of Default in Section 8.01 of the Master Loan Agreement shall constitute an "Event of Default" under this Note.

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

6.03 Notice and Opportunity to Cure. Any notice and opportunity to cure shall be administered in accordance with Section 8.02 of the Master Loan Agreement.

7. Loan Terms, Provisions and Covenants. This Note is subject to the terms, provisions and covenants of the Loan Agreement, and Borrower's obligations hereunder are secured by a lien and security interest in Property as described in the Loan Agreement.

8. Miscellaneous.

8.01 Funds Management Services. Lender may provide funds management services to Borrower. Borrower shall comply with all funds management authorizations and agreements during the term of this Note. All fees incurred shall be considered a request for an advance under this Note. The funds management services and fees may be adjusted upon reasonable notice.

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

8.03 General Provisions. Borrower waives presentment for payment, demand, notice of nonpayment, protest, notice of protest and diligence in enforcing payment of this Note. This Note and the other Loan Documents constitute the entire agreement between Borrower and Lender and supersede all prior oral negotiations and promises which are merged into such writings. Upon written agreement of the parties, the interest rate, payment terms or balances due under this Note may be indexed, adjusted, renewed or renegotiated. Lender shall not be obligated to renew the Note or any part thereof or to make additional or future loans to Borrower. All Exhibits hereto are incorporated herein and made a part of this Note. This Note may be executed in any number of counterparts, each of which shall be deemed to be an original, but all of which together, shall constitute but one and the same instrument.

Borrower agrees that the Note described herein shall be in default should any proceeds be used for a purpose that will contribute to excessive erosion of highly erodible land or to the conversion of wetlands to produce or to make possible the production of an agricultural commodity, as further explained in 7 CFR Part 12.

8.04 Waiver of Jury Trial. BORROWER HEREBY IRREVOCABLY WAIVES ANY RIGHT IT MAY HAVE TO A TRIAL BY JURY IN ANY LEGAL PROCEEDING DIRECTLY OR INDIRECTLY ARISING OUT OF OR RELATING TO THIS LOAN DOCUMENT AND ANY FUTURE MODIFICATIONS, AMENDMENTS, EXTENSIONS, RESTATEMENTS AND SERVICING ACTIONS RELATING TO THIS LOAN DOCUMENT. IT IS INTENDED THAT THIS JURY WAIVER WILL BE ENFORCED TO THE MAXIMUM EXTENT ALLOWED BY LAW.

[*Signature Page Follows*]

ORAL AGREEMENTS OR ORAL COMMITMENTS TO LOAN MONEY, EXTEND CREDIT, OR TO FORBEAR FROM ENFORCING REPAYMENT OF A DEBT ARE NOT ENFORCEABLE UNDER WASHINGTON LAW.

BORROWER:

POPE RESOURCES, A DELAWARE LIMITED PARTNERSHIP

By: Pope MGP Inc., a Delaware corporation, its Managing General Partner

By:

Thomas M. Ringo, President and CEO

EXHIBIT A
NOTICE/CONFIRMATION

To:
Loan Accounting and Operations
Northwest Farm Credit Services, PCA
2001 South Flint Road **P. O. Box 2515** **Fax: 509-340-5508**
Spokane, WA 99224-9198 **Spokane, WA 99220-2515** **Tel.: 1-800-216-4535**

NOTICE
This Notice is provided pursuant to the Amended and Restated Note (Revolving Line of Credit) dated October 11, 2018, as extended, renewed, amended or restated.

PRICING. If checked, Borrower elects to price or reprice principal in a Loan Segment as follows:

New Advance
Base Rate Loan Segment
Loan Segment Currently Priced Under LIBOR Point to Point Fixed Rate Option
Principal Amount
To New LIBOR Point to Point Option
To be Effective (Date)

PREPAYMENT OF PRINCIPAL. If checked, Borrower elects to prepay principal as follows:

Base Rate Loan Segment
LIBOR Point to Point Loan Segment Priced
Under Option
Principal Amount
To be Effective (Date)

BORROWER
POPE RESOURCES, A DELAWARE LIMITED PARTNERSHIP
By: Pope MGP Inc., a Delaware corporation, its Managing General Partner

By:
Authorized Agent

CONFIRMATION
Lender confirms that the above actions were taken or modified as provided for below:

NORTHWEST FARM CREDIT SERVICES, PCA

Date: By:

AMENDMENT NO. 3 TO SECOND AMENDED AND RESTATED

MASTER LOAN AGREEMENT

THIS AMENDMENT NO. 3 TO SECOND AMENDED AND RESTATED MASTER LOAN AGREEMENT (this "Amendment") is made and entered into effective October 11, 2018, by and between the undersigned ("Lender") and the undersigned, collectively ("Borrower").

RECITALS

WHEREAS, Borrower and Lender entered into a Second Amended and Restated Master Loan Agreement dated July 20, 2016 (herein, as at any time amended, extended, restated, renewed, supplemented or modified, the "Loan Agreement"), and related loan documents (herein, as at any time amended, extended, restated, renewed, supplemented or modified, collectively the "Loan Documents").

WHEREAS, Borrower has requested, and Lender has agreed, to (i) restructure the indebtedness under the existing Notes and extend an additional $29,000,000 of credit, as evidenced by two new promissory notes, and (ii) make modifications to certain covenants in Loan Agreement.

WHEREAS, Borrower and Lender desire to modify the Loan Agreement for the purposes stated herein.

NOW THEREFORE, for good and valuable consideration, Borrower and Lender agree as follows:

1. The Recitals stated above are hereby incorporated herein by reference and made a part of this Amendment.
2. Except as expressly modified or changed herein, all terms and conditions of the Loan Agreement and the other Loan Documents shall remain in full force and effect and shall not be changed hereunder.
3. All terms not otherwise defined herein shall have the meaning given such term in the Loan Agreement and the other Loan Documents.
4. The following definition is restated to read as follows:

   "Adjusted Consolidated EBITDDA" means, for any period, for Borrower and its Subsidiaries on a consolidated basis, the sum of: (a) Consolidated Net Income; (b) Consolidated Interest Expense; (c) consolidated depreciation expense; (d) consolidated amortization expense; (e) consolidated depletion expense; (f) plus or minus, as the case may be, Consolidated Taxes, all as determined in accordance with GAAP; (g) distributions received by the Borrower and its Wholly Owned Subsidiaries from non-Wholly Owned Subsidiaries, and (h) plus any non-cash expense on the basis of land sold related only to Fee Timberland tract sales, but excluding from the forgoing the net income, interest expense, depreciation expense, amortization expense, depletion expense and income taxes associated with non-Wholly Owned Subsidiaries.

5. The definition of "Indebtedness" is amended to add "or financing leases" after the words "Capital Leases" in clause (g).
6. Clause k. of the definition of "Permitted Liens" is amended to read in its entirety as follows: "Liens on Property securing Indebtedness to the extent Indebtedness is permitted under Sections 7.03 f.(vi), (vii), (ix) or (xi) hereof; and".

7. All references in the Loan Agreement to the "Carbon River Loan" and the "Port Gamble Loan" are hereby deleted in their entirety.

8. The following new definitions are added to Section 1.01:

"Acquisition Loan" means Loan No. 6241515 in the amount of $40,000,000, to be used by Borrower (a) to provide financing for timber acquisitions including co-investments in equity timber funds managed by Olympic Resource Management, (b) for agricultural and/or business purposes, and (c) to pay Loan fees and all Lender's reasonable transaction costs.

"Long Term Loan" means Loan No. 6241561 in the amount of $71,800,000, to be used by Borrower (a) to refinance existing debt, (b) for agricultural and/or business purposes, and (c) to pay Loan fees and all Lender's reasonable transaction costs.

"Permitted Swap Contracts" means (a) Swap Contracts entered into with a Swap Issuer solely for the purpose of hedging or mitigating risks as to which Borrower or any of its Subsidiaries has actual exposure (i.e., not for speculative purposes), and (b) Swap Contracts entered into with a Swap Issuer in order to effectively cap, collar or exchange interest rates (from fixed to floating rates, from one floating rate to another floating rate or otherwise) with respect to any interest-bearing liability or investment of the Borrower or any of its Subsidiaries.

9. Section 2.01 of the Agreement is restated to read as follows:

2.01. Loans. Subject to the terms and conditions set forth herein, Lender agrees to make the Acquisition Loan and the Long Term Loan to Borrower. Borrower agrees to pay all Borrower's Obligations under the other Loan Documents according to their terms.

10. The following new section is added as Section 2.07:

2.07. Increase in Acquisition Loan and/or Long Term Loan.

a. Request for Increase. Provided there exists no default under this Loan Agreement, upon notice to Lender (which shall promptly notify any participants in the Loans), Borrower may from time to time prior to the Loan Maturity Date for the Acquisition Loan and/or the Long Term Loan, request an increase in the Acquisition Loan and/or Long Term Loan by an amount (for all such requests) not exceeding $50,000,000 (an "Incremental Increase"); provided that (i) any such request for an Incremental Increase shall be in a minimum amount of $15,000,000; (ii) each Incremental Increase shall be subject to terms and conditions acceptable to Lender; and (iii) Borrower may make a maximum of three such requests. At the time of sending such notice, Borrower shall specify the time period within which Lender is requested to respond (which shall in no event be less than thirty days from the date of delivery of such notice to Lender).

b. Notification by Lender. Lender shall notify Borrower its response to each request made hereunder.

c. Effective Date. If either the Acquisition Facility or the Long Term Facility is increased in accordance with this Section 2.07, Lender and Borrower shall determine the desired effective date (the "Increase Effective Date").

d. Conditions to Effectiveness of Increase. As a condition precedent to an Incremental Increase, Borrower shall deliver to Lender a certificate dated as of the Increase Effective Date signed by a Responsible Officer (i) certifying and attaching the resolutions adopted by Borrower approving or consenting to such Incremental Increase; and (ii) certifying that, before and after giving effect to such Incremental Increase, (A) the representations and warranties contained in Section 6 herein and the other Loan Documents are true and correct, on and as of the Increase Effective Date and (B) both before and after giving effect to the Incremental Increase, no default exists. Borrower shall deliver or cause to be delivered any other customary documents, including, without limitation, legal opinions as reasonably requested by Lender in connection with any Incremental Increase.

e. Incremental Increase. Except as otherwise specifically set forth herein, all of the other terms and conditions applicable to such Incremental Increase shall be identical to the terms and conditions applicable to the relevant Loan.

11. Clause b. of Section 7.02 is amended by adding the word "and" at the end of clause a., deleting clause b. and re-lettering clause c. as clause b.

12. Section 7.03.f is amended by adding "or financing" after the word "capital" in clause (iii), deleting the word "and" before clause (x), substituting "; and" in lieu of the period at the end of clause (x), and adding the following new clause: "(xi) Permitted Swap Contracts."

13. Section 9 of the Agreement is deleted in its entirety and replaced with the following:

9. Reserved.

14. Borrower hereby reaffirms that certain Environmental Indemnity dated June 10, 2010 (the "Environmental Indemnity"), by Borrower in favor of Lender, and acknowledges that the Environmental Indemnity (a) is valid, subsisting and enforceable and (b) covers all real estate of Borrower pledged to Lender as collateral for the Loan, whether existing on or prior to the date hereof and hereafter pledged and including, without limitation, the real estate located in Jefferson County, Washington and King County, Washington added to the Collateral Pool concurrently herewith. Borrower further acknowledges that its liability under the Environmental Indemnity is not and will not in any way be discharged, diminished, impaired or otherwise affected by the execution and delivery of this Amendment.

15. This Amendment may be executed in any number of counterparts, each of which shall be deemed to be an original, but all of which together shall constitute but one and the same instrument. This Amendment shall not be construed as a waiver of any future rights or obligations under the Loan Documents. This Amendment shall not constitute a novation and shall in no way adversely affect or impair the lien priority of the Loan Documents. Each of the Loan Documents, agreements and instruments creating, evidencing and securing the repayment of the Note shall remain in effect and is valid, binding and enforceable according to its terms, except as modified by this Amendment. Time is of the essence in the performance of the Loan Agreement and the other Loan Documents. This Amendment shall be binding upon and inure to the benefit of the respective successors and assigns of Borrower and Lender.

16. Borrower hereby releases and forever discharges Lender and Lender's agents, principals, successors, assigns, employees, officers, directors and attorneys, and each of them (collectively the "Releasees"), of and from any and all claims, demands, damages, suits, rights or causes of action of every kind and nature that Borrower has or may have against the Releasees (or any of them) as of the date of this Amendment, whether known or unknown, contingent or matured, foreseen or unforeseen, asserted or unasserted, including but not

limited to, all claims for compensatory, general, special, consequential, incidental and punitive damages, attorneys' fees and equitable relief.

ORAL AGREEMENTS OR ORAL COMMITMENTS TO LOAN MONEY, EXTEND CREDIT, OR TO FORBEAR FROM ENFORCING REPAYMENT OF A DEBT ARE NOT ENFORCEABLE UNDER WASHINGTON LAW.

[*Signature Page Follows*]

In Witness Whereof, the parties hereto have duly executed this Amendment to be effective as of the date first above written.

LENDER:
NORTHWEST FARM CREDIT SERVICES, FLCA

By:
Authorized Agent

BORROWER:
POPE RESOURCES, A DELAWARE LIMITED PARTNERSHIP
By: Pope MGP Inc., a Delaware corporation, its Managing General Partner

By:
Thomas M. Ringo, President and CEO

AMENDMENT NO. 3 TO SECOND AMENDED AND RESTATED

MASTER LOAN AGREEMENT

THIS AMENDMENT NO. 3 TO SECOND AMENDED AND RESTATED MASTER LOAN AGREEMENT (this "Amendment") is made and entered into effective October 11, 2018, by and between the undersigned ("Lender") and the undersigned, collectively ("Borrower").

RECITALS

WHEREAS, Borrower and Lender entered into a Second Amended and Restated Master Loan Agreement dated July 20, 2016 (herein, as at any time amended, extended, restated, renewed, supplemented or modified, the "Loan Agreement"), and related loan documents (herein, as at any time amended, extended, restated, renewed, supplemented or modified, collectively the "Loan Documents").

WHEREAS, Borrower has requested, and Lender has agreed, to (i) restructure the indebtedness under the existing Note and extend an additional $10,000,000 of credit, as evidenced by a new promissory note, and (ii) make modifications to certain covenants in Loan Agreement.

WHEREAS, Borrower and Lender desire to modify the Loan Agreement for the purposes stated herein.

NOW THEREFORE, for good and valuable consideration, Borrower and Lender agree as follows:

1. The Recitals stated above are hereby incorporated herein by reference and made a part of this Amendment.

2. Except as expressly modified or changed herein, all terms and conditions of the Loan Agreement and the other Loan Documents shall remain in full force and effect and shall not be changed hereunder.

3. All terms not otherwise defined herein shall have the meaning given such term in the Loan Agreement and the other Loan Documents.

4. The following definition is restated to read as follows:

> "Adjusted Consolidated EBITDDA" means, for any period, for Borrower and its Subsidiaries on a consolidated basis, the sum of: (a) Consolidated Net Income; (b) Consolidated Interest Expense; (c) consolidated depreciation expense; (d) consolidated amortization expense; (e) consolidated depletion expense; (f) plus or minus, as the case may be, Consolidated Taxes, all as determined in accordance with GAAP; (g) distributions received by the Borrower and its Wholly Owned Subsidiaries from non-Wholly Owned Subsidiaries, and (h) plus any non-cash expense on the basis of land sold related only to Fee Timberland tract sales, but excluding from the forgoing the net income, interest expense, depreciation expense, amortization expense, depletion expense and income taxes associated with non-Wholly Owned Subsidiaries.

5. The definition of "Indebtedness" is amended to add "or financing leases" after the words "Capital Leases" in clause (g).

6. Clause k. of the definition of "Permitted Liens" is amended to read in its entirety as follows: "Liens on Property securing Indebtedness to the extent Indebtedness is permitted under Sections 7.03 f.(vi), (vii), (ix) or (xi) hereof; and".

7. Section 2.01 of the Agreement is restated to read as follows:

2.01.Loans. Subject to the terms and conditions set forth herein, Lender agrees to make Loan No. 6037359, in the amount of $30,000,000, to Borrower, to be used by Borrower (a) for agricultural and/or business purposes (including distributions to Borrower's unitholders in the ordinary course of business and re-purchases of partnership units as may be approved by Borrower's board of directors), and (b) to pay Loan fees and all Lender's reasonable transaction costs. Borrower agrees to pay all Borrower's Obligations under the other Loan Documents according to their terms.

8. Clause b. of Section 7.02 is amended by adding the word "and" at the end of clause a., deleting clause b. and re-lettering clause c. as clause b.

9. Section 7.03.f is amended by adding "or financing" after the word "capital" in clause (iii), deleting the word "and" before clause (x), substituting "; and" in lieu of the period at the end of clause (x), and adding the following new clause: "(xi) Permitted Swap Contracts."

10. Section 9 of the Agreement is deleted in its entirety and replaced with the following:

9. Reserved.

11. Borrower hereby reaffirms that certain Environmental Indemnity dated June 10, 2010 (the "Environmental Indemnity"), by Borrower in favor of Lender, and acknowledges that the Environmental Indemnity (a) is valid, subsisting and enforceable and (b) covers all real estate of Borrower pledged to Lender as collateral for the Loan, whether existing on or prior to the date hereof and hereafter pledged and including, without limitation, the real estate located in Jefferson County, Washington and King County, Washington added to the Collateral Pool concurrently herewith. Borrower further acknowledges that its liability under the Environmental Indemnity is not and will not in any way be discharged, diminished, impaired or otherwise affected by the execution and delivery of this Amendment.

12. This Amendment may be executed in any number of counterparts, each of which shall be deemed to be an original, but all of which together shall constitute but one and the same instrument. This Amendment shall not be construed as a waiver of any future rights or obligations under the Loan Documents. This Amendment shall not constitute a novation and shall in no way adversely affect or impair the lien priority of the Loan Documents. Each of the Loan Documents, agreements and instruments creating, evidencing and securing the repayment of the Note shall remain in effect and is valid, binding and enforceable according to its terms, except as modified by this Amendment. Time is of the essence in the performance of the Loan Agreement and the other Loan Documents. This

Amendment shall be binding upon and inure to the benefit of the respective successors and assigns of Borrower and Lender.

13. Borrower hereby releases and forever discharges Lender and Lender's agents, principals, successors, assigns, employees, officers, directors and attorneys, and each of them (collectively the "Releasees"), of and from any and all claims, demands, damages, suits, rights or causes of action of every kind and nature that Borrower has or may have against the Releasees (or any of them) as of the date of this Amendment, whether known or unknown, contingent or matured, foreseen or unforeseen, asserted or unasserted, including but not limited to, all claims for compensatory, general, special, consequential, incidental and punitive damages, attorneys' fees and equitable relief.

ORAL AGREEMENTS OR ORAL COMMITMENTS TO LOAN MONEY, EXTEND CREDIT, OR TO FORBEAR FROM ENFORCING REPAYMENT OF A DEBT ARE NOT ENFORCEABLE UNDER WASHINGTON LAW.

[*Signature Page Follows*]

In Witness Whereof, the parties hereto have duly executed this Amendment to be effective as of the date first above written.

LENDER:

NORTHWEST FARM CREDIT SERVICES, PCA

By:

Authorized Agent

BORROWER:

POPE RESOURCES, A DELAWARE LIMITED PARTNERSHIP

By: Pope MGP Inc., a Delaware corporation, its Managing General Partner

By:

Thomas M. Ringo, President and CEO

AMENDED AND RESTATED NOTE

(Long Term Financing Facility)

Date: October 11, 2018

For Value Received, on October 1, 2036 (the "Loan Maturity Date"), Borrower, as defined below, as principal, jointly and severally, promises to pay NORTHWEST FARM CREDIT SERVICES, FLCA ("Lender") or order, at its office in Spokane, Washington, or such other place as the holder of this Amended and Restated Note (Long Term Financing Facility) (this "Note") may designate in writing, the principal balance of **Seventy-one Million Eight Hundred Thousand and no/100's Dollars ($71,800,000.00)** (the "Total Commitment Amount"), or so much thereof as may be outstanding, plus interest thereon from and after any Disbursement Date, at interest rates as provided for hereafter. For all intents and purposes, all Loan Segments are treated as one obligation under this Note and the other Loan Documents.

1. Definitions. For purposes of this Note, the following definitions apply. Capitalized terms not otherwise defined herein shall have the meanings given in the Loan Agreement.

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

"Applicable Margin" means, subject to adjustment as set forth in Paragraph 3.01 hereof, the per annum percentage set forth below that corresponds to the Borrower's "Pricing Level" (as set forth in the table below) as of the most recent Calculation Date (as defined in the Loan Agreement):

Pricing Level	Adjusted Consolidated Interest Coverage Ratio	Applicable Margin		
		for Base Rate	for 1-, 2-, 3-, 4- or 5-Year Fixed Rate Options	for 6-, 7-, 8-, 9-, 10-, 12-, 15- or 18-Year Fixed Rate Options
I	≥ 3.00 : 1.00	1.60%	1.60%	1.65%
II	< 3.00 : 1.00 and ≥ 2.00 : 1.00	1.70%	1.70%	1.75%
III	< 2.00 : 1.00 and ≥ 1.25 : 1.00	1.90%	1.90%	1.95%
IV	≤ 1.25 : 1.00	2.20%	2.20%	2.25%

The Pricing Level shall be determined and adjusted on the date ten (10) Business Days after the date Borrower provides Lender the Compliance Certificate as required under the Loan Agreement for Borrower's most recently ended first through third Fiscal Quarter-Ends and Fiscal Year-End (the "Adjustment Date"); provided however, that (i) the initial Applicable Margin shall be based on Pricing Level I and shall remain at Pricing Level I until the first Adjustment Date occurring after the first Calculation Date following the date hereof and, on such Adjustment Date and thereafter, the Pricing Level shall be determined by the Adjusted Consolidated Interest Coverage Ratio as of the most recent Calculation Date, and (ii) if the Borrower fails to timely provide Lender the Compliance Certificate (excluding any grace and/or cure period) for such most recent Calculation Date, the Applicable Margin commencing the day after the due date thereof shall be based on the highest Pricing Level which shall remain in effect until subsequently adjusted ten (10) Business Days after the delivery of the required Compliance Certificate. Any adjustment in the Applicable Margin shall be applicable to Loan Segments 5 through 8 described in Section 3.02 below. Provided, however, in the

Event of Default, Lender shall have the right at any time to change the Applicable Margin to the highest Pricing Level and the applicable interest rate shall also be subject to the Default Interest Rate.

"Applicable Margin Reset Date" means October 1 of 2023, 2028 and 2033.

"Base Rate" shall have the meaning given in Paragraph 3.01 hereof.

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

"Borrower" means Pope Resources, A Delaware Limited Partnership.

"Default Interest Rate" shall have the meaning given in Paragraph 7 hereof.

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

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

"Fixed Rate Maturity Date" shall have the meaning for the respective Fixed Rate Options given in Paragraph 3.02 hereof; provided however, if a Fixed Rate Maturity Date falls on a date that is not a Business Day, then the Fixed Rate Maturity Date shall be deemed to be the preceding Business Day, unless such Business Day falls in another calendar month in which case the Fixed Rate Maturity Date shall be deemed to be the succeeding Business Day.

"Fixed Rate Option" means any of the Fixed Rate Options defined in Paragraphs 3.02 through 3.03 hereof.

"Index Source" means the Index Source identified for a given pricing option described herein.

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

"Loan Agreement" means the Second Amended and Restated Master Loan Agreement between Borrower and Lender dated July 20, 2016, as the same may be amended, modified, extended, restated or replaced from time to time.

"Loan Purpose" means (a) to refinance existing debt, (b) for agricultural and/or business purposes, and (c) to pay Loan fees and all Lender's reasonable transaction costs.

"Loan Segment" means the Base Rate Loan Segment or a Fixed Rate Loan Segment.

"Notice" shall have the meaning given in Paragraph 2.03 hereof.

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

"Quarter" means the three-month periods beginning on July 1, October 1, January 1 and April 1 of each year.

"Rate Option" means the Base Rate or one of the Fixed Rate Options."Rate Pricing Index" means Lender's cost of funds as determined by Lender in its reasonable discretion for obligations with comparable length maturities, adjusted to take into consideration the terms of the loan, the prepayment options and other factors relating to the structure of the loan normally used in Lender's determination of appropriate loan pricing.

2. Advances, Fees and Notice.

2.01 Advances. The Total Commitment Amount has been fully borrowed by Borrower. This is not a revolving loan. Once Loan principal has been borrowed and repaid, it may not be reborrowed.

2.02 Loan Fees. Borrower shall pay Loan fees as set forth in a separate loan fee agreement.

2.03 Notice of Prepayment and Pricing.

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

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

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

3. Interest Rate and Pricing Elections.

3.01 LIBOR Variable Base. The "Base Rate" is the LIBOR Variable Base. The "LIBOR Variable Base" for any day during a given month means the one-month LIBOR rate, as made available by the LIBOR Index Source, rounded up to the nearest .05 percent, plus the Applicable Margin. The LIBOR Variable Base shall be effective on the first day of the month and remain constant for such month. The Applicable Margin used to determine the Base Rate on the Applicable Margin Reset Date shall be determined by Lender in its sole discretion using its then applicable standards for establishing an interest rate spread. Lender will endeavor to notify Borrower of the Applicable Margin that will be effective on the Applicable Margin Reset Date within thirty (30) days of each Applicable Margin Reset Date, but the Applicable Margin shall apply as of such Applicable Margin Reset Date whether such notice is given by Lender or received by Borrower.

3.02 1-, 2-, 3-, 4-, 5-, 6-, 7-, 8-, 9-, 10-, 12-, 15- or 18-Year Fixed Rate Options. Borrower understands and agrees that the availability of any Fixed Rate Option will be determined at Lender's (and participant's, if applicable) sole discretion. Subject to the preceding sentence, a Fixed Rate Loan Segment may be priced

with a fixed rate equal to the 1-, 2-, 3-, 4-, 5-, 6-, 7-, 8-, 9-, 10-, 12-, 15- or 18-year Fixed Rate Options, as defined herein, plus the Applicable Margin. With these Fixed Rate Options, (a) rates may be fixed for Interest Periods, as defined herein, of 1, 2, 3, 4, 5, 6, 7, 8, 9, 10, 12, 15 and 18 years; and (b) rates may only be fixed on a Pricing Date to take effect on such Pricing Date. For purposes hereof: (i) the "1-, 2-, 3-, 4-, 5-, 6-, 7-, 8-, 9-, 10-, 12-, 15- and 18-year Fixed Rate Options" shall mean the rate equal to the Rate Pricing Index for such period, rounded to the nearest .01 percent, as made available by the Lender on the Pricing Date; and (ii) "Interest Period" shall mean a period commencing on the Pricing Date and ending on the Fixed Rate Maturity Date. The Fixed Rate Maturity Date for a given Fixed Rate Option with a maturity of one year or over shall mean the corresponding anniversary of the first day of the month following the Pricing Date if the Pricing Date is not the first day of a month or the corresponding anniversary of the Pricing Date if such Pricing Date is the first day of a month. The following Loan Segments are evidenced by this Note:

Tranche	Loan Segment No.	Face Amount	Rate	Maturity Date
	6012758-101	$9,800,000	6.40%	09/01/2019
2	6012757-103	$10,000,000	6.05%	07/01/2025
3	6229356-103	$11,000,000	3.89%	07/01/2026
4	6229356-102	$11,000,000	4.13%	07/01/2028
5		$6,000,000	Base Rate plus Applicable Margin	10/01/2024
6		$8,000,000	Base Rate plus Applicable Margin	10/01/2034
7		$8,000,000	Base Rate plus Applicable Margin	10/01/2035
8		$8,000,000	Base Rate plus Applicable Margin	10/01/2036

The Loan Segments listed in Tranches 1 through 4 above, which were previously evidenced by the Prior Notes (as defined in Section 9.05), are priced at the specific fixed rates set forth above until their respective Fixed Rate Maturity Dates, and will be due and payable on such dates. The Loan Segments listed in Tranches 5 through 8 above shall initially be Base Rate Loan Segments.

3.03 **Fixed to Loan Maturity Fixed Rate Option.** Borrower understands and agrees that the availability of any Fixed Rate Option will be determined at Lender's (and participant's, if applicable) sole discretion. Subject to the preceding sentence, the Loan may be priced with a fixed rate equal to the Fixed to Loan Maturity Fixed Rate Option, as defined herein, plus the Applicable Margin. For purposes herein, the "Fixed to Loan Maturity Fixed Rate Option" shall mean the rate equal to the Rate Pricing Index for such period, rounded to the nearest .01 percent, as made available by the Lender on the Pricing Date.

3.04 **Pricing Elections.** Upon irrevocable Notice to Lender in accordance with Paragraph 2.03 above, as to principal (i) in the amount of an advance, (ii) in the Base Rate Loan Segment, or (iii) in a Fixed Rate Loan Segment on a Fixed Rate Maturity Date, Borrower may elect to designate all or any part of the advance or of the Adjusted Principal Balance of such Loan Segment on such Pricing Date to bear interest at any Rate Option described herein; provided however, that (1) there is no Event of Default, (2) Borrower shall price Loan principal in Fixed Rate Loan Segments in initial minimum principal amounts of $5,000,000, (3) no Fixed Rate Option may be selected which would have for its Fixed Rate Maturity Date a date later than the Maturity Date stated for such Fixed Rate Option in Paragraph 3.02 above, and (4) there are no more than eight (8) Fixed Rate Loan Segments at any one time. If Borrower does not provide Lender irrevocable Notice of election of a Rate Option on a Fixed Rate Maturity Date for a Fixed Rate Loan Segment, the Adjusted Principal Balance of such Loan Segment will be priced at the Base Rate effective on such Pricing Date.

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

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

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

4. Payment.

4.01 **Interest Payments.** Borrower shall make quarterly interest only payments on the first day of each Quarter beginning January 1, 2019, or the first day of the next Quarter as Lender shall determine, which payments shall consist of interest that accrued during such prior period on the unpaid principal balance of each Loan Segment.

4.02 **Payment in Full on Loan Maturity Date.** The unpaid principal balance of each Loan Segment, unpaid interest thereon, and other amounts due under this Note and the other Loan Documents with respect thereto, shall be paid in full on the respective Maturity Date for such Loan Segment, as set forth in Paragraph 3.02 above. The unpaid principal balance of all Loan Segments, unpaid interest thereon, and other amounts due under this Note and the other Loan Documents, shall be paid in full no later than the Loan Maturity Date.

4.03 **Application of Payments.** Lender may apply any payment received from or on behalf of Borrower to principal, interest, or any part of the indebtedness, including any fees and expenses due under this Note or any other Loan Document, as Lender, in its sole discretion, may choose. Subject to the preceding sentence, Borrower may at any time pay any amount of principal in advance of its maturity subject to the Prepayment Fee described herein. Unless Lender otherwise elects, so long as there is no Event of Default, principal prepayments shall reduce the balance owing and discharge the indebtedness at an earlier date, but shall not

alter the obligation to pay scheduled payments until the indebtedness is paid in full. In addition, so long as there is no Event of Default, prepayments shall be applied to principal under the Loan Segment specified by Borrower. Partial prepayments shall not alter the obligation to pay scheduled payments until the indebtedness for each Loan Segment is paid in full.

5. Prepayment and Breakage Fees.

5.01 Prepayment Fee.

a. Prepayment. As used herein, "Prepayment" shall mean any instance wherein the indebtedness herein is partially or fully paid in any manner prior to a payment due date, whether voluntarily or involuntarily. Prepayment shall include, but not be limited to: (i) any payment after an Event of Default under the Loan Documents; (ii) any payment to Lender by any holder of an interest in any Collateral; (iii) any payment after the Loan Maturity Date is accelerated for any reason; (iv) any payment resulting from any sale or transfer of Collateral pursuant to foreclosure, sale under power, judicial order or trustee's sale; (v) any payment by any person which reduces the principal amount of the Loan (excluding scheduled payments) prior to the Loan Maturity Date; and (vi) any payment by sale, transfer or offsetting credit in connection with or under any bankruptcy, insolvency, reorganization, assignment for the benefit of creditors or receivership or similar proceedings under any statute of the United States or any state thereof involving Borrower and/or the Collateral. In the event of any acceleration of the Loan Maturity Date, the amount due hereunder shall include the Prepayment Fee in the event of a voluntary Prepayment at the time of such acceleration, and the date of acceleration of the Loan Maturity Date will be deemed to be the date of Prepayment.

b. Prepayment Fee. As used herein, the "Prepayment Fee" is an amount intended to reasonably compensate Lender for the loss of the intended benefit of Lender's bargain in the case of a Prepayment. Borrower and Lender intend that the principal balance of the Loan will yield to Lender an annual return after the date the Loan is prepaid of not less than the annual return for the period when the interest rate is fixed. In the event of a Prepayment, Lender will lose the intended benefit of its bargain. Accordingly, the Prepayment Fee is intended to reasonably compensate Lender for such loss and costs. The Prepayment Fee shall be payable on demand, and shall be an amount calculated on a make-whole basis, as determined under Lender's then current methodology. The Prepayment Fee, if any, payable under this Section 5.01, shall be added to the balance of the Loan as of the date of acceleration and may be included in any credit bid by Lender at a foreclosure sale. The Lender shall not be obligated to accept any Prepayment, unless it is accompanied by the Prepayment Fee due in connection therewith.

c. Exceptions to Prepayment Fee. If interest upon all or a portion of the Loan is determined at the Base Rate, that portion of the Loan may be prepaid, in part or in whole, at any time, and from time to time, without the payment of a Prepayment Fee. Furthermore, if a Prepayment is received on a Fixed Rate Maturity Date, the applicable portion of the Loan may be prepaid without the payment of a Prepayment Fee. All other Prepayments shall be subject to a Prepayment Fee.

d. ACKNOWLEDGMENT OF PREPAYMENT FEE OBLIGATION. BORROWER ACKNOWLEDGES THAT IT UNDERSTANDS THAT A PREPAYMENT MAY RESULT IN A SUBSTANTIAL PREPAYMENT FEE. BORROWER CERTIFIES THAT IT HAS HAD THE OPPORTUNITY TO CONSULT WITH ITS LEGAL, FINANCIAL AND OTHER COUNSEL, AND HAS MADE THE DECISION TO ENTER INTO THIS LOAN SUBJECT TO THE PREPAYMENT FEE IN RELIANCE ONLY UPON ITS LEGAL, FINANCIAL AND OTHER COUNSEL AND NOT UPON LENDER, ITS EMPLOYEES, AGENTS OR AFFILIATES.

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

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

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

5.03 Participation. Participant(s), if any, may calculate a Prepayment Fee or Breakage Fee on a make-whole basis using a different methodology than Lender.

6. Default.

6.01 Events of Default. Time is of the essence in the performance of this Note. The occurrence of any one or more of the Events of Default in Section 8.01 of the Master Loan Agreement shall constitute an "Event of Default" under this Note.

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

6.03 Notice and Opportunity to Cure. Any notice and opportunity to cure shall be administered in accordance with Section 8.02 of the Master Loan Agreement.

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

8. Loan Terms, Provisions and Covenants. This Note is subject to the terms, provisions and covenants of the Loan Agreement, and Borrower's obligations hereunder are secured by a lien and security interest in Property as described in the Loan Agreement.

9. Miscellaneous.

9.01 Funds Management Services. Lender may provide funds management services to Borrower. Borrower shall comply with all funds management authorizations and agreements during the term of this Note. All fees incurred shall be considered a request for an advance under this Note. The funds management services and fees may be adjusted upon reasonable notice.

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

9.03 General Provisions. Borrower waives presentment for payment, demand, notice of nonpayment, protest, notice of protest and diligence in enforcing payment of this Note. This Note and the other Loan Documents constitute the entire agreement between Borrower and Lender and supersede all prior oral negotiations and promises which are merged into such writings. Upon written agreement of the parties, the interest rate, payment terms or balances due under this Note may be indexed, adjusted, renewed or renegotiated. Lender shall not be obligated to renew the Note or any part thereof or to make additional or future loans to Borrower. All Exhibits hereto are incorporated herein and made a part of this Note. This Note may be executed in any number of counterparts, each of which shall be deemed to be an original, but all of which together, shall constitute but one and the same instrument.

Borrower agrees that the Note described herein shall be in Default should any proceeds be used for a purpose that will contribute to excessive erosion of highly erodible land or to the conversion of wetlands to produce or to make possible the production of an agricultural commodity, as further explained in 7 CFR Part 12.

9.04 Waiver of Jury Trial. BORROWER AND LENDER HEREBY IRREVOCABLY WAIVE ANY RIGHT THEY MAY HAVE TO A TRIAL BY JURY IN ANY LEGAL PROCEEDING DIRECTLY OR INDIRECTLY ARISING OUT OF OR RELATING TO THIS LOAN DOCUMENT AND ANY FUTURE MODIFICATIONS, AMENDMENTS, EXTENSIONS, RESTATEMENTS AND SERVICING ACTIONS RELATING TO THIS LOAN DOCUMENT. THE PARTIES INTEND THAT THIS JURY WAIVER WILL BE ENFORCED TO THE MAXIMUM EXTENT ALLOWED BY LAW.

9.05 No Novation. This Note evidences indebtedness previously evidenced by (i) that certain First Amended and Restated Term Note dated June 10, 2010, in the face principal amount of $9,800,000 (Note No. 6012758), (ii) that certain Term Note dated June 10, 2010, in the face principal amount of $20,000,000 (Note No. 6012757) and (iii) that certain Note (Carbon River Loan) dated July 20, 2016, in the face principal amount of $32,000,000 (Note No. 6229356) (collectively, the "Prior Notes"), and does not constitute a novation of such indebtedness. Loan Segments previously outstanding under and evidenced by the Prior Notes are evidenced by and outstanding under this Note. Further, this Note evidences indebtedness outstanding as of the date hereof under the Operating Note (prior to any amendment and restatement thereof), and does not constitute a novation of such indebtedness.

[*Signature Page Follows*]

ORAL AGREEMENTS OR ORAL COMMITMENTS TO LOAN MONEY, EXTEND CREDIT, OR TO FORBEAR FROM ENFORCING REPAYMENT OF A DEBT ARE NOT ENFORCEABLE UNDER WASHINGTON LAW.

BORROWER:

POPE RESOURCES, A DELAWARE LIMITED PARTNERSHIP

By: Pope MGP Inc., a Delaware corporation, its Managing General Partner

By:

Thomas M. Ringo, President and CEO

EXHIBIT A
NOTICE/CONFIRMATION

NOTICE TO:

Loan Accounting and Operations
Northwest Farm Credit Services, FLCA
2001 South Flint Road **P. O. Box 2515** **Fax: 509-340-5508**
Spokane, WA 99224-9198 **Spokane, WA 99220-2515** **Tel: 1-800-216-4535**

This Notice is provided pursuant to the Amended and Restated Note (Long Term Financing Facility) dated October 11, 2018, as extended, renewed, amended or restated.

SELECT ONE: Loan Segment
Pricing
Prepayment of Principal
Initial Disbursement Amount

Loan Segment Currently Priced Under Option
Principal Amount
To New Pricing Option
Date to be Effective

Date:

BORROWER
POPE RESOURCES, A DELAWARE LIMITED PARTNERSHIP
By: Pope MGP Inc., a Delaware corporation, its Managing General Partner

By:
Authorized Agent

CONFIRMATION
Lender confirms that the above actions were taken or modified as provided for below:

NORTHWEST FARM CREDIT SERVICES, FLCA

Date: By:
Authorized Agent

NOTE

(Acquisition Facility)

Date: October 11, 2018

For Value Received, on October 1, 2028 (the "Loan Maturity Date"), Borrower, as defined below, promises to pay NORTHWEST FARM CREDIT SERVICES, FLCA ("Lender") or order, at its office in Spokane, Washington, or such other place as the holder of this Note (Acquisition Facility) (this "Note") may designate in writing, the principal balance of **Forty Million and no/100's Dollars ($40,000,000.00)** (the "Total Commitment Amount"), or so much thereof as may be outstanding, plus interest thereon from and after any Disbursement Date, at interest rates as provided for hereafter. For all intents and purposes, all Loan Segments are treated as one obligation under this Note and the other Loan Documents.

1. Definitions. For purposes of this Note, the following definitions apply. Capitalized terms not otherwise defined herein shall have the meanings given in the Loan Agreement.

"Applicable Margin" means, subject to adjustment as set forth in Paragraph 3.01 hereof, the per annum percentage set forth below that corresponds to the Borrower's "Pricing Level" (as set forth in the table below) as of the most recent Calculation Date (as defined in the Loan Agreement):

Pricing Level	Adjusted Consolidated Interest Coverage Ratio	Applicable Margin			Unused Commitment Fee
		for Base Rate	for 1-, 2-, 3-, 4- or 5-Year Fixed Rate Options	for 6-, 7-, 8-, 9- or 10-Year Fixed Rate Options	
I	≥ 3.00 : 1.00	1.60%	1.60%	1.65%	0.20%
II	< 3.00 : 1.00 and ≥ 2.00 : 1.00	1.70%	1.70%	1.75%	0.25%
III	< 2.00 : 1.00 and ≥ 1.25 : 1.00	1.90%	1.90%	1.95%	0.30%
IV	≤ 1.25 : 1.00	2.20%	2.20%	2.25%	0.35%

The Pricing Level shall be determined and adjusted on the date ten (10) Business Days after the date Borrower provides Lender the Compliance Certificate as required under the Loan Agreement for Borrower's most recently ended first through third Fiscal Quarter-Ends and Fiscal Year-End (the "Adjustment Date"); provided however, that (i) the initial Applicable Margin shall be based on Pricing Level I and shall remain at Pricing Level I until the first Adjustment Date occurring after the first Calculation Date following the date hereof and, on such Adjustment Date and thereafter, the Pricing Level shall be determined by the Adjusted Consolidated Interest Coverage Ratio as of the most recent Calculation Date, and (ii) if the Borrower fails

to timely provide Lender the Compliance Certificate (excluding any grace and/or cure period) for such most recent Calculation Date, the Applicable Margin commencing the day after the due date thereof shall be based on the highest Pricing Level which shall remain in effect until subsequently adjusted ten (10) Business Days after the delivery of the required Compliance Certificate. Any adjustment in the Applicable Margin shall be applicable to all existing Loan Segments. Provided, however, in the Event of Default, Lender shall have the right at any time to change the Applicable Margin to the highest Pricing Level and the applicable interest rate shall also be subject to the Default Interest Rate.

"Applicable Margin Reset Date" means October 1, 2023.

"Base Rate" shall have the meaning given in Paragraph 3.01.

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

"Borrower" means Pope Resources, A Delaware Limited Partnership.

"Commitment Expiration Date" means October 1, 2023.

"Commitment Period" means the period from the date of this Note through the Commitment Expiration Date.

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

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

"Fixed Rate Maturity Date" shall have the meaning for the Fixed Rate Options given in Paragraph 3.02 hereof; provided however, if a Fixed Rate Maturity Date falls on a date that is not a Business Day, then the Fixed Rate Maturity Date shall be deemed to be the preceding Business Day, unless such Business Day falls in another calendar month in which case the Fixed Rate Maturity Date shall be deemed to be the succeeding Business Day.

"Fixed Rate Option" means any of the Fixed Rate Options defined in Paragraph 3.02 hereof.

"Index Source" means the Index Source identified for a given pricing option described herein.

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

"Loan Agreement" means the Second Amended and Restated Master Loan Agreement between Borrower and Lender dated July 20, 2016, as the same may be amended, modified, extended, restated or replaced from time to time.

"Loan Purpose" means (a) to provide financing for timber acquisitions including co-investments in equity timber funds managed by Olympic Resource Management, (b) for agricultural and/or business purposes and (c) to pay Loan fees and all Lender's reasonable transaction costs.

"Loan Segment" means the Base Rate Loan Segment or a Fixed Rate Loan Segment.

"Notice" shall have the meaning given in Paragraph 2.03 hereof.

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

"Quarter" means the three-month periods beginning on July 1, October 1, January 1 and April 1 of each year.

"Rate Option" means the Base Rate or one of the Fixed Rate Options.

"Rate Pricing Index" means Lender's cost of funds as determined by Lender in its reasonable discretion for obligations with comparable length maturities, adjusted to take into consideration the terms of the loan, the prepayment options and other factors relating to the structure of the loan normally used in Lender's determination of appropriate loan pricing.

2. Advances, Fees and Notice.

2.01 Advances. So long as no Default or Event of Default has occurred and is continuing, Borrower may borrow Loan proceeds for an approved Loan Purpose on any Business Day during the Commitment Period, in an amount not to exceed the Available Principal Commitment on such date. The "Available Principal Commitment" in effect is the Total Commitment Amount as of the date of this Note, and on any given date thereafter equals the difference between (a) the Total Commitment Amount on such date, and (b) the unpaid principal balances of all Loan Segments on such date. This is not a revolving loan. Once Loan principal has been borrowed and repaid, it may not be reborrowed.

2.02 Loan Fees. Borrower shall pay Lender an unused commitment fee during the Commitment Period, calculated based on the unused commitment fee that corresponds to Borrower's Pricing Level as of the most recent Calculation Date, multiplied by the average daily Available Principal Commitment calculated quarterly in arrears on the basis of the actual number of days elapsed for the actual number of days in the year until the Commitment Expiration Date. The unused commitment fee shall be due on the first day of the next quarter and on the first day of each quarter thereafter. The unused commitment fee described in this Paragraph 2.02 shall terminate on the Commitment Expiration Date. Borrower shall also pay Loan fees as set forth in a separate loan fee letter.

2.03 Notice of Prepayment and Pricing.

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

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

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

3. Interest Rate and Pricing Elections.

3.01 LIBOR Variable Base. The "Base Rate" is the LIBOR Variable Base. The "LIBOR Variable Base" for any day during a given month means the one-month LIBOR rate, as made available by the LIBOR Index Source, rounded up to the nearest .05 percent, plus the Applicable Margin. The LIBOR Variable Base shall be effective on the first day of the month and remain constant for such month. The Applicable Margin used to determine the Base Rate on the Applicable Margin Reset Date shall be determined by Lender in its sole discretion using its then applicable standards for establishing an interest rate spread. Lender will endeavor to notify Borrower of the Applicable Margin that will be effective on the Applicable Margin Reset Date within thirty (30) days of each Applicable Margin Reset Date, but the Applicable Margin shall apply as of such Applicable Margin Reset Date whether such notice is given by Lender or received by Borrower.

3.02 1-, 2-, 3-, 4-, 5-, 6-, 7-, 8-, 9- or 10-Year Fixed Rate Options. A Fixed Rate Loan Segment may be priced with a fixed rate equal to the 1-, 2-, 3-, 4-, 5-, 6-, 7-, 8-, 9- or 10-year Fixed Rate Options, as defined herein, plus the Applicable Margin. With these Fixed Rate Options, (a) rates may be fixed for Interest Periods, as defined herein, of 1, 2, 3, 4, 5, 6, 7, 8, 9 and 10; and (b) rates may only be fixed on a Pricing Date to take effect on such Pricing Date. For purposes hereof: (i) the "1-, 2-, 3-, 4-, 5-, 6-, 7-, 8-, 9- and 10-year Fixed Rate Options" shall mean the rate equal to the Rate Pricing Index for such period, rounded to the nearest .01 percent, as made available by the Lender on the Pricing Date; and (ii) "Interest Period" shall mean a period commencing on the Pricing Date and ending on the Fixed Rate Maturity Date. The Fixed Rate Maturity Date for a given Fixed Rate Option shall be the corresponding 1-, 2-, 3-, 4-, 5-, 6-, 7-, 8-, 9- or 10-year anniversary of the first day of the month following the Pricing Date if the Pricing Date is not the first day of a month or the corresponding anniversary of the Pricing Date if such Pricing Date is the first day of a month.

3.03 Pricing Elections. Upon irrevocable Notice to Lender in accordance with Paragraph 2.03 above, as to principal (i) in the amount of an advance, (ii) in the Base Rate Loan Segment, or (iii) in a Fixed Rate Loan Segment on a Fixed Rate Maturity Date, Borrower may elect to designate all or any part of the advance or of the principal amount of such Loan Segment on such Pricing Date to bear interest at any Rate Option described herein; provided however, that (1) there is no Event of Default, (2) Borrower shall price Loan principal in Fixed Rate Loan Segments in initial minimum principal amounts of $5,000,000, (3) no Fixed Rate Option may be selected which would have for its Fixed Rate Maturity Date a date later than the Loan Maturity Date and (4) there are no more than five Fixed Rate Loan Segments at any one time. If Borrower does not provide Lender irrevocable Notice of election of a Rate Option on a Fixed Rate Maturity Date for a Fixed Rate Loan Segment, the principal amount of such Loan Segment will be priced at the Base Rate effective on such Pricing Date.

3.04 Single Base Rate Loan Segment. If on a Pricing Date, any Loan Segment is priced under the Base Rate resulting in more than one Loan Segment priced under the Base Rate, all Loan principal priced under

the Base Rate will be treated as a single Base Rate Loan Segment by combining the principal amount of such Loan Segments on such Pricing Date.

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

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

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

4. Payment.

4.01 Interest Payments. Borrower shall make quarterly interest only payments on the first day of each Quarter beginning January 1, 2019, or the first day of the next Quarter as Lender shall determine, which payments shall consist of interest that accrued during such prior period on the unpaid principal balance of each Loan Segment.

4.02 Payment in Full on Loan Maturity Date. The unpaid principal balance, unpaid interest thereon, and other amounts due under this Note and the other Loan Documents shall be paid in full on the Loan Maturity Date.

4.03 Application of Payments. Lender may apply any payment received from or on behalf of Borrower to principal, interest, or any part of the indebtedness, including any fees and expenses due under this Note or any other Loan Document, as Lender, in its sole discretion, may choose. Subject to the preceding sentence, Borrower may at any time pay any amount of principal in advance of its maturity subject to the Prepayment Fee described herein.

5. Prepayment and Breakage Fees.

5.01 Prepayment Fee.

a. Prepayment. As used herein, "Prepayment" shall mean any instance wherein the indebtedness herein is partially or fully paid in any manner prior to a payment due date, whether voluntarily or involuntarily. Prepayment shall include, but not be limited to: (i) any payment after an Event of Default under the Loan Documents; (ii) any payment to Lender by any holder of an interest in any Collateral; (iii) any payment after the Loan Maturity Date is accelerated for any reason; (iv) any payment resulting from any sale or transfer of Collateral pursuant to foreclosure, sale under power, judicial order or trustee's sale; (v) any payment by any person which reduces the principal amount of the Loan (excluding scheduled payments) prior to the Loan Maturity Date; and (vi) any payment by sale, transfer or offsetting credit in connection

with or under any bankruptcy, insolvency, reorganization, assignment for the benefit of creditors or receivership or similar proceedings under any statute of the United States or any state thereof involving Borrower and/or the Collateral. In the event of any acceleration of the Loan Maturity Date, the amount due hereunder shall include the Prepayment Fee in the event of a voluntary Prepayment at the time of such acceleration, and the date of acceleration of the Loan Maturity Date will be deemed to be the date of Prepayment.

b. Prepayment Fee. As used herein, the "Prepayment Fee" is an amount intended to reasonably compensate Lender for the loss of the intended benefit of Lender's bargain in the case of a Prepayment. Borrower and Lender intend that the principal balance of the Loan will yield to Lender an annual return after the date the Loan is prepaid of not less than the annual return for the period when the interest rate is fixed. In the event of a Prepayment, Lender will lose the intended benefit of its bargain. Accordingly, the Prepayment Fee is intended to reasonably compensate Lender for such loss and costs. The Prepayment Fee shall be payable on demand, and shall be an amount calculated on a make-whole basis, as determined under Lender's then current methodology. The Prepayment Fee, if any, payable under this Paragraph 5.01, shall be added to the balance of the Loan as of the date of acceleration and may be included in any credit bid by Lender at a foreclosure sale. The Lender shall not be obligated to accept any Prepayment, unless it is accompanied by the Prepayment Fee due in connection therewith.

c. Exceptions to Prepayment Fee. If interest upon all or a portion of the Loan is determined at the Base Rate, that portion of the Loan may be prepaid, in part or in whole, at any time, and from time to time, without the payment of a Prepayment Fee. All other Prepayments shall be subject to a Prepayment Fee.

d. **ACKNOWLEDGMENT OF PREPAYMENT FEE OBLIGATION. BORROWER ACKNOWLEDGES THAT IT UNDERSTANDS THAT A PREPAYMENT MAY RESULT IN A SUBSTANTIAL PREPAYMENT FEE. BORROWER CERTIFIES THAT IT HAS HAD THE OPPORTUNITY TO CONSULT WITH ITS LEGAL, FINANCIAL AND OTHER COUNSEL, AND HAS MADE THE DECISION TO ENTER INTO THIS LOAN SUBJECT TO THE PREPAYMENT FEE IN RELIANCE ONLY UPON ITS LEGAL, FINANCIAL AND OTHER COUNSEL AND NOT UPON LENDER, ITS EMPLOYEES, AGENTS OR AFFILIATES**

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

a. Borrower provides Lender Notice that Loan principal is to be priced using a LIBOR Variable Base, after which Borrower revokes such Notice; or

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

5.03 Participation. Participant(s), if any, may calculate a Prepayment Fee or Breakage Fee on a make-whole basis using a different methodology than Lender.

6. Default.

6.01 Events of Default. Time is of the essence in the performance of this Note. The occurrence of any one or more of the Events of Default in Section 8.01 of the Master Loan Agreement shall constitute an "Event of Default" under this Note.

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

6.03 Notice and Opportunity to Cure. Any notice and opportunity to cure shall be administered in accordance with Section 8.02 of the Master Loan Agreement.

7. Loan Terms, Provisions and Covenants. This Note is subject to the terms, provisions and covenants of the Loan Agreement, and Borrower's obligations hereunder are secured by a lien and security interest in Property as described in the Loan Agreement.

8. Miscellaneous.

8.01 Funds Management Services. Lender may provide funds management services to Borrower. Borrower shall comply with all funds management service agreements during the term of this Note. All fees incurred shall be considered a request for an advance under this Note. The funds management services and fees may be adjusted upon reasonable notice.

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

8.03 General Provisions. Borrower waives presentment for payment, demand, notice of nonpayment, protest, notice of protest and diligence in enforcing payment of this Note. This Note and the other Loan Documents constitute the entire agreement between Borrower and Lender and supersede all prior oral negotiations and promises which are merged into such writings. Upon written agreement of the parties, the interest rate, payment terms or balances due under this Note may be indexed, adjusted, renewed or renegotiated. Lender shall not be obligated to renew the Note or any part thereof or to make additional or future loans to Borrower. All Exhibits hereto are incorporated herein and made a part of this Note. This Note may be executed in any number of counterparts, each of which shall be deemed to be an original, but all of which together, shall constitute but one and the same instrument.

Borrower agrees that the Note described herein shall be in default should any proceeds be used for a purpose that will contribute to excessive erosion of highly erodible land or to the conversion of wetlands to produce or to make possible the production of an agricultural commodity, as further explained in 7 CFR Part 12.

8.04 Waiver of Jury Trial. BORROWER AND LENDER HEREBY IRREVOCABLY WAIVE ANY RIGHT THEY MAY HAVE TO A TRIAL BY JURY IN ANY LEGAL PROCEEDING DIRECTLY OR INDIRECTLY ARISING OUT OF OR RELATING TO THIS LOAN DOCUMENT AND ANY FUTURE MODIFICATIONS, AMENDMENTS, EXTENSIONS, RESTATEMENTS AND SERVICING ACTIONS RELATING TO THIS LOAN DOCUMENT. THE PARTIES INTEND THAT THIS JURY WAIVER WILL BE ENFORCED TO THE MAXIMUM EXTENT ALLOWED BY LAW.

[*Signature Page Follows*]

ORAL AGREEMENTS OR ORAL COMMITMENTS TO LOAN MONEY, EXTEND CREDIT, OR TO FORBEAR FROM ENFORCING REPAYMENT OF A DEBT ARE NOT ENFORCEABLE UNDER WASHINGTON LAW.

BORROWER:

POPE RESOURCES, A DELAWARE LIMITED PARTNERSHIP

By: Pope MGP Inc., a Delaware corporation, its Managing General Partner

By:

Thomas M. Ringo, President and CEO

EXHIBIT A
NOTICE/CONFIRMATION

NOTICE TO:

Loan Accounting and Operations
Northwest Farm Credit Services, FLCA
2001 South Flint Road **P. O. Box 2515** **Fax: 509-340-5508**
Spokane, WA 99224-9198 **Spokane, WA 99220-2515** **Tel: 1-800-216-4535**

This Notice is provided pursuant to the Second Amended and Restated Note (Acquisition Facility) dated October 11, 2018, as extended, renewed, amended or restated.

SELECT ONE: Loan Segment
Pricing
Prepayment of Principal
Initial Disbursement Amount

Loan Segment Currently Priced Under Option
Principal Amount
To New Pricing Option
Date to be Effective

BORROWER
POPE RESOURCES, A DELAWARE LIMITED PARTNERSHIP
By: Pope MGP Inc., a Delaware corporation, its Managing General Partner

By:
Authorized Agent

CONFIRMATION
Lender confirms that the above actions were taken or modified as provided for below:

NORTHWEST FARM CREDIT SERVICES, FLCA

Date: By:
Authorized Agent

Significant Subsidiaries

Subsidiary	State of Formation
OPG Properties LLC	Washington
Olympic Property Group I LLC	Washington
ORM, Inc.	Washington
Olympic Resource Management LLC	Washington
ORM Timber Fund II, Inc.	Delaware
ORM Timber Fund III (REIT) Inc.	Delaware
ORM Timber Fund IV (REIT) Inc.	Delaware
OPG Ferncliff Investors LLC	Washington

Exhibit 23.1

Consent of Independent Registered Public Accounting Firm

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

We consent to the incorporation by reference in the registration statement (No. 333-128245) on Form S-8 and in the registration statement (No. 333-218338) on Form S-3 of Pope Resources, A Delaware Limited Partnership, of our reports dated March 5, 2019, with respect to the consolidated balance sheets of Pope Resources, A Delaware Limited Partnership and subsidiaries as of December 31, 2018 and 2017, and the related consolidated statements of comprehensive income, partners' capital, and cash flows for each of the years in the three-year period ended December 31, 2018, and the related notes (collectively, the consolidated financial statements), and the effectiveness of internal control over financial reporting as of December 31, 2018, which reports appear in the December 31, 2018 annual report on Form 10-K of Pope Resources, A Delaware Limited Partnership.

Our report on the consolidated financial statements refers to a change in accounting for revenue in 2018 due to the adoption of Accounting Standards Codification Topic 606, *Revenue from Contracts with Customers*.

(signed) KPMG LLP

Seattle, Washington
March 5, 2019

Exhibit 31.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, Thomas M. Ringo, certify that:

1. I have reviewed this annual report on Form 10-K of Pope Resources;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a–15(f) and 15d–15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting;

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 5, 2019

/s/ Thomas M. Ringo
Thomas M. Ringo
Chief Executive Officer

Exhibit 31.2

CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER

I, Daemon P. Repp, certify that:

1. I have reviewed this annual report on Form 10-K of Pope Resources;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a–15(f) and 15d–15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting;

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 5, 2019

/s/ Daemon P. Repp
Daemon P. Repp
Vice President and Chief Financial Officer

Exhibit 32.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of Pope Resources (the "Company") on Form 10-K for the period ended December 31, 2018, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Thomas M. Ringo, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company as of, and for, the periods presented in the Report.

This certification is being furnished solely to comply with the requirements of 18 U.S.C. Section 1350, and shall not be incorporated by reference into any of the Company's filings under the Securities Act of 1933 or the Securities Exchange Act of 1934, or otherwise be deemed to be filed as part of the Report or under such Acts.

/s/ Thomas M. Ringo

Thomas M. Ringo
Chief Executive Officer

March 5, 2019

Exhibit 32.2

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of Pope Resources (the "Company") on Form 10-K for the period ended December 31, 2018, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Daemon P. Repp, Principal Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company as of, and for, the periods presented in the Report.

This certification is being furnished solely to comply with the requirements of 18 U.S.C. Section 1350, and shall not be incorporated by reference into any of the Company's filings under the Securities Act of 1933 or the Securities Exchange Act of 1934, or otherwise be deemed to be filed as part of the Report or under such Acts.

/s/ Daemon P. Repp

Daemon P. Repp
Vice President and Chief Financial Officer

March 5, 2019